



Schemes to Skirt Sanctions

OE Watch Commentary: Ever since Russia’s armed aggression against Ukraine and the subsequent imposition of Western sanctions, the Kremlin-directed media has proclaimed that these foreign sanctions were actually strengthening the Russian economy. They argued that besides helping to consolidate Russian society, being cut off from Western goods and financing encouraged Russian domestic companies to fill this void or to find new business partners not liable to the sanction regime. While there is some truth to these assertions, overall, the Russian economy has suffered from being partially cut off from Western goods and financing. With the prospect of additional penalties on the near-horizon, the Kremlin continues to search for ways to bypass these sanctions.

The first excerpt from the business daily, *Vedomosti*, describes a recent governmental change which would release Russian “state-owned companies from the obligation to disclose suppliers and contractors receiving contracts.” This provision would make it next to impossible to track the details regarding the customers of these state-owned companies, what was ordered, and under what conditions (e.g. price). The article goes on to claim that this change will protect those companies and contractors under sanctions “so as not to disclose schemes that allow these sanctions to be bypassed.”

While this bookkeeping maneuver might appear to be designed to permit those sanctioned Russian businesses to operate and expand, the second excerpt from the liberal weekly, *Novoye Vremya*, posits that this freedom from reporting contractual data will only result in greater corruption. With defense and security spending remaining robust, the author points out that this change will give “a dozen ministries and departments (the Ministry of Defense, Rosgvardia, the FSB, the Ministry of Internal Affairs, the Ministry for Emergency Situations and others) the opportunity to secretly select participants in procurement contests, conduct them on secret terms, and secretly designate their winners.” This lack of public oversight might help to avoid sanctions, but could also result in massive corruption, or as the title of the article suggests, an “indulgence for thieves.”

Prior to Russia’s armed aggression against Ukraine, “corruption” was often cited as the country’s most pressing national security threat. While concerns over “Western hostility” are now prominent, domestic corruption remains a serious problem and could grow worse under this change in reporting requirements. **End OE Watch Commentary (Finch)**

“... The resolution allows state-owned companies to classify all data from suppliers and contractors receiving contracts through the law enforcement agencies and the defense industry - this is done to protect schemes for circumvention of international sanctions imposed on Russian companies...”

Source: Oleg Adamchuk, Elizabeth Bazanova, “Медведев разрешил госкомпаниям засекретить данные поставщиков; Уход в тень субподрядчиков должен защитить схемы обхода санкций (Medvedev allowed state-owned companies to classify their suppliers; Departing into the shadows should protect the schemes of subcontractors to circumvent sanctions),” *Vedomosti*, 30 November 2017. <https://www.vedomosti.ru/economics/articles/2017/11/30/743604-goskompaniyam-zasekretit-postavschikov>

Prime Minister Dmitry Medvedev, released state-owned companies from the obligation to disclose suppliers and contractors receiving contracts. The resolution signed on Monday allows state-owned companies to limit themselves to publishing in the procurement register impersonal information about the results, the method, the purchase price - without the data on the winner. Contracts with subcontractors will go even further into the shadows - the search for information about them is being closed. The measure is in effect until 1 July 2018....

...State companies are worried about the prospect of revealing information about intra-group and financial transactions... and information about contractors which deal with sanctioned companies must be protected, so as not to disclose schemes that allow these sanctions to be bypassed.

Source: Alexander Goltz, “Индальгенция для воров (Indulgence for Thieves),” *Novoye Vremya*, 1 December 2017. <https://newtimes.ru/articles/detail/131924>

... And on 30 November, Prime Minister Medvedev signed a government decree allowing all contests for state purchases of the Defense Ministry, the FSB and the SVR to be completed by 1 July 2018, in a closed regime. In addition, the resolution allows state-owned companies to classify all data from suppliers and contractors receiving contracts through the law enforcement agencies and the defense industry - this is done to protect schemes for circumvention of international sanctions imposed on Russian companies....

... So, our government proposes to change Russian laws - in such a way as to close “electronic procurement procedures ... for federal executive bodies engaged in the formulation, implementation of state defense policy and public administration of measures to ensure the country’s security.” Consequently, a dozen ministries and departments (the Ministry of Defense, Rosgvardia, the FSB, the Ministry of Internal Affairs, the Ministry for Emergency Situations and others) have the opportunity to secretly select participants in procurement contests, conduct them on secret terms again and secretly designate their winners....