

SELA Webinar

Russia Sanctions: the Impact on Companies in SEE Region

BD2P | Kirm Perpar | TA Advisory May 2022

Agenda

10:00 - 10:15 | First Session:

Non-EU Perspective by Uroš Popović, BD2P, Serbia

10:15 – 10:30 | Second Session:

EU Perspective by Matej Perpar, Kirm Perpar, Slovenia

10:30 - 11:00 | Third Session:

Russian Perspective by Oliver Ćirić, guest speaker, TA Advisory, Russia

11:00 - 11:15 | Q&A





Uroš PopovićPartner at Bojović Drašković
Popović & Partners,
Serbia

With extensive experience for more than 15 years in corporate, commercial and M&A in Serbia and in Montenegro, Uroš has also developed his expertise in competition law, data protection, intellectual property, telecommunications, media and technology. Uroš has Master and Juris Doctor degree from Boston University, USA, and a Postgraduate Diploma in EU Competition Law from King's College, London. Admitted to both the Serbian bar and the New York bar. Ranked as Leading Individual within The Legal 500 EMEA, Chambers, IFLR1000, and Who's Who Legal.



Matej PerparPartner at Kirm Perpar,
Slovenia

With extensive experience in corporate, commercial and M&A, Matej developed expertise in dispute resolution, real estate, insolvency law, employment, data protection and white-collar. Matej is a member of Slovenian Bar Association and an active member of German Chamber of Commerce in Slovenia and British - Slovenian Chamber of Commerce. Matej also holds a certificate enabling him to act as a member of supervisory boards. Ranked as Leading Individual within The Legal 500 EMEA, Chambers, and IFLR1000.



Oliver Ćirić Partner at TA Advisory, Russia

Oliver's practice focuses on complex cross-border litigation, asset tracing & recovery, banking & AML, white collar crime and investigations, including case management and coordination, anti-fraud and anti-corporate raiding strategies. His industry focus includes banking, mining, finance, telecom, energy, and real estate. Oliver also acted as electoral campaign and policy advisor. Oliver has acted in numerous proceedings in Switzerland and abroad, whether as counsel to the plaintiffs or respondents.

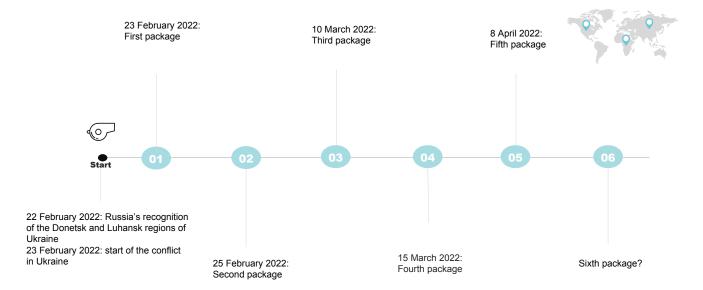


First Session:

Non-EU Perspective | by Uroš Popović



Summary





Consequences of the Russia-Ukraine conflict

- Since its beginning on 24 February this year, the Russia-Ukraine conflict has triggered turmoil in the financial markets, and drastically increased uncertainty about the recovery of the global economy.
- Ukraine's economy is expected to shrink by an estimated 45.1 percent this year, although the magnitude of the contraction will depend on the duration and intensity of the war.
- Hit by unprecedented sanctions, Russia's economy has already plunged into a deep recession with output projected to contract by 11.2 percent in 2022.
- The invasion of Ukraine is causing a mass exodus of companies from Russia, reversing three decades of investment by Western and other foreign businesses there following the collapse of the Soviet Union in 1991.
- Sanctions and export controls have been broad-based to date, targeting Russian banks, exports of high tech, and assets.





How does the Russia-Ukraine conflict affect Russian companies and Serbia?

- Serbia, a candidate for entry into the European Union (EU), is the only European country that maintains air connections with Russia and has not joined the sanctions on that country.
- In order to maintain business continuity, companies operating in Russia, and cooperating with the rest of the world, had to find a quick solution to continue doing business.
- Since the start of the Russian invasion of Ukraine eleven weeks ago and the West's severe financial sanctions against Moscow, more than 300 Russian companies have settled in Serbia, with the aim of continuing their business activities in the European market.
- This does not only mean companies owned by Russian citizens, but also international companies that have moved parts of their Russian operations to Belgrade and Serbia.
- The strategic location of Serbia at the crossroads of South Europe makes its road and transport infrastructure an attractive investment target for Russian businesses.
- Belgrade was a logical solution because it has direct flights with Russia and the fact that Russians can come to Serbia without a visa for thirty days. Also worth mentioning is the traditional positive attitude towards Russians in general.

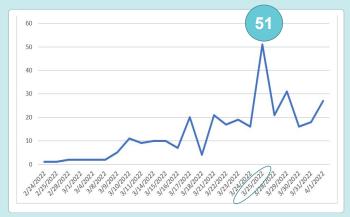




What are the statistics?

- The sanctions imposed by the European Union on the Russian Federation have influenced many businesses from that country to move to Serbia or start a business here.
- In just five weeks, from 24 February until 1 April, 323 legal entities whose founders are from Russia have been registered in Serbia.
- In March, Russian citizens established an average of nine legal entities a day in Serbia, 27 were registered on April 1, but the record was broken on 25 March, when 51 Russian companies were registered.
- For reference, for more than three years prior to this period, from 1 January 2019 to 24 February 2022, 435 legal entities were registered in Serbia, whose founders are originally from the Russian Federation.
- In early April, there were 1,389 registered legal entities of Russian founders in Serbia, which means that more than half were founded in the last three years, and almost a quarter in the last 35 days, so it is clear that the expansion of Russian companies in Serbian market began when their home business was threatened by European sanctions.

Number of established companies per day:





Which are the most represented activities?

- The Serbian Business Registers Agency data reveal that, among the newly established companies in which Russian citizens or companies have a share, the most represented activities are:
- Computer programming;
- Non-specialized wholesale trade;
- Business and other management consultancy activities;
- IT consulting activities.
- On the other hand, the predominant activities of entrepreneurs are:
- Computer programming;
- Business and other management consultancy activities.





Serbia as a short-term or long-term solution?

- The first wave of companies has now subsided and in the coming phase these companies will have to decide where to locate their businesses physically and how feasible it will be for them to stay in the long term.
- The decision-making regarding long-term plans is much more complex and considers everything from business and tax environment, availability of labor costs, availability and prices of housing and business space to quality of life and additional facilities provided by the city.
- At the moment most companies that do business here normally work in the common workspace, in offices that are rented short-term and that are already equipped.
- Big Russian players are also coming: Yandex (300 people to be transferred), Luxoft (around 300 people as well). Both already have incorporated companies in Serbia and are looking for large office space (over 3,000 sqm).



- Short-term
- •up to 1 year
- •Short-term planning concerns the plans in a time period of 1 year **operational planning**.

•Medium-term

- •1-5 years
- •Medium-term planning is considered for a time period of 5 years **tactical planning**.

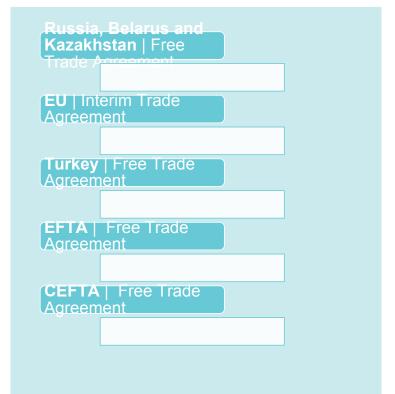
Long-term

- over 5 years
- •Long-term planning is considered for a time period over 5 years **strategic planning**.



Benefits for Russian companies and investors

- In 2009, Serbia signed a Free Trade Agreement with Russia and strengthened mutually beneficial trade ties.
- Serbia can be an opportunity for Russian investors to further export to Europe, because everything produced in Serbia can be placed on the European Union market without customs duties.
- In 2013, Serbia and Russia signed a strategic partnership agreement that deepened economic and political cooperation, including coordination in international organizations.
- Serbia concluded a Free Trade Agreement with the Eurasian Economic Union (EAEU). This agreement came into force in July 2021, replacing earlier bilateral agreements with Russia, Belarus, and Kazakhstan.
- Of course, we must also mention the bilateral agreement on the avoidance of double taxation concluded between Serbia and Russia from 1995.





Do the conditions of establishment in Serbia suit Russian companies?

- Serbia provides business conditions suitable for both local and foreign entrepreneurs and legal entities interested in expanding or developing their operations in a safe and stable environment
- The procedure for registration of business entities in Serbia is the same for both domestic and foreign individuals and legal entities
- The incorporation of a limited liability company involves the following steps:
 - Registration with the Business Registration Agency which includes obtaining a Tax Identification Number;
 - · Opening a permanent bank account;
 - Obtaining qualified electronic signature for the statutory representative (director);
 - Submitting a Tax dossier to the Tax Authority;
 - · Completing the UBO Registration; and
 - · Submitting Eco and Utility Tax Registrations.





Second Session:

EU Perspective | by Matej Perpar





To whom do EU sanctions apply

EU sanctions apply to all persons within EU jurisdiction, including:

- EU nationals in any location,
- entities incorporated under the law of an EU Member State including branches outside the EU,
- foreign companies with respect to their EU operations, and
- on board of aircraft or vessels under the jurisdiction of the EU Member States.

Monetary fines for breaching sanctions (Slovenia):

- legal entities up to EUR 500,000,
- responsible persons of legal entities up to EUR 10,000,
- · individuals up to EUR 5,000.





Type of sanctions

Financial sanctions:

 Exclusion of Russian banks from SWIFT, restricted access to Russian international reserves, restricted access to capital and financial markets, restrictions on dealing with certain Russian State-owned enterprises, etc.

Trade sanctions:

 Prohibition of import / export of specific goods (iron and steel products, solid fossil fuels, goods generating significant revenue for the Russian economy, dual-use goods), etc.

Other

- Targeted sanctions aiming at individuals and entities.
- Targeted sanction aiming at state owned/influenced media (Russia Today, Sputnik).
- · Closing down EU airspace for Russian aircrafts.

Macroeconomic situation

Slovenia	European Union
3000	
2021:	
GDP: +8,1%	GDP: +5,2%
Inflation: +4,9%	Inflation: +4,96%
2022 (prediction):	
GDP: +4,2%	GDP: +2,7%
Inflation: +6,7%	Inflation: +6,1%



Impact on economy

Energy sector



Main challenges:

- · Increase of prices of fossil fuels.
- Unreliable supplies / disturbances in supply chains.

EU action plan:

- · Reduction of dependence on Russian fossil fuels.
- Regulation of prices to limit the impact of high prices (on national levels).
- Extraordinary market measures to ensure additional supplies.
- Gas storage and joint gas purchases on EU level.
- · Changes in life-style.



Impact on economy

Food and Agriculture

Main challenges:



- · Uncertain food security in the EU and around the world.
- In the short term, the war in Ukraine will not affect food security in the EU, but it certainly will affect the market situation in the agricultural sector.
- In the short and medium term, producers could feel the effects of rising input costs related to energy, fuel, fertilizers and animal feed.
- · Sooner or later also increase of prices of finished products.

EU action plan:

- Market measures under the common agricultural politics (mobilization of set-aside areas to increase production, export restrictions etc.).
- · Temporary crisis framework for state aid.



Business exits from Russia



Response of SEE businesses

Energy sector

- Price regulation short term.
- Increased production of electricity from non-renewable sources (coal, wood, thermal powerplants, incinerators etc.) short term.
- Finding new distribution channels for fossil fuels (oil, gas) short to mid-term.
- Investments in renewable energy sources (solar power, wind power, hydrogen) mid-term to long term.
- Investments in nuclear energy long term.

Food and Agriculture

- Self-sufficiency in agriculture.
- · Mobilization of agricultural land that was set-aside.
- Structural changes in agricultural production (shift from livestock farming to agriculture).
- · Changes in "state aid" regulations.
- · Ban on export of food and related goods.
- New production facilities (i.e. fertilizers production).



What is EU's next move? Ban on Russian oil and gas?

European Commission's Proposal

- Embargo on Russian crude oil (in six months time).
- Ban of petroleum products (by the end of 2022).
- · Prohibition for European vessels to transport Russian oil or conduct ship-to-ship transfers that would enable exports to Europe.
- Potential exemptions (deadline extensions until 2024 or later) for landlocked states (Hungary, Slovakia, Czech Republic).
- · Hungary's resistance blocking sanction package, Greece and Cyprus objecting proposed restrictions on shipping.

Can Europe manage without Russian oil and gas?

- · Currently, most energy trade with Russia is still legal, as long as companies avoid dealing directly with sanctioned Russian entities.
- Time needed to secure alternative supplies.
- · Some countries more prepared and/or less dependent on Russian oil and gas than the others.
- Petroleum products are more concerning as 40% 50% of Europe's diesel products is supplied from Russia.

Ban on Russian oil and gas as suitable solution?

- · Potential redirection of oil flows to other markets (India, China).
- · Traders and buyers tend to find creative ways to evade sanctions.



Third Session:

Russian Perspective | Russia's Response to Sanctions | **Overview of Russian Countersanctions and Further Measures**

by Oliver Ćirić



Western sanctions against Russia following the 24 February 2022 conflict outbreak in Ukraine and impact on Russian economy

Measures against "unfriendly states" as a response >>>



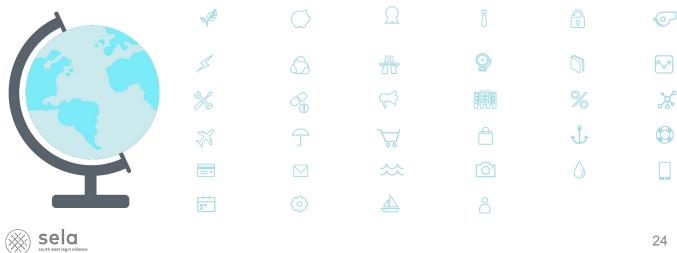
Measures against "unfriendly states" as a response

- Russian measures are directly related to the sanctions against Russia imposed by other countries, which are designated as "unfriendly states".
- List of unfriendly states currently includes the following countries:
 - FU
 - Some other European countries: Albania, Andorra, Iceland, Liechtenstein, Monaco, Montenegro, North Macedonia, Norway, San Marino, Switzerland, Ukraine and the UK
 - United States
 - · Other Countries: Australia, Canada, Japan, Micronesia, New Zealand, Singapore, South Korea, and Taiwan



Types of measures adopted by Russia against the unfriendly states

Wide range of measures adopted against companies and individuals from unfriendly states, including financial and energy sectors as well as restriction of certain transactions.



Most important measures

- 1. Russian debtors are allowed to pay off their large debts (i.e., debts exceeding 10 million rubles = approx. USD 160,000) to non-Russian creditors based in unfriendly states in Russian rubles (instead of otherwise applicable currency) according to the official exchange rate of the Bank of Russia as of the first day of the respective month.
- 2. Buyers of Russian natural gas based in unfriendly states (or in cases when gas is supplied to an unfriendly state) are obliged to pay for gas in Russian rubles. Non-compliance with this requirement could lead to a halt to further supplies. Special payment mechanism involving Gazprombank.
- 3. Russian residents are prohibited, without a prior authorization, from conducting certain transactions with foreigners based in unfriendly states and persons controlled by such foreigners:
 - Providing loans in rubles
 - · Transferring ownership of securities
 - · Transferring ownership of real estate

- 4. Any money transfers from Russian accounts of non-residents (companies or individuals) from unfriendly states to their accounts outside of Russia are suspended for six months.
- Companies from unfriendly states are prohibited from buying any non-ruble currency in Russia.
- Until 31 December 2022, Russian insurance companies are prohibited from entering into contracts with insurance and reinsurance companies and insurance brokers from unfriendly states.
- Several top officials of the EU, United States, UK and other countries with unfriendly state status are banned from entering Russia.



Measures generally taken to mitigate the effects of international sanctions on the Russian economy (1)

- Professional brokers in Russia are prohibited from selling securities on behalf of any non-Russian companies or individuals.
- Issuance and trading outside of Russia of depositary receipts (ADRs) representing shares of Russian companies is prohibited, with such Russian companies being obliged to terminate their respective agreements so that the depositary receipts are converted into underlying shares that can be traded only in Russia.
- · Russian residents are prohibited from:
 - Depositing non-ruble currency into their accounts in banks abroad (but free transfers of rubles)
 - Transferring money using non-Russian electronic payment services without opening an account
 - Transferring non-ruble currency to any non-residents under loan agreements

- Russian residents participating in foreign trade are obliged to sell 50% of non-ruble currency received through foreign trade contracts beginning 28 February 2022.
- Cash exports of non-ruble currency from Russia in an amount exceeding USD 50,000 in value are prohibited.
- Until 9 September 2022, individuals may withdraw no more than USD 10,000 in cash from their non-ruble accounts in Russian banks; cash withdrawals exceeding this threshold can be made only in rubles.
- For non-resident companies and individual entrepreneurs, cash withdrawals in USD, EUR, JPY and GBP are completely banned.
- Until October 2022, individuals (as long as they are not associated with "unfriendly states") may transfer no more than USD 10,000 in value per month from their bank accounts in Russian banks to their accounts or accounts of other individuals in banks abroad, and no more than USD 5,000 in value using payment services without opening an account.



Measures generally taken to mitigate the effects of international sanctions on the Russian economy (2)

- Until 31 December 2022, Russian residents are prohibited from paying shares in any non-resident companies or making payments to any non-residents under joint venture agreements, unless they obtain an authorization of the Bank of Russia.
- For certain types of contracts with any non-residents, Russian residents are prohibited from making advance payments exceeding 30% of the sum of their obligations under the contract (e.g. agreements with lawyers).
- Parallel imports of certain goods protected by certain IP rights (patents, trademarks, utility models and design patents) are legalized. Lists of such goods are designated by the Ministry of Industry and Trade.





Outlook

- While numerous international companies are exiting the Russian market, further Russian countermeasures will be imposed.
- In particular, the Russian Ministry of Economy recently presented a draft bill on the "external management" of companies closing their Russian businesses.
- Another draft bill stipulates that property of unfriendly states and of persons associated with such states located in Russia shall be subject to expropriation without compensation.
- A further draft bill proposes to introduce criminal liability for managers of companies and other entities for "abuse of office" committed in Russia for the purpose of compliance with international sanctions against Russia.
- According to another draft bill, which has already been passed by the Russian State Duma, Russian banks shall be prohibited from providing information on clients and their transactions upon request of any non-Russian authorities without prior consent of Russian authorities.

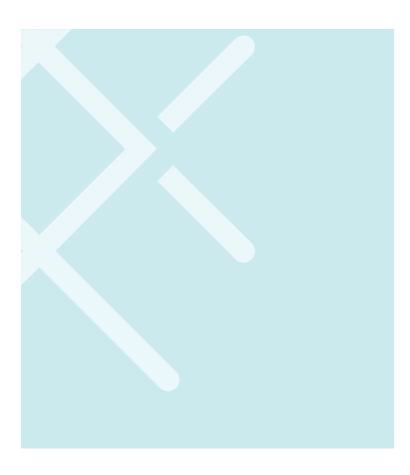
 Choice that foreign companies face currently: continue operating, leave while entrusting a local partner with management or close operations with the risk of expropriation.







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