

Analytical report (Updated)

The countries of Central Asia and other members of the Eurasian Economic Union (EAEU) and the Commonwealth of Independent States (CIS) as a tool to circumvent sanctions against the Russian Federation, its legal entities and individuals



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Freedom for Eurasia is a nonpartisan international human rights organization established in 2021 in Vienna, Austria. Freedom for Eurasia documents and reports on human rights and corruption abuses in Eurasia.

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Introduction. Context of the investigation and its purpose

After the beginning of the large-scale aggression of the Russian Federation (RF) against Ukraine, a number of democratic states, imposed sanctions against Russia, its financial institutions, legal entities and individuals. The purpose of economic sanctions is to make it difficult for Russia to finance the war in Ukraine and deprive the Russian Federation of the ability to continue aggression, as well as to demonstrate to representatives of the Russian political and economic elite that the invasion of Ukraine has economic and political consequences. Sanctions have also been imposed on Belarus for supporting the Russian invasion. Individual sanctions are directed against those responsible for supporting, financing or carrying out actions that undermine the territorial integrity, sovereignty and independence of Ukraine, as well as those who benefit from these actions.

After the introduction of sanctions, the authorities of the Russian Federation and Belarus, state and private companies, as well as oligarchs who fell under sanctions, began to use various mechanisms to circumvent sanctions. In the current sanctions' environment, Russia still has enough room for free maneuvers. There is a wide range of loopholes for evading sanctions. The Russian authorities use partners of Russia – individuals, legal entities, and the governments of the states - strategic partners of the Russian Federation who are not sanctioned.

Legal and consulting companies in Russia, Central Asia and Western countries offer services for the relocation of business from Russia to the member states of the Eurasian Economic Union¹ (EAEU) and the Commonwealth of Independent States² (CIS). The Eurasian Economic Union (EAEU) includes Armenia, Belarus, Kazakhstan and Kyrgyzstan, as well as Russia. The Russian Federation controls the EAEU. The EAEU is a free trade bloc that has international trade treaties with Iran, Serbia, Singapore and Vietnam and negotiates with many others, most notably India and China. The CIS also includes Azerbaijan, Georgia, Moldova, Tajikistan, Turkmenistan and Uzbekistan. This interstate union functions somewhat differently than the EAEU, but it provides for partial free trade between all members. For many goods that move to the CIS, there are no export and import duties.

The purpose of the analytical report is a comprehensive study of the issues of circumvention of sanctions by Russia with the help of the Central Asian states, legal entities (organizations) and individuals (citizens) of these countries and the presentation to the world community of recommendations to improve the effectiveness of sanctions and block the ability of the Russian Federation to circumvent sanctions.

The territorial focus of the study is the states of Central Asia: Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, Uzbekistan. This choice is determined by the active use of these states to circumvent sanctions and the use of the same type of schemes by the Russian regime in this region. In cases where the mechanism for circumventing sanctions includes not only the states of Central Asia, but also other countries of the EAEU and the CIS, the authors of the report consider the entire range of participating states. The authors of the report believe that in the future it is necessary to study other regional groups of states in order to identify mechanisms for circumventing sanctions and blocking these mechanisms.

The report was prepared on the basis of information from publicly available open sources. When working on the report, the authors used a system of methods for monitoring public sources and qualitative and quantitative methods for analyzing information. Wherever possible, information from one source has been verified against other sources.

¹EAEU// <http://www.eaeunion.org/?lang=en#about>

² Internet portal of the CIS. Integration space// <https://e-cis.info/>

Descriptions of sanctions against the Russian Federation, its legal entities and individuals are publicly available. For this reason, the authors do not describe them in detail in the present report.

The report covers the period from the beginning of the Russian aggression in February 2022 to the end of December 2022.

Russia's response measures to sanctions

The sanctions provoked an inevitable backlash. The Russian Federation is taking various measures aimed at minimizing the consequences of these sanctions.

Response measures in the field of currency regulation

The 2022 sanctions have amplified the Russian banking sector's dependence on financial inflows in U.S. dollars. At the moment of invasion, 72% of Russia's foreign debt was denominated in foreign currency,³ of which the U.S. dollar accounted for 50%. Russia responded with changing the currency of the obligation to the Russian ruble for certain types of obligations, compulsory sale of foreign currency and strict currency outflow control.

Response measures affected both Russia's own obligations and those of its foreign counterparties. The first group included claims on the obligations of Russian debtors on loans and borrowings, financial instruments; payments related to the issue by foreign organizations of equity securities (Eurobonds, depositary receipts); payment of rent, leasing and others under contracts providing for the purchase, lease, leasing of aircraft, auxiliary power units, aircraft engines;⁴ payment of profits to foreign participants of Russian legal entities.⁵ As for obligations of foreign counterparties, the relevant decision was made with regard to buyers of natural gas under foreign economic contracts.⁶ Since July 2022, a special federal law allowed to fulfill obligations under the foreign debt of the Russian Federation in rubles.⁷

Since February 28, 2022 Russia established a requirement for Russian residents - participants in foreign economic activities to sell 80% of foreign currency to the state.⁸ On May 24, 2022, the previously established requirement for the mandatory sale of 80 % of foreign currency received under foreign trade contracts was lowered to 50 %.⁹ Since June 9, 2022, the Central Bank of the Russian Federation was instructed to determine the proportion of the foreign currency to be converted.

As of March 1, 2022, a restriction was put in place that prohibits the export of foreign currency in amounts exceeding 10,000 US dollars outside of Russia.¹⁰

³ Balance of Payments, International Investment Position, and External Debt of the Russian Federation in January-September 2022// Bank of Russia https://www.cbr.ru/statistics/macro_itm/svs/p_balance/

⁴ Executive Order of 01.04.2022 N 179 (with amendments of 04.05.2022) "On temporary procedure for execution of financial obligations in the sphere of transport to certain foreign creditors" //ConsultantPlus http://www.consultant.ru/document/cons_doc_LAW_413424/

⁵ Executive Order of 04.05. 2022 on a provisional procedure for meeting financial obligations in corporate relations to certain foreign creditors. //Official site of President of Russia. <http://static.kremlin.ru/media/events/files/ru/4kMYV2rTSf1lSrIokIz3at1MpsePSgJE.pdf>

⁶ Executive order of 31.03.2022 N 172 (amended on 30.12.2022) on special procedure to allow foreign buyers to meet their commitments to Russian natural gas suppliers// ConsultantPlus http://www.consultant.ru/document/cons_doc_LAW_413296/

⁷ Federal Law No. 344-FZ of 14.07.2022 On Amendments to Article 9 of the Federal Law On Amendments to the Budget Code of the Russian Federation and Certain Legislative Acts of the Russian Federation and the Establishment of Specifics of Budget Execution of the Budget System of the Russian Federation in 2022. // Official site of President of Russia. <http://kremlin.ru/acts/bank/48082>

⁸ Executive Order of 28.02.2022 N 79 On Imposing Special Economic Measures in Connection with the Hostile Actions of the United States in League with Other Foreign States and International Organisations // Official site of President of Russia. <http://static.kremlin.ru/media/events/files/ru/KXhTU1uNb0ZpIsv32AddeXO4mcQQh34P.pdf>

⁹ Executive Order No. 303 of May 24, 2022 "On Amendments to the Executive Order of 28.02.2022 N 79 On Imposing Special Economic Measures in Connection with the Hostile Actions of the United States in League with Other Foreign States and International Organisations // Official site of President of Russia. <http://static.kremlin.ru/media/events/files/ru/h0xisjcGOPotTzVdFktZnOcWaaosFaK3.pdf>

¹⁰ Executive Order of 103.2022 No 81 On additional temporary economic measures to ensure Russia's financial stability // Official site of President of Russia. <http://static.kremlin.ru/media/events/files/ru/ipOLckOwbLXMWtwcat4I5mwAPVmDMTVq.pdf>

Executive Order No. 529 of 08.08 2022 changed the procedure for Russia to fulfill its obligations under bank account (deposit) agreements denominated in foreign currency, and obligations under bonds issued by foreign organizations.¹¹ Any Russian credit organization received the right not to perform foreign currency transactions on the account of its clients.

The official explanation from the Central Bank of Russia states that measures were aimed at maintaining a balance between the stability of the ruble, the stability of the foreign exchange market, and interests of both exporters and importers.¹²

Response measures aimed at regulating the import/export of products and raw materials

Sanctions have significantly reduced the import of a number of high-tech goods into the Russian Federation. In response, on March 9, 2022, Executive Order No. 100 "On application of special economic measures in foreign economic policy to ensure security of the Russian Federation" was adopted. This document imposed a complete ban on the export/import of certain types of products and raw materials, as well as restrictions on certain categories of goods. These restrictions were entrusted to the Government of the Russian Federation.

The list of goods under export ban is contained in the Government Decree of March 9, 2022 № 311 (version of 23.11.2022) "On measures to implement Executive Order of March 8, 2022 N 100". The following categories of products fall under export ban: pharmaceutical products, a wide range of machinery, equipment, machine tools used in industry and agriculture and their spare parts, boilers, turbines, gas generators, agricultural machinery, transformers, batteries, electromagnets, radar, radio navigation and radio remote control equipment, railway cars, open platforms and track equipment, passenger and cargo trains, non-self-propelled vehicles, aircraft, unmanned equipment, ships, yachts and other vessels, medical instruments and devices such as surgical tools and orthopedic equipment and other.

Exceptions were: goods produced in the Russian Federation and intended for export to the CIS countries; exported to the EAEU member states, the Republic of Abkhazia and the Republic of South Ossetia; those in international transit; goods transported between parts of Russian territory through foreign countries imported into the Kaliningrad region; exported to support activities of military formations located in the territories of foreign countries; under licenses for technical and export control, for military-technical cooperation, under lists approved by the Russian Ministry of Defense; exported to the so-called Donetsk People's Republic (DPR) and Luhansk People's Republic (LPR), regardless of their origin; exported in order to complete customs processing procedures in the customs territory; originating in EEU member states, placed there under customs procedures and intended for export from the EEU customs territory; exported in order to support the activities of organizations of the Russian Federation on the Spitsbergen archipelago; on vehicles of international transportation; on goods exported by individuals for personal use.

On March 17, 2022, the Russian Federation initiated a move by the Council of the Eurasian Economic Commission to waive import duties for certain goods, including food products and their raw materials, pharmaceutical products, electronic components, raw materials for the light industry, and products utilized in the metallurgical, construction, and transportation sectors of the Russian economy.¹³ With this decision, Russia has established advantageous conditions for the re-

¹¹ Executive Order of 8.08.2022 № 529 On provisional procedures for the fulfillment of foreign-currency bank account contracts and bonded obligations issued by foreign organisations // Official site of President of Russia. <http://static.kremlin.ru/media/events/files/ru/laAm3rIpLBycliTNSOtYbCsuF1HdZLZY.pdf>

¹² Countering Money Laundering and Currency Control// Bank of Russia. http://www.cbr.ru/about_br/publ/results_work/2021/obespechenie-ustoychivosti-finansovogo-rynka/

¹³ EAEU will provide benefits for imports of food and raw materials for socially important industries. 18.03.2022// Eurasian Economic Commission. <https://eec.eaunion.org/news/eaes-predostavit-lgoty-na-vvoz-prodovolstviya-i-syrya-dlya-sotsialno-znachimykh-otrasley/>

export of essential products for the Russian industry from the EAEU member states, including those manufactured outside of the EAEU.

At the meeting of the Supreme Eurasian Economic Council on May 27, 2022, agreements were reached, including the implementation of the Protocol to the Interim Agreement that would establish a free trade area between the Eurasian Economic Union and its member states, and the Islamic Republic of Iran.¹⁴ The meeting also marked the start of negotiations with the Republic of Indonesia on the conclusion of a free trade agreement.¹⁵

The most important for the Russian Federation is the creation within the EAEU of a special customs procedure which provides for (1) exemption from import taxes for aircraft engines, spare parts and maintenance equipment required for repairing foreign-made civilian passenger aircraft; (2) duty-free transfer (return) by airlines of EAEU member states of passenger aircraft, including outside the EAEU borders, for the purpose of their repair/maintenance in third countries.

Obviously, Russia's response to regulate imports and exports of goods and raw materials is aimed at creating conditions for Russia to receive goods that are not produced within the country.

By utilizing the mechanism of the EAEU, Russia can export its products to other countries duty-free, which provides a benefit for Russia in terms of trade within the EAEU.

Response measures in the fuel and energy sector

The fuel and energy sector are the main source of Russian income, financing the war.

By the Executive Order No. 416 dated June 30, 2022 "On Application of Special Economic Measures in the Financial, Fuel and Energy Sectors in Response to Unfriendly Actions of Some Foreign States and International Organizations"¹⁶ the property of Sakhalin Energy Investment Company Ltd. (Gazprom – 50 % +1 share, Shell - 27.5 %, Mitsui Group - 12.5 % and Mitsubishi Group - 10 %) was transferred to a Russian legal entity established by the Russian Government and was subsequently transferred to the Russian Federation. This company was developing the Piltun-Astokhskoye oil field and the Lunskoye gas field in the Sea of Okhotsk (Sakhalin-2 project).

In August 2022, a ban was imposed on transactions involving the transfer of ownership in Russian companies, the disposal of securities, and the rights and obligations belonging to participants in production sharing agreements, joint operating agreements, or other agreements in relation to the Sakhalin-1 and Kharyaga field projects, as well as other enterprises and companies of the fuel and energy complex, producers and suppliers of heat and (or) electric energy, business companies engaged in processing of oil and oil products, Russian credit organizations and users of subsoil areas (oil, gas, diamonds, ore and other).

On October 7, 2022 the President of the Russian Federation signed Decree No. 723 "On Application of Additional Special Economic Measures in the Financial, Fuel and Energy Sectors in Response to Unfriendly Actions of Some Foreign States and International Organizations", under which the property of Exxon Neftegas Limited (US ExxonMobil - 30% stake, Japanese consortium Sodeco - 30% stake, Rosneft - 20% stake, Indian ONGC Videsh - 20% stake), the Sakhalin-1 Project operator, was transferred to the Russian Federation.¹⁷

¹⁴ Decision of the Supreme Eurasian Economic Council of 27.05.2022 № 8 On the entry into force of the Protocol to the Interim Agreement leading to formation of a free trade area between the Eurasian Economic Union and its Member States, of the one part, and the Islamic Republic of Iran on the other, dated May 17, 2018, signed on March 14, 2022.// Supreme Eurasian Economic Council. https://docs.eaeunion.org/docs/ru-ru/01435243/err_19072022_8.

¹⁵ Decision of the Supreme Eurasian Economic Council of 27.05.2022 № 6 On the start of negotiations with the Republic of Indonesia to conclude a free trade agreement// Supreme Eurasian Economic Council. https://docs.eaeunion.org/docs/ru-ru/01435239/err_19072022_6.

¹⁶ Executive Order of 30. 06. 2022 No 416 On Special Economic Measures in Fuel and Energy Sector in Connection with Unfriendly Actions of Certain Foreign States and International Organisations// Official site of President of Russia. <http://static.kremlin.ru/media/events/files/ru/kj25EK599KdoG3Pg0Q5AkzuwNEvABMM0.pdf>.

¹⁷ Executive Order of 7.10.2022 No 723 On Additional Special Economic Measures in Fuel and Energy Sector in Response to Unfriendly Actions by Some Foreign States and International Organisations// Official site of President of Russia. <http://static.kremlin.ru/media/events/files/ru/9f0YstrepIMVhmupA9rpA1LvRoIPNoYH.pdf>

In response to sanctions in the energy sector, Russia actually expropriated foreign property. This is likely to result in a complete break of communication with previous foreign owners, including a halt in the supply of spare parts and production software for equipment. The very fact of requisitions indicated that the Russian authorities were already at that time preparing illegal schemes for the supply of everything needed for oil and gas production.

Russian countersanctions

The Russian Federation imposed various restrictions and bans on foreign companies and individuals in response to Western sanctions. These measures were meant to show Russia's equal standing and were mostly symbolic in nature, not causing significant harm to the Western economy.

Countersanctions data adds to the broad context of how the Russian Federation circumvents the sanctions. The imposition of specific countersanctions on legal entities means that these Russian bans will not increase damage to the Russian economy. One possible reason for introducing a particular countersanction is the Russian alternative: if a countersanction is introduced, then the Russian Federation already has or is developing a scheme that will compensate for its damage.

Countersanctions against legal entities

On March 14, 2022, amendments were made to Russian law that allow for the extension of special investment contracts if the implementation of these contracts was prevented due to unilateral restrictive measures imposed on Russia or the investor and/or other individuals listed in the contract. Moreover, the Government of the Russian Federation was granted the authority to introduce additional conditions for the amendment and termination of special investment contracts.

On May 3, 2022 Executive Order No. 252 "On Retaliatory Special Economic Measures in Connection with Unfriendly Actions of Certain Foreign States and International Organizations" was signed, providing for special economic measures against certain legal entities, individuals and organizations under their control. Among these measures: a ban on transactions, on performing transactions, on financial transactions, on the supply to such persons of products and (or) raw materials that are produced and (or) extracted in Russia.

The list of legal entities that fall under special economic measures was approved by Executive Order No. 851 of the Government of the Russian Federation of May 11, 2022.¹⁸ Also, special economic measures were supplemented by a ban on the entry into Russian ports of ships chartered by these legal entities and commission of transactions with securities in their favor. The Russian sanctions list includes all of Gazprom's former subsidiaries registered in "unfriendly countries,"¹⁹ Gazprom Marketing & Trading Ltd. and EUROPOL GAZ S.A. - a joint venture between Gazprom and PGNiG, the operator of the Polish part of the Yamal-Europe pipeline.

Since September 8, 2022 there is a requirement to obtain permission from the Government Commission on Monitoring Foreign Investment for transactions between residents and foreigners with shares in the authorized capital of Russian limited liability companies.

On September 30, 2022 the President and the Government of the Russian Federation established passed decrees prohibiting foreign carriers from transporting goods via road within Russia if they are registered in the European Union, Great Britain and Northern Ireland, Norway, or Ukraine.²⁰

Starting from October 15, 2022, it is mandatory to obtain approval from the Government Commission on Monitoring Foreign Investment for any transactions involving the purchase or sale

¹⁸ Resolution of the Government of Russian Federation No 851 dated May 11, 2022 "On measures to implement Executive Order of May 3, 2022 No 252"//Official Internet portal of legal information. <http://publication.pravo.gov.ru/Document/View/0001202205110017?index=0&rangeSize=1>.

¹⁹ The list of legal entities with respect to which special economic measures are applied. Approved by Decree of the Government of the Russian Federation No. 851 of 11.05.2022 // Official Internet portal of legal information. <http://publication.pravo.gov.ru/Document/View/0001202205110017?index=2&rangeSize=1>

²⁰ Executive Order of 29.09. 2022 No 681 On Some Aspects of International Road Transport of Goods// Official Internet portal of legal information. <http://publication.pravo.gov.ru/Document/View/0001202209290007>; Resolution of the Government of Russian Federation of 30.09.2022 No 1728 On measures to implement Executive Order of 29.09.2022 No 681 On Some Aspects of International Road Transport of Goods // Official Internet portal of legal information. <http://publication.pravo.gov.ru/Document/View/0001202210010004>.

of at least 1% of shares in a Russian credit institution, insurance company, non-state pension fund, microfinance company, or the management company of a joint-stock company.²¹

Amendments to Federal Law No. 178-FZ of December 21, 2001 "On Privatization of State and Municipal Property" and Federal Law No. 160-FZ of July 9, 1999 "On Foreign Investments in the Russian Federation", introduced in July 2022, allowed terminating the activities of a branch, representative office of a foreign legal entity in Russia by transforming it into a business entity based on the arbitration court decision to transform such branches and representative offices into business entities.²²

Countersanctions against individuals

The Russian government expanded its list of individuals who may be subject to personal sanctions as part of its countersanctions measures. On March 4, 2022, a new Federal Law No. 30-FZ was enacted that allows for the imposition of such sanctions not only on US citizens, but also on individuals from any foreign country or stateless persons.²³

On May 21, 2022, the official website of the Ministry of Foreign Affairs of the Russian Federation posted a message about the Russian "stop list"²⁴ containing a list of 963 US citizens who are permanently banned from entering the country.

On October 25, 2022, Moscow expanded the list of Europeans banned from entering Russia. These include employees of European commercial structures and military equipment manufacturers and a number of members of the Parliamentary Assembly of the Council of Europe (PACE).²⁵

On March 1, 2022 an Executive Order "On Additional Temporary Economic Measures to Ensure Financial Stability of the Russian Federation" was issued, which established a special procedure for conducting (performing) transactions (operations) with foreign persons related to foreign states, acting unfriendly towards Russian legal entities and individuals. Based on this document, as of March 2022, foreign nationals will only be allowed to obtain loans in rubles and acquire property rights in Russia if they have a permit from the relevant government agency.

²¹ Executive Order of 15.10.2022 No 737 On the Execution (Implementation) of Certain Kinds of Contracts (Transactions) // Official site of President of Russia.

<http://static.kremlin.ru/media/events/files/ru/ximoXt137U8dh5oD7Qethbg4DgMG3EHJ.pdf>

²² Federal Law No. 320-FZ of 14 July 2022 "On Amending the Federal Law 'On Privatization of State and Municipal Property' and Certain Legislative Acts of the Russian Federation and on Establishing Specifics for the Regulation of Property Relations// Official site of President of Russia. <http://kremlin.ru/acts/bank/48165>

²³ Federal Law of 04.03.2022 No 30-Ф3 On Amendments to Federal Law On Measures Against Individuals Complicit in Violation of Fundamental Human Rights and Freedoms of the Citizens of the Russian Federation, and to Article 27 of the Federal Law On the Procedure to Exit and Enter the Russian Federation// Official Internet portal of legal information. <http://publication.pravo.gov.ru/Document/View/0001202203040005>

²⁴ Statement of the Russian Ministry of Foreign Affairs in connection with the publication of the "stop list" of US citizens. 21.05.2022// Ministry of Foreign Affairs of the Russian Federation. https://www.mid.ru/ru/foreign_policy/news/1814248/

²⁵ Statement of the Russian Foreign Ministry on response to anti-Russian decisions of the European Union and the Parliamentary Assembly of the Council of Europe. 25.10.2022// Ministry of Foreign Affairs of the Russian Federation. https://www.mid.ru/ru/foreign_policy/news/1835075/

Mechanisms to mitigate the impact of sanctions (sanction evasion schemes)

Parallel imports

Under this scheme, the Russian state allows violations of intellectual property rights.

On March 4, 2022, amendments were made to the legislation of the Russian Federation, allowing the Government to actually ignore international law and rules of action in various fields. The priority areas for such decisions were procurement, licensing, and regulation of medicines and medical devices the circulation. Among other things, the Government of the Russian Federation has the authority to decide which goods are exempt from intellectual property protection regulations.²⁶

On June 28, 2022 an addition was made to clause 13 of Part 1 of Article 18 of the of the Federal Law of March 2, 2022, No 46-FZ On Amendments to Certain Legislative Acts of the Russian Federation. This law established that " it is not infringement of the exclusive right to the results of intellectual activity or the means of individualization expressed in goods". This addition, as well as the previously adopted clause that the requirements for the protection of exclusive rights may not apply to certain goods, is a legally enshrined mechanism for circumventing sanctions. It allows Russian companies, subjects of the Federation and federal authorities to import goods without the permission of the right holder, violating intellectual property rights without any consequences. The law stipulates that "using the results of intellectual activity expressed in goods (groups of goods) and the means of individualization, with which such goods are labeled, is not infringement". Thus, the so-called parallel import is legalized. The provisions of the law apply to a fairly wide list of categories of goods, which the Ministry of Industry and Trade of the Russian Federation approved at the beginning of May.

The list includes such brands as Bentley, Apple, Siemens, Dyson, as well as categories of goods such as mineral fuel, petroleum, inorganic chemicals, pharmaceuticals, railway locomotives, boats, seedlings and flowers, and others).²⁷

imports are, in fact, legalized smuggling and legislated violation of intellectual property rights.

Customs sanctions evasion mechanisms

Shadow customs mechanisms that allow Russia to receive sanctioned products were analyzed by Moldovan analyst Ruslan Shevchenko. These include direct re-export, indirect re-export, fictitious transit, and import through third countries.²⁸

Direct re-export

When this scheme is used, goods are delivered to a country bordering Russia (not imported) and resold at customs to Russian companies. Subsequently, the products are reloaded and sent to the Russian Federation. The cost of products to the end consumer, under this scheme, increases due to additional transactions and complicated logistics, but Russia gets sanctioned products.

²⁶ Clause 13 of Part 1 of Article 18 of the of the Federal Law of March 2, 2022, No 46-FZ On Amendments to Certain Legislative Acts of the Russian Federation // Official Internet portal of legal information.

<http://publication.pravo.gov.ru/Document/View/0001202203080001?index=0&rangeSize=1> p. 29.

²⁷ Order of the Ministry of Industry and Trade of the Russian Federation of 19.04.2022 No1532 "On approval of the list of goods (groups of goods) to which provisions of subparagraph 6 of Article 1359 and Article 1487 of the Civil Code of the Russian Federation do not apply, provided the introduction of these goods (groups of goods) in circulation outside the territory of the Russian Federation rightholders (patent holders), and with their consent". (Registered on 06.05.2022 № 68421) // Official Internet portal of legal information.

<http://publication.pravo.gov.ru/Document/View/0001202205060001?index=0&rangeSize=1>

²⁸ Шевченко Р. Как РФ обходит западные санкции. [Shevchenko R. How Russia evades Western sanctions.] 18.08.2022//AVA. <https://ava.md/2022/08/18/kak-rf-obhodit-zapadnye-sankcii/>

Indirect re-export

For this scheme to work an intermediary company is created in a neighboring country (Turkey, Kazakhstan, Armenia, Georgia, etc.), which concludes contracts with foreign suppliers to import products, ostensibly for their country. After which, goods arrive at Russian customs with new documents and customs duties paid. Under this option, the logistics do not change, but additional transactions mean increase in product cost.

Fictitious Transit

Products are purchased in a country bordering the Russian Federation and are transited through Russian territory to the customer. Once they reach Russian customs, the goods are "resold" to Russian companies. The cost of the goods increases because of double customs procedures.

Import through third countries

Goods are brought into a neighboring country, where they go through the customs clearance process, receiving documents indicating successful inspection and payment of customs duties. Then, the cargo is cleared for export to Russia, where it undergoes another customs clearance process. In this scenario, value-added taxes are separately paid in each country.

Overview of the use of Central Asian (CA) states and government agencies to circumvent sanctions

Given the significant reliance of the Russian economy on trade with economically developed countries such as the European Union, Russia cannot immediately stop buying high-tech products. Selling raw materials on these markets is also crucial to maintaining the stability of the economy, and sanctions make this difficult. For these reasons, Russia relies on Central Asian countries -members of its inter-state trade blocs to bypass these sanctions.

On October 14, 2022, Astana hosted a summit called "Central Asia - Russia". The summit discussed issues of interregional integration and security. Another topic of discussion was the economy, primarily interaction to bypass sanctions. The importance of this topic is confirmed by the fact that the CIS website officially states that the issue of sanctions evasion was openly discussed during the summit. Thesis was voiced that sanctions pressure works unilaterally as a tool to reduce cooperation between Russia and Central Asia. At the same time, the summit's primary concern was finding ways to work together in light of the new circumstances and identifying methods to counteract the damaging consequences of sanctions, as no new initiatives are being proposed to replace the cooperation.²⁹

One possible factor pointing to the sanctions' evasion is a sharp increase in the supply of goods to Russia from the Central Asian republics. This growth is evident from the comparison of January and subsequent months of 2022. Anomalies are noticeable for certain categories of goods such as high-tech goods that are supplied from Kyrgyzstan, Kazakhstan and Uzbekistan. The volume increase is quite obvious, ranging from 6 to 20 times from different countries in the region. Turkmenistan and Tajikistan mainly supply agricultural products and foodstuffs.

The US government has listed 18 countries, including Kazakhstan and other Central Asian states, as transit points for sanctioned goods heading to Russia. This list was published by the Financial Crimes Enforcement Network (FinCEN) and the U.S. Department of Commerce's Bureau of Industry and Security. Financial institutions have been warned to be cautious and watch out for any attempts to bypass export regulations by individuals or organizations.³⁰

These concerns are more than justified. Central Asian states are a convenient "back door" for Russia to evade international sanctions. This became possible on the one hand because the Central Asian states are a part of the Eurasian Economic Union which eliminates customs borders with Russia. On the other hand, they are parties to the Comprehensive and Enhanced Partnership Agreement (CEPA) with the EU. While European companies that comply with the sanctions regime, do not supply goods directly to Russia, they may not be aware that the end recipient of their products will be the Russian Federation.

Another way to bypass sanctions is the acquisition of separate electronic components that can later be used to assemble banned items. Rather than buying complete electronic products, they buy spare parts such as memory modules and motherboards. The sale of server and networking equipment with American technology is banned for Russia, however, manufacturers are allowed to only supply spare parts. The final product is subject to secondary sanctions. However, it is possible to buy individual components from distributors in Central Asia that are not affected by the restrictions.

According to a study conducted by the British Royal United Services Institute (RUSI), more than 450 foreign-made electronic components were found in Russian weapons used in Ukraine. These components were manufactured by companies from the United States, the European Union and Asia. Tactical radios, unmanned aerial vehicles, and long-range precision-

²⁹ Central Asia-Russia Summit. 21.10.2022//CIS Internet portal. <https://e-cis.info/news/566/104122/>

³⁰ Минфин США назвал 18 стран, которые помогают России и Беларуси обходить санкции. [The U.S. Treasury Department named 18 countries that help Russia and Belarus bypass sanctions.] 13.07.2022//Zn.ua. <https://zn.ua/WORLD/minfin-ssha-nazval-18-stran-kotorye-pomohajut-rossii-i-belarusi-obkhodit-sanktsii.html>.

guided munitions contain chips of foreign origin (manufactured by U.S. companies Texas Instruments Inc and Advanced Micro Devices Inc, as well as Cypress Semiconductor). The Russian military needs these components to ensure accuracy, which Russia is unable to produce itself.³¹

The last known option for bypassing sanctions is the supply of dual-use goods. Dual-use goods are products that have both civilian and military applications, for example, components from everyday items can be used to make weapons. Russia can purchase finished non-military products from third countries, disassemble them, and use the parts to build military equipment. Although, the EU, US and their allies are trying to restrict the supply of such goods to Russia, they may still be able to reach the country through other countries.

³¹ Комаров Е. Доклад RUSI: западные микрочипы – «спасательный круг» российского оружия. [Komarov E. RUSI Report: Western Microchips as a Lifeline for Russian Weapons]. 11.08.2022//Voice of America. <https://www.golosameriki.com/a/russian-weapon/6697083.html>.

Specifics of the use of individual Central Asian states to bypass sanctions

Kazakhstan

Kazakhstani officials have stated publicly that they will not break international sanctions but will continue trading with Russia. This trade has seen significant growth since the beginning of Russia's large-scale aggression against Ukraine, particularly in the exports of electronics such as televisions, computers, and phones, which have increased by large margins.³² For example, exports of TVs, monitors and projectors increased 312 times, computers - 215 times, and phones - 88 times. In addition, during 8 months of this year, as compared with the same period of 2021, Astana sold Moscow 2.5 times more alumina, 2.1 times more raw zinc and 2 times more uranium.³³ In the first six months of Russian aggression, Kazakhstan increased the supply of high-tech goods to Russia, which are not produced in Kazakhstan. Kazakhstan's exports to Russia of computer equipment, household appliances, and some electrical appliances increased many times over. Overall, exports of these high-tech products to Russia rose from \$15 million to \$184 million in the first six months. For some products, deliveries increased two thousand times (in monetary terms).³⁴ The country also exported \$7.5 million worth of washing machines to Russia in 2022 - against almost zero in the previous two years. The export of refrigerators to Russia increased tenfold compared to the previous year.

It is quite possible that this growth in the supply of high-tech goods from Kazakhstan to Russia is caused by the fact that components and chips from household goods can also be used for military purposes, albeit mostly in relatively low-quality equipment. European and US officials have already made public statements that they have seen refrigerator and washing machine parts used in Russian military equipment, such as tanks, since its invasion of Ukraine.³⁵

A clear example of sanctions evasion is supply of Samsung and Apple smartphones from Kazakhstan to Russia. Both corporations left the Russian market. Kazakhstani distributors, taking advantage of parallel imports legalization in Russia, began supplying products in May 2022 to Russian retail chains Svyaznoy, M.Video, and DNS. Most of the models had the kz labeling, meaning that gadgets were originally made for the Kazakhstani market.

It should be noted that Russian authorities stopped sharing trade statistics after the start of the invasion of Ukraine.

In July 2022, there was a marked increase in the delivery of raw materials from Kazakhstan to Russia, which are extensively utilized in the military sector. After resuming sales in June, Kazakhstan tripled its supply of rolled steel to Russia. As per the customs data of Kazakhstan, the amount of hot-rolled, cold-rolled flat steel and coated flat steel reached 150,000 tons in July. Russia has more than doubled imports of alumina (semi-finished product for metal production) from Kazakhstan in 2022 amid restrictions on supplies from a number of other traditional sources. The growth is due to UC Rusal's need to replace supplies from Australia and Ukraine.³⁶ UC Rusal

³² According to the Economic Research Institute Qazaqstan trade turnover between Kazakhstan and Russia increased to 4.2% by August 2022. In January-August 2022 it amounted to \$15.9 billion, which is 4.2% higher than during the same period of 2021 (\$15.3 billion). https://economy.kz/ru/Novosti_instituta/id=5316

³³ Нурматов Э. Пути обхода санкций: небывалый рост (ре)экспорта из стран Центральной Азии в Россию. [Nurmatov E. Ways around sanctions: unprecedented growth of (re)exports from Central Asian countries to Russia.] 15.11.2022// Radio Azattyk. <https://rus.azattyk.org/a/32131171.html>

³⁴ In the first half of 2021, 611 cell phones worth \$40.6 thousand were exported from Kazakhstan to the Russian Federation, and in January - June 2022, their number increased to 199.9 thousand units for a total of \$79.9 million. <https://kz.kursiv.media/2022-08-22/kazakhstan-mnogokratno-velichil-reeksport-tovarov-v-rossiju/>

³⁵ European Commission President Ursula von der Leyen stated that the Russian military is using chips from dishwashers and refrigerators in its military equipment as they are running out of semiconductors//Bloomberg. <https://www.bloomberg.com/news/articles/2022-10-29/putin-stirs-european-worry-on-home-appliance-imports-stripped-for-arms>

³⁶ Милькин В., Потаева К. Россия вдвое увеличила импорт глинозема из Казахстана. Рост связан со стремлением UC Rusal заместить поставки из Австралии и с Украины. [Milkin V., Potayeva K. Russia doubled

is the largest aluminum producer in Russia, it mines bauxite, i.e. raw materials, and produces alumina both in Russia and abroad. UC Rusal purchased some of its alumina from third-party suppliers abroad. After the start of Russia's military aggression against Ukraine, UC Rusal encountered difficulties with alumina supplies. At the beginning of March 2022, the company was forced to stop production at the Nikolaev plant in Ukraine, which produced about 21% of its alumina. And in mid-March, the Australian government imposed a ban on supplies of alumina and aluminum ore to Russia. Eurasian Resources Group (ERG) produces alumina in Kazakhstan. The capacity of its plant in Pavlodar ("Aluminium of Kazakhstan") is 1.4 million tonnes of alumina per year. Alumina from Kazakhstan is supplied by rail. ERG sells alumina to Russia and receives payments through the sanctioned VTB Kazakhstan.

Entrepreneur Vladimir Kim, ranked number one in the top 50 richest Kazakhstanis³⁷, is involved in tolling copper concentrate and polymetals through the Zhezkent Mining and Processing Combine (MPC) and the Auezov-Bakirchinsky MPC together with Russian sanctioned individuals.

There have been cases of buyout of the sanctioned party and renaming commercial organizations located in Kazakhstan to bypass sanctions. For instance, a subsidiary bank of Sberbank JSC in Kazakhstan, which was under Russian sanctions, was bought out by Kazakhstan's state Baiterek Holding company and changed its name to Bereke Bank JSC to bypass sanctions.³⁸ This information was revealed in a document published on the Kazakhstan Stock Exchange's website on September 13, 2022.³⁹

There is an opportunity for the Russian defense industry to use Kazakhstan to obtain foreign-made equipment and components. Russia's leading manufacturer of air defense equipment, Ulyanovsk Mechanical Plant JSC, can use Kazakhstan to gain access to German-made components. Before the invasion, Russia purchased German military and dual-use products necessary for production/upgrade of Buk and Tunguska surface-to-air missile systems. Supply of such products has become impossible in the face of intensified sanctions. Kazakhstan has the same air defense equipment for its own armed forces and is able to buy the necessary components from the Federal Republic of Germany, allegedly for their repair.

Kazakhstani business takes part in providing Russians with bank cards of international payment systems. Kazakhstan banks are currently issuing virtual and plastic cards for Russians in large numbers.⁴⁰ Altyn Bank, the main shareholder of which is China CITIC Bank Corporation Limited, allows Russians to remotely issue virtual cards of Visa and Mastercard payment systems and order plastic cards by courier delivery.⁴¹ Using online newsletters Russian travel agencies are now offering a new service to open bank cards with Freedom Finance Bank.

alumina imports from Kazakhstan. The increase is due to UC Rusal's desire to replace supplies from Australia and Ukraine.] 17.07.2022//Ведомости. <https://www.vedomosti.ru/business/articles/2022/07/17/931731-rossiya-vdvoe-uvlichila-import-glinozema>

³⁷ 50 богатейших бизнесменов Казахстана – 2022. [Kazakhstan's 50 Richest Businessmen - 2022.] 11.05.2022//Forbes Kazakhstan. https://forbes.kz/leader/50_bogateyshih_biznesmenov_kazhastana_-_2022_1652235965/

³⁸ Baiterek Holding Press release. <https://baiterek.gov.kz/en/pr/news/baiterek-holding-completes-sberbank-kazakhstan-acquisition>

³⁹ Сарсенов М. Сбербанк Казахстан официально переименован в Береке Банк. Решение об этом принято на общем собрании акционеров банка 12 сентября. 13.09.2022//Капитал. Центр деловой информации. [Sarsenov M. Sberbank Kazakhstan was officially renamed to Bereke Bank. The decision was made at the general meeting of the bank's shareholders on September 12. 13.09.2022// Capital. Business Information Center.] <https://kapital.kz/finance/108841/sberbank-kazakhstan-ofitsial-no-pereimenovan-v-bereke-bank.html>

⁴⁰ Тарасова А. Карта банка Казахстана — как открыть удалённо. [Tarasova A. Bank card of Kazakhstan - how to issue remotely.] 26.04.2022//. <https://www.vbr.ru/sovety/help/people-and-economic/karta-kazakhstan/>

⁴¹ Гордийчук Д. Казахстанский банк помогает гражданам России обходить санкции. [Gordiychuk D. Kazakhstan bank helps Russian citizens bypass sanctions.] 07.04.2022// Украинська правда. <https://www.epravda.com.ua/rus/news/2022/04/7/685410/>

According to Russian businessman T. Turlov, since Soviet times Russia has been the logistics center of the region, but due to sanctions Kazakhstan is emerging as the best substitute also in a long-term perspective.⁴² T. Turlov's own business relocation is a vivid example of a large-scale phenomenon.

Among the factors that can help bypass sanctions is the mass relocation of Russian business to Kazakhstan. The Russian Federation provides all kinds of support for the relocation of Russian business to Kazakhstan, and the Kazakh authorities do not impede the process. Russian firms, such as Vita Liberta, are establishing operations in Kazakhstan to support the transfer of Russian businesses to the country. Vita Liberta, a consulting firm, has set up a subsidiary in Kazakhstan and provides comprehensive services for registering legal entities with foreign involvement. The firm claims to be able to handle this process without requiring the physical presence of foreign individuals.⁴³ The main purpose of the company's activities is relocating Russian companies and their re-registration in Kazakhstan. The ultimate goal of this activity is to avoid the negative consequences of sanctions for Russian entrepreneurs, as well as to ensure parallel imports of goods to Russia.⁴⁴ There are Telegram channels in Kazakhstan, where users discuss issues of business relocation from Russia to Kazakhstan, offer various services for relocation, and provide overall support for business relocation.⁴⁵

Some Kazakhstani businessmen have ties with sanctioned Russians. For instance, Kenes Rakishev is a close friend and associate of Ramzan Kadyrov, whose projects Rakishev finances in Russia.⁴⁶ Kadyrov, head of the Chechen Republic, leads a regime guilty of gross human rights violations, including the use of death squads to carry out extrajudicial executions.⁴⁷ Kadyrov was sanctioned by the United States under the Magnitsky Act in 2017⁴⁸ and in 2020 for "extrajudicial executions, torture or other gross violations of internationally recognized human rights."⁴⁹ In 2022, Kadyrov was sanctioned by the European Union due to his involvement in Russia's attack on Ukraine. There are publicly accessible photos that show Kadyrov with Rakishev, either during religious events or meetings⁵⁰ with other officials such as Nikolai Patrushev, who is the head of the Russian Federal Security Service (FSB).⁵¹

There are examples that directly indicate how Kazakhstan creates conditions for Russian oligarchs to circumvent sanctions. On December 7, 2022, it was announced that a new manufacturer of products for the railroad will appear in the Aktobe region of Kazakhstan, which plans to manufacture wheels and produce rail welding work. They will be built by Aktobe Steel

⁴² Тимур Турлов: «Казakhstan становится мировым финансовым центром». [Timur Turlov: "Kazakhstan is becoming a global financial center."] 19.10.2022//konkurent.ru. <https://konkurent.ru/article/53447>

⁴³ Vita Liberta//<https://vitaliberta.kz/>

⁴⁴ Вита Либерта. Казахстан поможет России обойти санкции. [Vita Liberta. Kazakhstan will help Russia bypass sanctions.] 13.05.2022// Белновости. <https://bel-news.by/vita-liberta-kazahstan-pomozhet-rossii-obohti-sankczii/>

⁴⁵ Как открыть IT-компанию с Astana Hub в Казахстане? Полезная информация о запуске IT-бизнеса в Казахстане [How to start an IT-company with Astana Hub in Kazakhstan? Useful information about launching an IT business in Kazakhstan] //Astana Hub. <https://astanahub.com/ru/1/welcome-page-all>

⁴⁶ Прохоренко М. Почему казахский олигарх Кенес Ракишев не под санкциями за финансирование Кадырова? [Prokhorenko M. Why isn't Kazakh oligarch Kenes Rakishev under sanctions for funding Kadyrov?] 04.06.2022//

Antikor Portal. <https://antikor.com.ua/articles/550628-pochemu-kazahskij-oligarh-kenes-rakishev-ne-pod-sanktsijami-za-finansirovanie-kadyrova>

⁴⁷ Walker S. 'We can find you anywhere': the Chechen death squads stalking Europe. 21 Sep. 2019// The Guardian. <https://www.theguardian.com/world/2019/sep/21/chechnya-death-squads-europe-ramzan-kadyrov>

⁴⁸ Treasury Targets Individuals Involved in the Sergei Magnitsky Case and Other Gross Violations of Human Rights in Russia. December 20, 2017// U.S. Department of the Treasury. <https://home.treasury.gov/news/press-releases/sm0240>

⁴⁹ Treasury Sanctions Serious Human Rights Abusers on International Human Rights Day. December 10, 2020// U.S. Department of the Treasury. <https://home.treasury.gov/news/press-releases/sm1208>

⁵⁰ Bota Jardimalie//<https://twitter.com/jardemalie/status/1288596037091942402>

⁵¹ Fighters of Kenes Rakishev and Ramzan Kadyrov. 14.07.2020//Русский криминал. <https://rucriminal.info/en/material/boycy-kenesa-rakisheva-i-ramzana-kadyrova>

Production, the amount of investment will be about \$280 million with a capacity of 330 thousand wheels per year. The CEO of the company, Boris Viktorovich Bilonenko, can be easily found in the database of powers of attorney of Zagorsky Pipe Plant (ZPP). ZPP belongs to Nikolay Yegorov, a classmate of Russian President Vladimir Putin at Leningrad State University.⁵²

The emerging cryptocurrency market could also become a tool to circumvent sanctions. Kassym-Jomart Tokayev, president of Kazakhstan, witnessed the first state-sanctioned cryptocurrency conversion operation through a regional banking system called Eurasian Bank in late September 2022.⁵³ The transaction was made through Intebix, a regional cryptocurrency exchange that allows retail customers to purchase cryptocurrency using Kazakhstan tenge (KZT). Intebix has no restrictions on operations in any countries or regions. Their business goes beyond Kazakhstan, as they provide services to clients from abroad. Intebix accepts foreign users, but they need a local credit card to take advantage of cryptocurrency transfers. In 2019, Shukhrat Ibragimov, a Kazakh entrepreneur and son of businessman Alijan Ibragimov, co-founded Biteeu, a licensed virtual currency exchange from the European Union. Since 2017, Ibragimov has been a member of the board of directors at Eurasian Bank. Following the passing of his father, who was a major shareholder and co-founder of ERG, he became more involved in the Eurasian Resources Group. Ibragimov is the sole investor in both Biteeu and Intebix.⁵⁴

Another measure, which can be attributed to the overall strategy of providing Russia and Belarus the opportunity to circumvent sanctions for the purchase of foreign goods is the introduction of a 42-day visa-free regime with India, Iran and China.⁵⁵ The visa-free regime allows Russia to conduct trade or any other business relations on the territory of Kazakhstan, for which there are no sanctions. While carrying out labor activities during such short stay in Kazakhstan is prohibited, Kazakhstan does not actually control this process.

Kyrgyzstan

Kyrgyzstan, like its other Central Asian neighbors, has increased shipments to Russia since the start of the Russian aggression.⁵⁶ According to the UN Comtrade database, by July 2022, Kyrgyzstan exported \$186 million more goods to Russia than during the same period in 2021. The data to this database is submitted by the countries themselves. In January-July, Kyrgyz exports to Russia totaled about \$389 million, a 92.2% increase over the same period a year earlier.

Kyrgyzstan has boosted its exports of electrical products, such as headphones, heaters, electric ovens, hair clippers, electric razors, video cameras, and others, to Russia. The sales of just headphones and microphones to Russia reached \$5.2 million, compared to \$26.4 thousand the previous year. The country also sent 24,000 electric stoves and 1,148,000 heaters to Russia. Kyrgyzstan also re-exports luxury goods subject to sanctions. Perfume exports rose from 1 ton in

⁵² Из-за российских олигархов Казахстан рискует нарваться на санкции. [Kazakhstan risks sanctions because of Russian oligarchs.] 14.12.2022//Politic. <https://politic.kz/koshelki/12566-iz-za-rossiiskikh-oligarkhov-kazakhstan-riskuet-narvatsia-na-sanktsii>

⁵³ Eurasian Bank's parent is Eurasian Financial Company JSC 100% - Ibragimov Alijan (33,33%), Machkevitch Alexander (33,33%), Chodiev Patoch (33,33%) // https://eubank.kz/inc/uploads/2020/10/Wolsberg_final_25_08_2020_signed.pdf

⁵⁴ Russian users are welcomed by crypto exchanges in Kazakhstan, but there's a catch. 20.10.2022//Remitano. <https://remitano.com/news/kr/117227-russian-users-are-welcomed-by-crypto-exchanges-in-kazakhstan-but-theres-a-catch>

⁵⁵ Безвизовый режим для Индии, Китая и Ирана ввели в Казахстане. [Visa-free regime for India, China and Iran introduced in Kazakhstan.] 10.07.2022//Курсив. <https://kz.kursiv.media/2022-07-10/bezvizovyyj-rezhim-dlya-indii-irana-i-kitaya-vveli-v-kazahstane/>

⁵⁶ Страны бывшего СССР нарастили поставки в Россию на фоне санкций. [Countries of the former Soviet Union increased supplies to Russia amid sanctions.] 14.09.2022//RBC. <https://www.rbc.ru/economics/14/09/2022/632060399a79477752abc4f5>

2021 to 50 tons in 2022, cosmetics from 8 to 260 tons.⁵⁷ Chinese imports also increased from \$800 million in the first 8 months of 2021 to \$2.5 billion in the same period in 2022. It is likely that this is also a re-export.

Despite having very limited forest coverage, Kyrgyzstan is still exporting timber from sanctioned Belarus to the European Union. According to the Kyrgyz Ministry of Agriculture's Forest Service, only 6% of the country's land is covered by forests as of 2020. An investigation showed that after sanctions were imposed on Belarusian timber, the exports of timber from Kyrgyzstan to the EU skyrocketed 18,000 times. The shipments were found to be conducted with fraudulent documents. Kyrgyzstan has also imposed a ban on timber export at the state level.⁵⁸

Kyrgyz banks open representative offices in Russia. On February 28, 2022, after the introduction of the first packages of sanctions by the international community, Commercial Bank Kyrgyzstan OJSC opened an official representative office in Moscow. As early as April 5, 2022, this bank began to provide services for opening bank accounts and issuing Visa international payment system cards to citizens of the Russian Federation. Cardholders were able to carry out any financial transactions around the world. Kyrgyzstan, Kazakhstan, and Russia are exploring the option of establishing a fast payment system similar to SWIFT to facilitate cross-border financial transfers. They aim to integrate the system into the Instant Payments System in the near future to enable international payments.⁵⁹

There are also enterprises in Kyrgyzstan that could potentially be used by Russia to circumvent sanctions and support Russian military aggression. For example, NUR OJSC, an enterprise for the production of electrical connectors for general and special purposes - NUR OJSC (formerly the Plug Connectors Plant, Kyrgyz Republic, Jalal-Abad). The company's products are used in military and civil aviation, astronautics, satellite communication and navigation systems, in the construction of warships and submarines, in nuclear energy, radar stations, railway and road transport.⁶⁰ The plant of this enterprise is located in Jalal-Abad, and the duties of the Official Representative of the interests of the Nur plant are assigned to the company "ELENORD", located in Moscow.⁶¹ In such circumstances, it is difficult to imagine how this enterprise avoids supplying its products to the Russian Federation. There is also TNK Dastan, which produces naval equipment systems, electronic devices and other goods for industrial and technical purposes.⁶² JSC Bishkek Machine-Building Plant, founded as a foundry and cannon plant in 1795 in Lugansk, converted for the production of wine cartridges and moved to Kyrgyzstan at the beginning of World War II.⁶³ The state enterprise Bishkek Stamping Plant,⁶⁴ which produces products for combat, sports

⁵⁷ Калыков М. Factcheck.kg: Россия обходит наложенные санкции и покупает косметику и сумки через Кыргызстан. [Kalykov M. Factcheck.kg: Russia bypasses sanctions and buys cosmetics and bags through Kyrgyzstan.] 8.11.2022//Kloop. <https://kloop.kg/blog/2022/11/08/factcheck-kg-rossiya-obhodit-nalozhennye-sanktsii-i-pokupaet-kosmetiku-i-sumki-cherez-kyrgyzstan/>

⁵⁸ Лесные братья. Как Кыргызстан помогает Беларуси обходить санкции ЕС. [Forest Brothers. How Kyrgyzstan helps Belarus bypass EU sanctions.] 21.12.2022//Kloop. <https://kloop.kg/blog/2022/12/21/lesnye-bratya-kak-kyrgyzstan-pomogaet-belarusi-obhodit-sanktsii-es/>

⁵⁹ Казахстан и Кыргызстан могут запустить переводы из России через аналог SWIFT. [Kazakhstan and Kyrgyzstan can launch transfers from Russia through an analogue of SWIFT.] 26.10.2022//Евразия эксперт. <https://eurasia.expert/kazakhstan-i-kyrgyzstan-mogut-zapustit-perevody-iz-rossii-cherez-analog-swift/>

⁶⁰List of products. <http://www.elenord.ru/comp/index.html>

⁶¹About the Company. <http://www.elenord.ru/about.html>

⁶² What large factories there are in Kyrgyzstan and what they produce is a list. 15.03.2021// <https://ru.sputnik.kg/20210315/kyrgyzstan-zavody-promyshlennost-1051780222.html>

⁶³http://www.inform.kg/ru/business_novosti_kr/922

⁶⁴<http://bsp.kg/ru>

and hunting purposes.⁶⁵ Enterprises have Russian partners⁶⁶ and sell their products in the Russian Federation.⁶⁷

Tajikistan

Like all other Central Asian countries, trade turnover between Tajikistan and Russia increased in 2022. During Russian President Vladimir Putin's meeting with Tajik President Emomali Rakhmon in Moscow in May 2022, it was noted that mutual trade turnover had increased by 70% in the past three months. Tajikistan exports fruits and vegetables, dried fruit, some foodstuffs, and cotton to Russia. In addition, Dushanbe exports certain types of cars and car parts to Moscow, and these are mainly re-exports. Gold, silver, aluminum, copper and other metals make up the bulk of Tajikistan's total exports.

Tajikistan is also suspected of assembling Iranian drones, which are then supplied to Russia for combat operations in Ukraine. On May 17, 2022, Tajik Defense Minister General Sherali Mirzo and Iranian Armed Forces Chief of Staff General Mohammad Bokiri attended the opening of a factory for the production of Iranian unmanned aerial vehicles (UAVs) in the Tajik capital Dushanbe. There are no details in open sources about the production capacity of the plant and the drones' capabilities.⁶⁸ Data that Iranian drones are assembled specifically in Dushanbe have not been confirmed at this time. Presumably, Russia is relabeling Iranian Shahed-136s to its Geran-2s. However, it is difficult to prove that the Shahed-136/Geran-2 that Russia uses are assembled in Dushanbe. Tajikistan and Iran previously stated that a joint drone assembly plant in Dushanbe produces only Mohajer reconnaissance drones. However, given the high level of corruption, authoritarianism, non-transparent political and financial systems in both countries, and years of close military cooperation between Dushanbe, Moscow, and Tehran, it is possible that the plant produces more than what is officially stated. It is challenging to monitor the movement of completed drones, as they may be transported by Russian military planes, making it hard to track them. In August 2008, Russia and Tajikistan signed an agreement to expand military and military-technical cooperation involving the use of the Ayni airfield in the interests of the Russian Air Force (AAF), and Russian military aircraft are not subject to customs and border control in Tajikistan.

Turkmenistan

Facing international sanctions, Russia has strengthened its relationship with Turkmenistan. From January to May 2022, the trade between these two countries saw a growth of 18%, with Turkmenistan's exports to Russia rising by 27%.⁶⁹ Ashgabat supplies Moscow with textiles, clothing and footwear, food, agricultural products, chemical products and rubber. According to a

⁶⁵How Bishkek Stamping Plant works. <https://www.youtube.com/watch?v=zYQMpZABeMAM>

⁶⁶[...] partners, in pursuance of the decision of the XV meeting of the Kyrgyz-Russian intergovernmental commission, held on April 22 in Moscow, will be JSC "Tula Cartridge Plant", CJSC "Novosibirsk Cartridge Plant", CJSC "Barnaul Cartridge Plant". http://www.inform.kg/ru/business_novosti_kr/922

⁶⁷http://stanki-katalog.ru/st_frunz.htm

⁶⁸ В Таджикистане открылось предприятие по производству иранских беспилотников. [Iranian drone production facility opened in Tajikistan.] 17.05.2022//Asia-plus. <https://asiaplustj.info/ru/news/tajikistan/security/20220517/v-tadzhikistane-otkrilos-iranskoe-predpriyatie-po-proizvodstvu-bespilotnikov>

⁶⁹ Посол РФ: Россия и Туркмения прорабатывают переход на взаимные расчеты в рублях. [Russian Ambassador: Russia and Turkmenistan are working on transition to mutual settlements in rubles.] 10.09.2022//ТАСС. <https://tass.ru/interviews/15708843>

number of publications, which refer to Rosselkhoznadzor, imports of fruits and vegetables from Turkmenistan increased by 30% this year.⁷⁰

From April 9th to 11th, 2022, a group of Russian officials led by Deputy Prime Minister Alexey Overchuk, went to Turkmenistan for a visit. The delegation held a meeting of the Turkmenistan-Russia Intergovernmental Commission on Economic Cooperation, as well as several discussions with the President of Turkmenistan, Serdar Berdimukhamedov and the Minister of Foreign Affairs, Rashid Meredov. Economic cooperation and the expansion of logistical routes between the countries were discussed as a priority. In June Putin held a meeting with the president of Turkmenistan, during which, data on the mutual trade turnover for the first quarter of 2022 was announced. It amounted to \$171.1 million, which is 45% increase from that in January-March of last year.

According to available data, the Russian government has proposed to Turkmenistan to establish a logistics center near the Olya river port in the Astrakhan region of Russia. This center is aimed to enhance the transfer of goods that are transported through the Caspian Sea to Russia and to make the customs clearance process easier.

Moreover, the Russian government aims to broaden its economic partnership with Turkmenistan in order to utilize Russian pipe products in the construction of the TAPI gas pipeline (Turkmenistan-Afghanistan-Pakistan-India) and engage Russian firms as contractors for various infrastructure and industrial projects in Turkmenistan. Discussions are underway regarding the enhancement of cooperation between the "Balkan" shipyard (Turkmenbashi) and Russian companies.

Open-source data on cooperation between Russia and Turkmenistan contains no direct evidence of the involvement of the Turkmen authorities, its legal entities, or individuals in circumventing the sanctions by Russia.

Uzbekistan

According to the Uzbekistan State Statistics Committee, the trade between Russia and Uzbekistan is on the rise despite sanctions against Russia. Over the course of the first eight months of 2022, the trade turnover between the two countries reached \$5.6 billion, which is a 27.1% increase from the same period in 2021.⁷¹ This growth was primarily driven by a 45.4% increase in exports. The flow of goods to Uzbekistan from China has also increased by almost \$1 billion. It is possible that some of the Chinese goods are intended for re-export to Russia. From January to August 2022, Uzbekistan increased the supply of electric cars and equipment abroad 21.3 times, and non-specialized cars, production equipment and auto parts - 4.3 times. The State Statistics Committee of Uzbekistan reported that during the first nine months of 2022, the country exported 73,000 TV sets to Russia, indicating that Moscow may be sidestepping sanctions by importing goods from Uzbekistan. This is supported by the recent example of the U.S. adding the Uzbek company Promcomplektlogistic to the sanctions list for selling microchips to Russia.⁷²

Uzbek officials use meetings with representatives of the European Union to lobby for the removal of sanctions against Russian oligarch Alisher Usmanov⁷³ and his sister, Gulbakhor

⁷⁰ Экспорт туркменских фруктов и овощей в Россию вырос на 30%. 19.08.2022//Бизнес Туркменистан. [Turkmen export of fruits and vegetables to Russia increased by 30%. 19.08.2022// Business Turkmenistan.] <https://business.com.tm/ru/post/9034/eksport-turkmenskih-fruktoy-i-ovoshchei-v-rossiyu-vyros-na-30>

⁷¹ Нурматов Э. Пути обхода санкций: небывалый рост (ре)экспорта из стран Центральной Азии в Россию. [Nurmatov E. Ways around sanctions: unprecedented growth of (re)exports from Central Asian countries to Russia.]15.11.2022//Радио Азаттык. <https://rus.azattyk.org/a/32131171.html>

⁷² США ввели санкции против узбекской компании, продававшей в Россию микросхемы. [The U.S. imposed sanctions against an Uzbek company that sold microchips to Russia.] 30.06.2022//Radio Azattyk. <https://rus.azattyk.org/a/31922357.html>

⁷³ Ильченко С. Продать за 60 секунд. Куда побежали «кошельки Путина» и далеко ли смогут убежать. [Ilchenko S. Sell out in 60 seconds. Where did "Putin's purses run to and how far can they run.] 03.03.2022//ДС.

Ismailova. For some time, Usmanov has found refuge in his historical homeland, Uzbekistan. Usmanov is among the 26 wealthy Russians who have faced sanctions due to the conflict in Ukraine. His sisters, Gulbahor Ismailova and Saodat Narzieva, have also been subjected to these sanctions. Ismailova was targeted because some of Usmanov's assets, including his luxurious \$600 million yacht Dilbar, were registered under her name. Narzieva faced penalties after reports by The Guardian and OCCRP revealed her connection to billionaire Usmanov through bank accounts at Credit Suisse in Switzerland.⁷⁴ The largest of these accounts contained roughly 1.9 billion Swiss francs in 2011 and two others held around 460 million and 1.3 billion in 2014. 16 of the 27 accounts list Usmanov's USM steel company as a contact person. Narzieva appealed the sanctions in court, arguing that the money was a gift from her loving brother and that the EU had lifted sanctions against her,⁷⁵ even though there were conclusive results of investigations, including those by Alexei Navalny, about the corrupt origins of Usmanov's billions.⁷⁶ Uzbekistan has become a supporter of Putin's oligarch Alisher Usmanov, using its influence to lobby on his behalf. It has pressured the European Union by claiming that sanctions against Usmanov are "obstructing investment and charitable efforts" in the country. Additionally, Uzbekistan has offered legal support to Usmanov in his lawsuits against the EU.⁷⁷

Usmanov is not the only person associated with both the Russian regime and Uzbekistan against whom sanctions have been imposed. On April 13, 2022, Great Britain expanded its sanctions list of Russian businessmen, politicians, and their family members to include Uzbek citizen Nigina Zairova. She is listed as an assistant to Mikhail Fridman, the main owner of the Russian Alfa Bank. The sanctions document states that she became the owner of three assets after the businessman came under sanctions. The UK believes that in these three companies she acts on behalf of Friedman. Nigina Zairova's assets in the UK are also subject to "freezing".⁷⁸

Uzbekistan is one of the countries to which Russian businesses are relocating. In the first half of 2022, 399 Russian companies were established in Uzbekistan with Russian financing. This included 23 companies in January, 28 in February, 56 in March, 103 in April, and 189 in May and June.⁷⁹

<https://www.dsnews.ua/world/prodat-za-60-sekund-kuda-pobezhali-koshelki-putina-i-daleko-li-smogut-ubezhat-02032022-453568>

⁷⁴ Oligarch linked to billions in 27 Swiss bank accounts in sister's name. 22.03.2022//The Guardian.

<https://www.theguardian.com/world/2022/mar/22/oligarch-alisher-usmanov-swiss-bank-arsenal>.

⁷⁵ Sister of oligarch Alisher Usmanov removed from EU sanctions list. Saodat Narzieva was added to the list in April, after Russia's invasion of Ukraine. 16 Sep. 2022//The Guardian.

<https://www.theguardian.com/world/2022/sep/16/alisher-usmanov-removed-eu-sanctions-list-saodat-narzieva>

⁷⁶ Навальный Алексей. Ответ Алишера Усманова. [Navalny Alexey. Response from Alisher Usmanov]

https://www.youtube.com/watch?v=sM8_EvVD4iw

⁷⁷ Uzbekistan lobbies EU to lift sanctions on Alisher Usmanov//Financial Times.

<https://www.ft.com/content/6a42b111-a166-4a96-9ce6-d3d5b6a67d0c>

⁷⁸ Великобритания включила в санкционный список трёх уроженков Узбекистана. [The UK has added three Uzbek natives on its sanctions list.]13.04.2022//Газета.uz. <https://www.gazeta.uz/ru/2022/04/13/sanctions/>

⁷⁹ Темиров Р. Узбекистан сохраняет баланс в условиях наплыва российского бизнеса. Российские предприятия могут помочь экономике Узбекистана, но возникающий риск западных санкций тоже велик. [Temirov R. Uzbekistan maintains a balance in the face of an influx of Russian business.

Russian businesses can help Uzbekistan's economy, but the emerging risk of Western sanctions is also great.] 20.07.2022//Каравансарай. https://central.asia-news.com/ru/articles/cnmi_ca/features/2022/07/20/feature-01

Conclusions

It is challenging to pinpoint all the details of the methods used by Russia to bypass the sanctions and their effects in Central Asia because of the secretive nature of trade activity and the lack of transparency in certain Central Asian regimes. However, the data analyzed in this report suggests certain trends that emerged during the period of Russian aggression against Ukraine in 2022. Central Asian states demonstrate a different but generally high level of loyalty to Russia within the framework of their agreements, but also pursue their own economic interests. In both cases, there is a great risk of sanctions policy violations.

Due to the widespread sanctions imposed on Russia, keeping track of their implementation has become a crucial aspect of the policy aimed at isolating the Russian government and reducing its aggressive behavior. Russia is using its connections with several countries and regional organizations to evade the sanctions. Within the framework of the Eurasian Economic Union (EAEU), Russia applies measures aimed at minimizing the negative effects of international sanctions.

The benefits of bypassing sanctions for entrepreneurs supplying goods to and from Russia include the elimination of import taxes on products crucial to the Russian economy, an increase in the amount of duty-free imports by individuals into EAEU member nations, and a rise in permits for duty-free imports of electric motor vehicles into Kazakhstan. Additionally, payment of import duties can be spread out over a period of up to 6 months for specified product categories when importing into EAEU countries.

Russia and the EAEU countries have developed a large number of mechanisms to circumvent sanctions on the basis of direct links with the states of Central Asia.

Russia uses pressure and possibly bribery of Central Asian officials to pass necessary legislation and regulations to bypass sanctions.

Some of those imposing the sanctions are aware of the problem. The EU is creating new strategies to thwart attempts to evade the sanctions, one of which is making it illegal to circumvent the EU sanctions imposed on Russia.⁸⁰ If this decision is adopted and extended not only to citizens of EU states, but also to citizens of other countries, it will encourage residents and citizens of Central Asian states to refuse to participate in sanctions evasion schemes. In early October 2022, the EU introduced an extraterritorial dimension to the sanctions mechanism, which allows both individuals and entire companies to be punished even outside of EU jurisdiction. Penalties can now apply to people who bring in prohibited Russian merchandise into the EU by disguising its source country through a third country or who export banned goods to Russia.⁸¹

However, the efforts to stop bypassing the sanctions are inadequate. The lack of effective monitoring mechanisms for enforcing the sanctions not only impacts the economy of Russia but has other consequences as well. There are negative political consequences, as the Russian authorities are given opportunities to argue that the sanctions are not working as a result of the Russian regime's effective policies, and therefore these sanctions will inevitably be lifted.

⁸⁰ Тарасовский Ю. В ЕС могут признать преступлением обход санкций против России. Это облегчит конфискацию активов. [Tarasovsky Y. The EU may make it a crime to circumvent sanctions against Russia. This will make it easier to confiscate assets]– Politico. 11.05.2022//Forbes. <https://forbes.ua/ru/news/u-es-mozhut-viznati-zlochynom-obkhid-sanktsiy-proti-rosii-tse-polegshit-konfiskatsiyu-aktiviv-politico-11052022-5958>

⁸¹ Ромашенко С. Евросоюз введет против РФ экстерриториальные санкции. [Romashenko S. EU to impose extraterritorial sanctions against Russia] 10.10.2022//DW. <https://www.dw.com/ru/evrosouz-nameren-vvesti-protiv-rossii-ekstraterritorialnye-sankcii/a-63388435?maca=rus-rss-ru-all-1126-xml-mrss>

Recommendations

The proposed actions aim to put a stop to the evasion of sanctions by utilizing Central Asian state and other countries. This will be accomplished through the creation of a monitoring and response system that involves experts and civil society organizations.

We recommend:

Create regional monitoring groups for the implementation of the sanctions regime. It is advisable to form such groups from experts and representatives of expert non-governmental organizations for macro-regions (for example, the Middle East, Central Asia and others). Regional groups should keep track of attempts to bypass sanctions and produce quarterly reports with suggestions for those imposing the sanctions and the global monitoring body, as well as regular monthly updates. Additionally, their task should be to consistently communicate with the local press about ways of bypassing sanctions. The method of monitoring should be based on prior experiences and include research on the evasion of sanctions in countries in Central Asia. The crucial components of this approach would involve analysis of publicly available data about the relationships between the government agencies and businesses of Russia and the neighboring states. Another important aspect would be to examine the alterations in the legal framework, as well as scrutinizing the trade and economic statistics of these neighboring states in terms of their dealings with Russia. Additionally, this methodology would also require analyzing any shifts in Russia's regulatory framework in regard to efforts to evade sanctions.

Monitor trade between Russia and the Central Asian states regarding export and import of various types of goods and raw materials to assess if they could be utilized for military purposes. Request transparency of trade dealings between these countries.

An international monitoring organization should be established to compile the results of monitoring by regional groups of the legal systems of the countries in Central Asia, adherence to sanctions, release a quarterly report detailing their findings, and alert major global news outlets of any violations of sanctions.

Create a unified system for collecting initial information about sanctions violations. An online form on the U.S. Department of Commerce's Bureau of Industry and Security website can serve as a model for such a system.⁸² This form is filled out for the purpose of reporting violations. Regional monitoring groups can collect such reports on their websites in several regional languages and summarize the results of such feedback.

Develop an online platform for the international monitoring group and expert community to communicate with government agencies in countries imposing sanctions. This platform will serve as a permanent forum for the exchange of views, joint statement preparation and publication, and appeals. The purpose of the platform is to provide a space for discussion and collaboration on the tightening of international sanctions policy and the development of preventive or response mechanisms.

Start the process of creating and publishing multiple separate reports on the common methods used by Russia to evade sanctions in crucial areas that impact reducing its aggression capability: manufacturing of military equipment and hardware; production of goods with dual purposes; corrupt relationships between the Russian government and Western politicians; as well as between the Russian government and politicians in Central Asia and other regions. These types of schemes have been in existence since the Soviet era and there is a lot of publicly available information about them. However, there has not been a thorough examination of these schemes. Given the rigidity and inertia of the Russian political regime and its state-owned corporations, it is plausible that these schemes are still in place. By conducting research and reporting on these schemes, it will be easier to detect and pinpoint methods used to evade sanctions.

⁸² Reporting Possible Violations. Confidential Enforcement Lead/Tip Form// Bureau of Industry and Security. <https://bis.doc.gov/index.php/component/rsform/form/14-reporting-violations-form?task=forms.edit>

Facilitate preparation of a comprehensive report on how the Eurasian Economic Union is being utilized as a means of evading sanctions imposed on Russia. This report should highlight the significant dangers of working with Russia through the EAEU to bypass sanctions and offer specific recommendations to the international community to restrict the power of this organization.

Facilitate publication of a comprehensive report on how the Russian government has been utilizing various international organizations for purposes that go against their intended goals. These organizations include Interpol, which the Russian Federation utilizes for politically motivated prosecution of its citizens who have fled the country before their arrest.

The sanctions against Russia should not only come from individual countries and the European Union, but also from international organizations. This would not only weaken the power of Putin's government, but also challenge the notion that it is always successful in achieving its goals, by undermining its ability to spread such propaganda.

Formalize, that is, describe in detail in the format of an algorithm (a strict sequence of actions) the methodology of monitoring actions reflected in open sources of information and aimed at evading sanctions with the use of Central Asian states.

This methodology was developed through the efforts of the working group responsible for the preparation of this report. The formalization of the methodology involves obtaining reviews from external experts and refining the methodology based on their comments. The finalized methodology can be used for monitoring in other regions, if needed.

Compile lists of close associates and relatives of Russian oligarchs and top officials of the Russian Federation and Belarus, who are residents of Central Asian states and can potentially be used to re-register assets and establish commercial enterprises to bypass sanctions. Monitor via open data sources business activities of these people and review all suspicious cases.

The U.S. Treasury Department should consider taking action against the individuals named in this report who facilitate sanctions evasion, as this would reduce the opportunities for such actions.