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For Businesses in Russia, the 'Kremlin List' Provides Few Answers (Op-ed)

The list could make it impossible for foreign companies to do business in Russia

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The U.S. Treasury's list of Russian oligarchs, released on Monday, proved straightforward enough to be anticlimactic. But it still has some potential to stir trouble.

With the only stated criterion for an oligarch being having a net worth of $1 billion or more, the report is identical to Forbes' list of Russia's richest businessmen, naming oligarchs regardless of their connection to the Russian government — or lack thereof.

In addition to oligarchs, the list includes the entirety of the Russian political leadership, starting with Prime Minister Dmitry Medvedev.

All in all, the report is disappointing in its lack of insight, reading as a ‘who is who‘ of the Russian political and business establishment, without any attempt to establish whether any of them are actually involved in corruption or any activity detrimental to U.S. interests, as expected earlier.

This generality makes the list easier to shrug off for Moscow as nothing more than a statement of the obvious.

But it also poses a risk for U.S.-Russian relations and the business environment in Russia in case the U.S. proceeds to actually act against those listed.

The U.S. Treasury report itself does not introduce any sanctions against the 210 people it names. But the report was presented to the U.S. legislature, and now the ball is in Congress’ court.

In a worst-case scenario, Congress may impose blanket sanctions against the people on the list — which, as stated earlier, means almost all prominent Russian politicians and businessmen.

The U.S. administration is clearly unwilling to do anything of the kind: the State Department said Monday that the U.S. is going to hold off on imposing new sanctions for the time being.

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But with pressure mounting in Congress for Trump to take a harsher stance on Russia, that promise may not be realistic.

Sanctions based on the "oligarchs list" could make doing business in Russia for foreign companies complicated to the point of being impossible, as Russia’s richest have fingers in too many pies of the Russian economy. Worse still, sanctions may prompt a response from the Kremlin, with serious ramifications for foreign companies working in Russia.

So far, the Russian government has been careful not to lash out at foreign businesses. Russia has upped its efforts to attract foreign investors since 2014 in an attempt to relieve some of the pressures facing the economy, as sanctions, political uncertainty and a weak ruble have seen investors shying away from the country.

In line with that, the Kremlin’s overall response to the sanctions has been limited when it comes to the business and economic sectors, focusing mostly on the expulsion of diplomats and hawkish rhetoric.

The only significant economic measure remains a ban on food imports from the U.S. and EU, which has hurt Russia more than it did its Western opponents.

Even companies that refuse to be involved in sanctioned areas such as the defense sector or Crimea have not faced any backlash from the Russian government for placing sanctions compliance above business opportunities in Russia.

In general, the Kremlin appears to be aware that targeting foreign businesses would

be detrimental to Russia's struggling economy, which Moscow is trying to revive.

Moreover, foreign companies working in Russia are natural pro-Moscow lobbyists at home, or at least an obstacle to the sanctions.

This means that Russia's response to the "oligarch list" is unlikely to be aimed at Western businesses in the country.

But obstacles for businesses will remain as long as the political agenda continues to play a decisive role in the Kremlin's decision-making process, and each new move in the sanctions game pushes Moscow closer to the tipping point.

Related article: Pride and Disbelief: Russia's Elite Reacts to U.S. 'Kremlin List'

The Russian government needs a domestic show of force in the face of each new round of sanctions to prove to the audience at home that it is still standing strong, and targets for the response are limited.

So as long as the "war of sanctions" goes on the risk remains that Moscow will begin firing back in earnest, affecting Western companies and the business environment in the country. First reactions from the Kremlin were reserved but not too encouraging: presidential spokesman Dmitry Peskov — who is also on the list — said the Kremlin was analyzing it, but added that it was a "list of the enemies of the U.S.," and as such, "unprecedented."

As it stands, foreign businesses have already been affected by sanctions without the Russian government adding to it: Doing business in Russia these days, while possible, requires extra care and effort in vetting partners and counteragents.

With the release of the "oligarch list," foreign businesses will need to take yet more steps to assess the risks associated with individuals on the list — including calculating the likelihood that they will be sanctioned in the future, a job particularly complicated for the less politically-connected oligarchs who made the list solely due to their net worth.

The "oligarch list" was expected to extend to subjects' relatives, specifying what restrictions or risks may also apply to them, but the unclassified portion does not mention any relatives, adding to the uncertainty of the risks associated with those listed.

Nevertheless, there is some good news: A recommendation on whether to sanction Russian sovereign debt was expected to be released along with the "oligarch list," but so far, nothing of the kind has appeared.

Sanctioning Russian sovereign debt would have spelled trouble for the struggling ruble, so no news may indeed be good news in this case — at least for the time being.

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