

U.S. Sanctions Spread Through Billionaires' Business Empires

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Visa and Mastercard suspended service for SMP Bank last week when its billionaire co-owners, Arkady and Boris Rotenberg, were blacklisted by the U.S.

The latest U.S. sanctions against Russia have even hurt companies that Washington did not formally blacklist.

Although the sanctions officially target only Bank Rossia, a number of other banks also saw disruptions to their services by international payment systems Visa and MasterCard.

And there is a reason why: These lenders, such as SMP Bank, list among their co-owners the brothers Boris and Arkady Rotenberg — two of the individuals that the U.S. hit with fresh punitive measures Thursday.

Visa and MasterCard resumed services for the customers of SMP Bank and other banks that were initially suspended, saying they had received assurances from the U.S. government that

they could carry on, Vedomosti reported Sunday. But the confusion throws into the spotlight the question of how U.S. businesses should interpret the sanctions in dealing with their Russian counterparts.

U.S. law prescribes that any businesses where sanctioned individuals own at least 50 percent come under the restrictions as well, a spokesperson for the the Office of Foreign Assets Control of the U.S. Department of the Treasury. The U.S. government also advises caution in dealing with companies in which sanctioned individuals own smaller stakes.

Yury Botiuk, an international trade lawyer at London-based Pinsent Masons, said that many U.S. and European Union companies and financial institutions would try to limit any exposure to counterparts affected by the sanctions.

"Whether this could lead to contractual breaches depends on individual circumstances," he said. "This is when the financial bite of the sanctions regime can start to get very real very fast."

The Rotenbergs own 38 percent each in SMP Bank.

Visa said in a statement Friday that it cut service to two more lenders, Sobinbank, a subsidiary of Bank Rossia; and Investkapitalbank, co-owned by the Rotenbergs.

SMP Bank said it considered the move by the credit card giants unlawful because the U.S. sanctions targeted shareholders and not the bank itself, Reuters reported.

Bank Rossia did get a mention on the official statement that announced the names of those Washington wished to punish for Russia's takeover of Crimea. The U.S. Treasury stated that they had included the bank on the sanctions list because the lender is the preferred financial institution for senior Russian officials, and because its sanctioned part-owner and chairman Yury Kovalchuk is a member of Putin's inner circle.

During a meeting of the Security Council on Friday, Putin said that Rossia, the country's 17th largest bank, was just another lender with no particular personal significance. In a televised portion of the meeting, he responded to Foreign Minister Sergei Lavrov's report on the sanctions.

"Regarding the financial institution, it is one of those medium-sized banks, for all I know," Putin said, adding that he did not have an account there, but would make sure to open one on Monday. He said after the meeting that he would have the bank handle his salary account.

Putin also ordered the Central Bank to provide support to the institution and its clients, "especially because it has a very resounding and symbolic name." Rossia means Russia in Russian.

Rossia said Friday it remained "stable" and was rigorously working to defend its interests and the rights of its clients.

Customers could still withdraw their money from the bank's ATMs, but were unable to use their bank cards to make online payments or cash transfers.

Sanctions on Bank Rossia could trickle down to the other assets that it owns in addition to Sobinbank, such as news and entertainment media, including publicly traded CTC Media, and insurance company Sogaz. CTC Media shares fell in Friday and Thursday trading on the NASDAQ after news of U.S. measures broke out.

In fact, the fallout could reach further than just the assets that are related to the banks.

Billionaire Gennady Timchenko, another name on the sanctions list, sold 44 percent in oil trader Gunvor to his major partner in the business, in anticipation of U.S. reprisals against Russia.

One of his other assets, Novatek, gas giant Gazprom's largest competitor, also took a hit Friday, seeing its shares tumble at times by as much as 12 percent in the course of trading at the Moscow Stock Exchange. Timchenko owns 23.5 percent in the natural gas producer.

Novatek did not respond to a request for comment Friday.

Timchenko also owns a 37 percent stake in privately held chemicals corporation Sibur, 80 percent in oil transportation firm Transoil, and 63 percent in industrial construction company Stroitransgaz. None of them reported any issues stemming from the sanctions as yet. The latter is leading a consortium that is set to win a 3.5 billion euro (\$4.8 billion) contract to build a stretch of the South Stream gas pipeline across Bulgaria, Reuters reported Friday, citing sources in the industry.

Arkady Rotenberg, Putin's former judo partner, is also an investor in major road builder Mostotrest, in addition to his holdings in the banks. The company had substantial contracts in preparing Sochi for hosting the Winter Olympics, which ended last month. The company's stock fell last week on news of the sanctions.

Botiuk said the risks of association might well lead the affected individuals to challenge their entry on the sanctions lists in U.S. or EU courts.

"Challenges can be founded on the lack of a link between the individual and actions in Crimea together with a lack of information being provided as to why the person has been named," he said.

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