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JULY 17, 2014

SANCTIONS INTELLIGENCE UPDATE

GENNADY TIMCHENKO & VOLGA GROUP
ADAPTING BUSINESS FOLLOWING U.S. &
CANADIAN SANCTIONS



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OVERVIEW

In March and April, the US government sanctioned Russian businessman **Gennady Timchenko**, his Luxembourg-registered holding company **Volga Group**, and ten related subsidiaries. **Timchenko** was identified as a "member of the Russian leadership's inner circle," whose involvement in the energy sector was "directly linked to [President] Putin." To date, Canada has sanctioned **Timchenko**, **Volga Group**, and nine **Volga Group** subsidiaries. The European Union has not acted against **Timchenko** or **Volga Group**.

Since the announcement of US and Canadian sanctions, **Timchenko** and **Volga Group**-controlled firms have announced new projects in Asia, Europe, and Syria with reported financing from Chinese and Russian banks, including institutions sanctioned by the US on July 16. Financial institutions engaged in global business should consider the implications for AML and sanctions risk management.

TIMCHENKO'S POST-SANCTIONS BUSINESS VENTURES IN CHINA

In late April 2014, President Putin appointed **Gennady Timchenko** to lead the Russia-China Business Council (RCBC), a body created in 2004 to expand partnerships between the two countries.

As head of RCBC, **Timchenko** is advancing **Volga Group** interests in China.

- In late May 2014, **Volga Group** announced a joint-venture with the state-owned China Harbour Engineering Co (CHEC) to expand coal production capacities in Russia's far east. CHEC manages public infrastructure projects globally, including in the Middle East, United States, Caribbean, Central America, South Asia, and West Africa.
- The joint-venture will grant CHEC minority stakes in two **Volga** subsidiaries: Kolmar, a coal mining company that has not been sanctioned; and **Sakhatrans**, a **Volga Group**-controlled transportation company that



Timchenko told reporters after President Putin's RCBC announcement: "You know what Putin said? He introduced me by saying **Mr. Timchenko** is the head of our business council. In other words – it is my words here – he is our main man for China."



Timchenko's Volga Group companies operate in the energy, transportation, infrastructure, and beverage sectors, with interests and partners in Europe, Russia, Asia, and North America.

is constructing a terminal for coal and iron ore shipments in Russia's Far East. **Sakhatrans** is sanctioned by the US and Canada.

Volga Group is also involved in an Arctic gas project with international energy majors through a 23 percent stake in publicly-traded **Novatek**. On July 16, the US applied sanctions that restrict new financing for **Novatek**.

The Yamal LNG onshore natural gas project in the Russian Arctic is a joint venture formalized in early 2014 between **Novatek** (60%) and two European and Asian energy conglomerates.



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- In May 2014, **Timchenko** told reporters during the St. Petersburg International Economic Forum that Chinese banks were willing to finance up to \$20 billion of the \$27 billion project cost of the Yamal LNG project. **Timchenko** also stated that **Volga Group** would invest in China's LNG storage and pipeline infrastructure.
- On May 20, 2014, a Yamal LNG press release announced that a Chinese development bank as well as Moscow-based **Vnesheconombank (VEB)** and **Gazprombank** signed a memorandum agreement to complete project financing for Yamal LNG in the fourth quarter 2014. On July 16, the US applied sanctions that restrict new financing for **VEB** and **Gazprombank**.

VOLGA GROUP COMPANY PURSUES SOUTH STREAM PIPELINE

Timchenko's Volga Group owns 63% of **Stroytransgaz Group**, which in turn owns a 50% stake in oil and gas construction company



Novatek is Russia's second largest natural gas producer. **Novatek** sells and distributes hydrocarbon products in southeast Asia, China, Brazil, and Europe.



CJSC Stroytransgaz projects include all of Russia's strategic pipeline projects, according to the company's website.

CJSC Stroytransgaz (A.K.A. ZAO Stroytransgaz). **Stroytransgaz Group** is sanctioned by the US and Canada, whereas CJSC Stroytransgaz is not sanctioned.

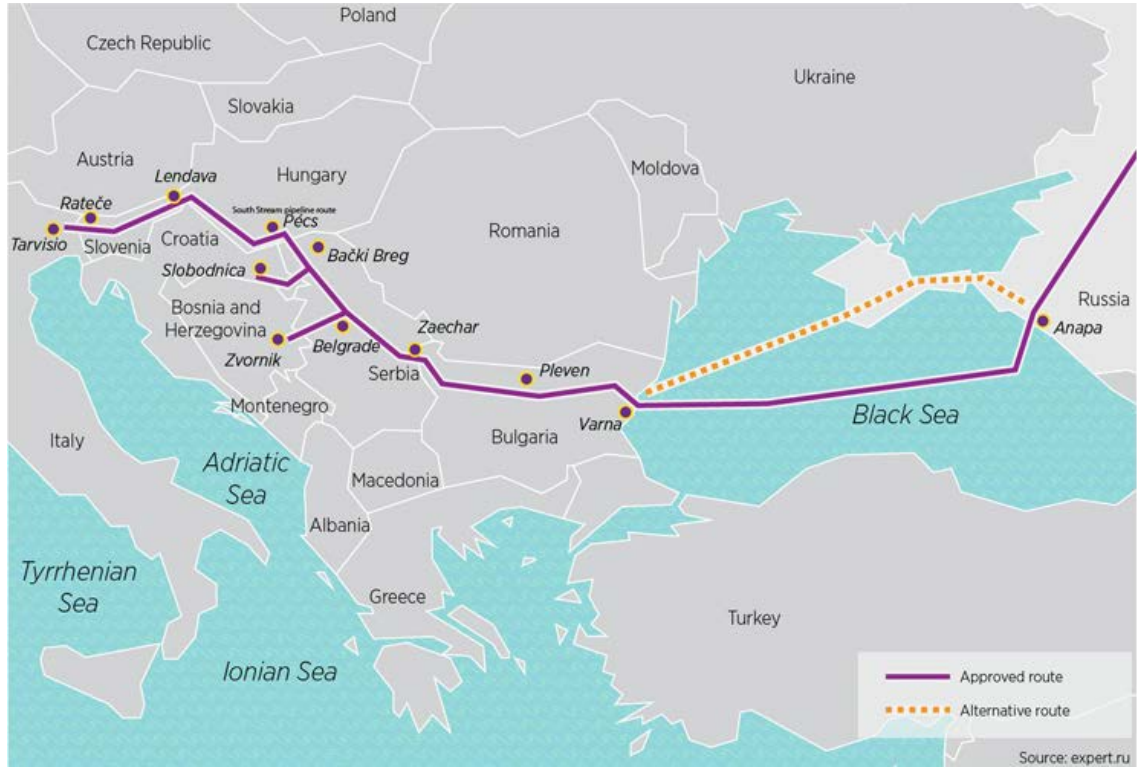
- CJSC Stroytransgaz relies on a variety of North American and European equipment manufacturers to support its operations, according to its website.
- CJSC Stroytransgaz currently holds contracts with **Stroygazmontazh**, the energy construction firm controlled by Putin inner circle member **Arkady Rotenberg**. **Stroygazmontazh** and **Arkady Rotenberg** are sanctioned by the US and Canada.

In May 2014, CJSC Stroytransgaz won a \$4.8 billion tender to construct the Bulgarian section of the \$38 billion South Stream gas pipeline. The South Stream pipeline aims to connect Russian gas supplies with Eastern Europe while bypassing Ukraine. The tender was issued by South Stream Bulgaria, a 50/50 joint-venture between Gazprom and Bulgarian Energy Holding.



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The South Stream pipeline route



- In August 2013, CJSC Stroytransgaz opened offices in Bulgaria, Serbia, and Slovenia – all countries involved in the South Stream project.
- As of late 2013, French and Dutch financial institutions were coordinating financing for the South Stream project.



Bulgarian Prime Minister,
Plamen Oresharshki

On June 8, Bulgarian Prime Minister Plamen Oresharshki announced that the government suspended construction of the South Stream pipeline at the request of EU officials who want to investigate the process for awarding South Stream contracts for the Bulgaria section. The main opposition to the Oresharshki government has indicated it wants to cancel the CJSC Stroytransgaz contract and reopen the bidding process if elected. As of mid-July, the Oresharshki government planned to resign and schedule elections for autumn 2014.



Bulgarian section of South Stream pipeline under construction



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VOLGA GROUP MINORITY-OWNED FIRM PURSUES BRIDGE CONNECTING RUSSIA TO CRIMEA

In April 2014, SK MOST announced its intention to bid for the construction of the Kerch Strait bridge. SK MOST specializes in bridge and tunnel construction. SK MOST is not sanctioned; however, **Stroytransgaz Group**, which is sanctioned, owns 25% of SK MOST.

- SK MOST manages public infrastructure projects primarily in Russia, according to its website. The company handled construction of major rail and road projects for the 2014 Sochi Winter Olympics.
- SK MOST planned to bid for the Kerch Strait bridge project together with Mostrotest – a construction firm in which **Arkady Rotenberg** and his son Igor are significant minority investors. **Arkady Rotenberg** is sanctioned by the US government.
- As of mid-April 2014, oil imports from Russia to Crimea were routed via maritime transport to the US and EU sanctioned

Currently in the planning phase, the Kerch Strait bridge would be the first overland route connecting Russia mainland and the Crimea peninsula across the Kerch Strait. With motor and rail capacity planned, the Kerch Strait Bridge will enhance cargo and petroleum transport capacity between the territories – further integrating the Russian and Crimean economies.

The Camstoll Group advises on sanctions, illicit finance, national security, and regulatory matters. Our research intensive approach for financial institutions, multinationals and governments is designed to generate insights and options for complex policy, regulatory or competitive challenges.

Feodosiya Enterprise oil terminal in Feodosiya, Crimea, due to the lack of a land route to Crimea.

- **Gazprombank** and another Russian financial institution issued multi billion ruble credit facilities to SK MOST in recent years.

STROYTRANSGAZ AGREES TO IRRIGATION DEVELOPMENT PROJECT WITH SYRIAN GOVERNMENT

In late June, the Syrian state news agency reported that "Stroytransgaz" signed an agreement with the Syrian government's General Commission on Water Resources to complete a \$2 billion irrigation project in northeastern Syria.

The project was reportedly initiated at the directive of **President Bashar al-Assad**.

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