

## The luxuries of avoiding sanctions

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July 2022

**Global sanctions on Russia continue apace, and there are rare admissions from within the country that these are working. Transport Minister, Vitaly Savelyev, has indicated that current trade logistics have been ‘virtually wrecked’, and the news that McDonalds and Starbucks are to permanently leave the country is, to the ordinary Russian, just as disappointing as the rows of shuttered Western and luxury brand stores across the country. But**



**even in an environment where multi-million-dollar superyachts are being impounded from Florence to Fiji, the elite are still taking advantage and avoiding the worst of the consequences. Life – even the lowest forms – finds a way.**

There have been three boons to the Russian criminal elite over the past two decades that have stood them in good stead for riding out the current crisis. Firstly, the eagerness with which they (and their money) were greeted all around the world – not only in the known tax havens and questionable corporate regimes of Cyprus and the Caribbean, where assets could be safely stashed with little fear that these would ultimately be linked back to them - but in supposedly higher-regarded jurisdictions such as the UK and USA, where property, citizenship and media outlets were all happily rendered to Russian control with little or no due diligence as to whether this was a good idea. Secondly, the exploiting of the systems within all these jurisdictions to stack the deck in their favour, be this through layering complex financial transactions, through anonymity-granting multiple shell companies, or the use of real estate/luxury art assets and the like, held through proxies that minimise the immediate asset base to be frozen or seized. And third, the deployment of organised crime syndicates across the planet, working hand-in-glove with the government (to the degree to which there is a distinction), to maintain the power and wealth of the elite regardless of other global realities.

Since the start of the war, the USA's Financial Crimes Enforcement Network has put its adherents on repeated high alert, not only for transactions involving ‘real estate and luxury goods’, but also the increasing frequency of these being carried out through proxies to draw the focus away from the ultimate beneficiaries. Both art and property are well-suited to the criminal game: they are very expensive, are ‘known quantities’ as far as the use of shell firms are concerned and can be very difficult to enforce against given the ultimate difficulty in proving who owns what.

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It is, however, not just in 'big ticket' luxury items where the Russians excel. Since March, the EU has instituted a ban on the export from the bloc of any luxury goods worth over €300, covering clothing, jewellery, accessories, food, and porcelain, in addition to supercars and antiques. And understandably so. The elite have developed expensive tastes over the past twenty years and to be cut off from their luxuries might not end the war, but it certainly will hammer home the point that there will be consequences.

Or will there? Recent indications are that Russian criminal syndicates are now using the proceeds of drug smuggling to purchase luxury goods from within the EU and pass them back to Moscow for the benefit of the elite, in a neat reversal of the standard practice whereby fake goods go from Russia to the EU for the benefit of the syndicates. Not only does this enable the elite to continue living in the manner to which they are accustomed, but the drug money itself can be laundered through the luxury purchases instead of being turned into a mega-dollar yacht or art purchase that authorities are more likely to go after or, sunk into an offshore account that risks being exposed by a fourth 'Papers' leak. Not only does this re-confirm the closeness of the Russian political/corporate elite and criminal elements but demonstrates a new methodology for attempted sanctions avoidance and diligence requirements that corporates on the continent need to be aware of – after all, somebody is selling the luxury goods to the gangs. Although the superyachts will continue to sail and the webs of anonymity become ever broader, the magic trick of turning drugs into Russian Standard is becoming, well, a Russian standard, and proves that when it comes to avoiding sanctions and responsibility, the Moscow elite have the greatest luxury of all: the luxury of choice.

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