



Reassessing Russia: Legal and Strategic Insights for Companies

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Dear Colleagues,

A shift in global geopolitical dynamics may lead to adjustments in regulatory frameworks affecting foreign investors and the Russian market. Historically, Russia's tax benefits and market potential have attracted international businesses, and some companies are now exploring their options.

From a legal perspective, Russia's countersanctions are tied to foreign restrictions – changes on one side may lead to adjustments on the other. Staying informed on these developments is crucial for businesses considering their next steps.

While the Russian government is discussing the return of foreign investors and ALRUD attorneys are actively involved in these discussions, officials acknowledge that re-entry could be more complex than the initial exit.

In this overview, we highlight key legal and regulatory aspects to consider when evaluating a potential entry or re-entry into Russia.

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1 What is already heard about the new conditions for coming back to Russia?

Russia has outlined a strategic framework for foreign companies considering re-entry, but the conditions are now more complex. The government is prioritizing localization, technology transfer, and investment commitments, ensuring that any return aligns with national economic objectives.

1.1 Automotive industry: challenges and regulatory shifts

Key Takeaway: Foreign car manufacturers should anticipate long-term localization commitments, strict regulatory oversight, and potential restrictions on foreign ownership or market participation.

The return of foreign car manufacturers to Russia poses significant regulatory and operational hurdles. According to the First Deputy Prime Minister, Denis Manturov, re-entering the market will be far more complex than exiting, reflecting the government's cautious stance toward foreign reinvestment.

Stricter Conditions for Re-Entry

- The government is likely to impose tighter regulatory requirements on foreign car manufacturers, emphasizing the need for long-term commitments and domestic partnerships.
- New rules may include mandatory localization thresholds, requiring companies to shift production, R&D, or supply chains to Russia.
- There is no clear roadmap for how returning businesses will be treated, making strategic planning essential.

Localization as a Core Policy

- Authorities are increasingly pushing for domestic production and reduced reliance on foreign supply chains, particularly in automotive and high-tech sectors.
- Special Investment Contracts (SPICs) provide government incentives for companies willing to invest in local production and R&D.
- Special Economic Zones (SEZs) offer tax benefits and regulatory support for companies meeting localization criteria.
- Companies must carefully assess investment obligations and legal frameworks before considering re-entry.

1.2 Retail industry: standardization and market access

Key Takeaway: Retailers must consider increased compliance requirements and necessity to ensure unified rules applicable across all Russian regions.

Foreign retailers, particularly in fashion and consumer goods, may also face new operational constraints.

Nationwide Standardization Requirements

- Retailers may be subject to unified supply chain and operational guidelines across all Russian regions.
- Authorities aim to eliminate loopholes and ensure that foreign brands operate under the same regulatory framework as domestic businesses.

Competitive Positioning for Local Brands

- The government is prioritizing domestic retail growth, ensuring that foreign brands do not dominate the market upon return.
- Customs duties, trade regulations, and licensing requirements may be adjusted to protect local businesses.

1.3 Government Strategy on Competition

Key Takeaway: Companies must prepare for a more protectionist regulatory environment, requiring careful legal and financial planning.

As the government has signaled its openness to allowing foreign companies back into the market, the government authorities also highlighted the need for regulations that ensure domestic enterprises maintain their competitive advantages. This balancing message reflects a broader strategy to protect local industries while also welcoming foreign investment under specific conditions. However, there is no further clarity as to how these might work in practice.

According to our knowledge, at present the Russian authorities are recalibrating the framework for foreign companies looking to operate in Russia, reflecting the shifting landscape of the economy. Key observations that need to be taken into account might be as follows:

- **Evolving Market Conditions:** The Russian economy is undergoing changes that necessitate a reevaluation of the requirements for foreign companies. This could be a response to economic sanctions and the need for greater self-sufficiency.
- **Localized Operations:** Foreign firms may face higher demands for localization, meaning they will need to produce goods and services domestically rather than relying on imports. This aims to bolster local production capacity.
- **Investment and Technology Transfer:** Companies might be required to make more significant investments and commit to transferring real technology to local entities. The goal is to foster domestic innovation and capabilities that can operate independently of foreign inputs.
- **Closed-Loop Production:** There appears to be an emphasis on creating a production ecosystem that is self-sustaining, thereby reducing reliance on international supply chains and intellectual property.
- **Retention of Local Preferences:** It's vital for the authorities to ensure that existing domestic businesses maintain their advantages and incentives as foreign firms are integrated into the market, which may help combat any fatigue from competition.
- **Market-Specific Requirements:** The framework will likely vary depending on the specific market conditions and the strategic choices made by different brands, suggesting a tailored approach to each industry.

Overall, this transition reflects a strategic pivot towards fostering a more insulated and self-reliant economic model that prioritizes domestic capabilities while cautiously managing foreign investment.

1.4 Sanctions and Future Considerations

Key Takeaway: *The legal and geopolitical landscape remains fluid, and companies must stay agile in adapting to evolving regulations.*

Finally, authorities mentioned the necessity of lifting sanctions on Russia before facilitating the return of foreign companies. This indicates that the path forward for foreign manufacturers may also depend on geopolitical dynamics and the easing of international tensions.

Overall, the government's stance reflects a cautious and strategic approach towards the potential return of foreign companies. The emphasis on uniform regulatory practices and protecting domestic enterprises indicates a desire to create a stable and competitive economic environment, even as the landscape continues to evolve in light of past actions and current geopolitical realities.

Strategic Considerations for Companies:

- Localization will be a prerequisite for re-entry in key industries.
- Government incentives (SPICs, SEZs) exist but come with obligations.
- Regulatory conditions will be tailored by sector, requiring customized strategies.
- Market access remains subject to geopolitical and legal developments.
- This government-driven shift in investment policy means that foreign businesses must carefully evaluate regulatory constraints, localization feasibility, and long-term strategic alignment before re-engaging with the Russian market.



2 What regulatory provisions currently hinder the short return of foreign investors to Russia?

Key Takeaway: Most transactions involving entities associated with «unfriendly» investors are either restricted or require clearance under counter-sanction regulations, which can lead to delays and complications in their practical implementation. However, should the political landscape change, shifts in the regulatory framework are possible, potentially easing some of these restrictions and streamlining processes.

2.1 Countersanctions clearance obligation

For the time being the Russian countersanctions regulations continue to apply. In particular, nowadays, the below transactions with entities associated with “unfriendly” states require prior approval from the Sub-Commission of the Government Commission for Control over Foreign Investments in Russia (“Sub-Commission”) under countersanctions rules:

- Transactions with any shares in Russian LLCs (excluding banks and non-credit financial institutions) or any transaction affecting management or operations of such legal entities¹;
- Transactions with any shares in Russian JSCs or any transaction affecting management or operations of such legal entities, or transactions leading to the acquisition of more than 1% of votes or shares in Russian financial organizations²;
- Exclusive IP rights acquisition with a consideration exceeding RUB 15 million (equivalent in foreign currency)³;
- Real estate transactions granting ownership rights⁴;
- Providing loans or credits to “unfriendly” persons in RUB⁵.

The lack of defined requirements in the law concerning the review timeline presents significant uncertainties for applicants. This unpredictability affects both the duration of the decision-making process and the potential outcomes. The Sub-Commission, endowed with total discretion over the content of clearance decisions, holds significant power in determining the approval process.

1. Decree No. 618 “On Special Procedure for Consummation (Execution) of Certain Types of Transactions (Operations) between Certain Persons” as of September 08, 2022)

2. Decree No. 737 “On Certain Issues Related to Execution (Performance) of Several Types of Transactions (Operations) as of October 15, 2022

3. Decree No. 430 “On Temporary Procedure for the Acquisition of Exclusive Rights owned by Certain Right Holders and the Performance of Monetary Obligations Owed to Certain Foreign Creditors and Persons Controlled by Them” as of May 20, 2024

4. Decree No. 81 “On Additional Provisional Economic Measures to Ensure Financial Stability of the Russian Federation” as of March 01, 2022

5. Decree No. 81 “On Additional Provisional Economic Measures to Ensure Financial Stability of the Russian Federation” as of March 01, 2022

Key considerations for regulatory approvals:

Foreign investors seeking approval under Russia's regulatory framework face significant procedural uncertainties. The approval process lacks clear timelines, objective criteria, and standardized decision-making, requiring businesses to approach it strategically.

Key Challenges:

- **Uncertain Timelines:** Since the law does not specify clear deadlines for application reviews, businesses face uncertainty in planning their operations and investments. Delays in approvals can disrupt strategic timelines and increase financial risks.
- **Discretionary Decision-Making:** The Sub-Commission has broad authority to decide on applications without strict legal guidelines. This can lead to varying interpretations, making outcomes less predictable and complicating long-term planning.
- **Lack of Clear Criteria:** Companies do not have a clear benchmark for what factors influence approval decisions. Without transparency in the process, it becomes harder to assess risks and adjust applications accordingly.
- **Need for a Strategic Approach:** Given these challenges, businesses should be proactive in structuring their applications. Conducting thorough risk assessments, consulting with legal experts, and preparing alternative scenarios will help navigate potential obstacles.
- **Prolonged Negotiations:** Companies should be prepared for drawn-out discussions with regulatory authorities. The absence of fixed procedures means negotiations may take longer than expected, requiring patience and flexibility.

Strategic outlook

- Given the unpredictability and discretionary nature of the current regulatory landscape, companies must remain flexible and proactive in structuring their market re-entry strategies.
- While there is no formal indication of policy shifts, it is possible that the Russian government could introduce standardized conditions for foreign investors' return, similar to the structured approval process established for market exits. If implemented, such measures could bring greater predictability to investment decisions.
- However, the extent to which existing restrictions may be eased remains unclear. Businesses should operate under the assumption that current regulatory constraints will remain in place for the foreseeable future and plan accordingly.

2.2 Financial obligations and regulatory restrictions

Key Takeaway: *Financial transactions involving foreign creditors remain highly restricted, requiring structured compliance strategies. Approval processes are discretionary and unpredictable, making early regulatory engagement crucial. Companies should not rely on short-term policy shifts and instead plan for long-term financial structuring within Russia.*

The fulfillment of financial obligations in Russia remains subject to strict counter-sanctions regulations, particularly concerning debt repayments, dividend distributions, and loan settlements involving foreign creditors. These restrictions, implemented under Presidential Decree No. 95 (March 5, 2022), aim to limit capital outflow and regulate financial transactions with entities from "unfriendly" jurisdictions.

Credit, loans, and other financial obligations

- Russian residents face restrictions on loan repayments and financial transactions exceeding RUB 10 million per month if payments are directed to:
 - Foreign creditors from "unfriendly" states or entities under their control (*unless registered in Russia*).
 - Residents and non-residents from "friendly" states, if the claim was assigned to them by an "unfriendly" creditor after March 1, 2022.

- Payments exceeding this threshold must be deposited into a “C”-type bank account, which restricts the use of funds, except for:
 - Tax payments, duties, and other mandatory fees.
 - Acquisition of Russian federal loan bonds.
 - Bank service fees, etc.
- Direct payments to foreign creditors require special approval from the Sub-Commission of the Government Commission for Control over Foreign Investments, which is rarely granted.

Key challenges and strategic considerations

- **Uncertain Timelines:** No legally defined deadlines exist for approval decisions, making it difficult for businesses to plan cash flow and financial obligations.
- **Capital Lock-In Risks:** Authorities remain reluctant to approve exemptions, reinforcing strict capital controls. Companies must prepare for potential restrictions on repatriating funds.
- **Justification for Exemptions:** To secure approval, businesses must demonstrate strong economic reasoning, such as reinvestment commitments and long-term operational plans in Russia.
- **Complex Negotiation Process:** Establishing early communication with regulators can clarify potential obstacles and improve the chances of approval.
- **Preparedness for Delays:** Businesses should account for extended review periods and structure financial strategies accordingly.

Strategic outlook

Given Russia’s current emphasis on capital retention, securing approvals for financial transactions remains highly complex. While there is no indication of an immediate policy shift, a broader transition towards encouraging inbound investment could lead to a more flexible approach to financial transactions in the future.

However, for now, businesses should assume that restrictions on dividend payments, loan settlements, and capital transfers will persist. A strategic approach – focused on regulatory compliance, financial structuring, and proactive engagement with authorities – will be essential for companies navigating these constraints.

2.3 Other capital flow restrictions

Key Takeaway: Residents in Russia face stringent restrictions on financial transactions with entities from “unfriendly” states, particularly concerning authorized capital reductions, liquidation, bankruptcy proceedings, and loan agreements, which are generally prohibited unless authorized by a Sub-Commission. Payments exceeding RUB 10 million related to these activities must be deposited into a specific “C”-type bank account, while credits and loans in RUB to such entities are also banned. Additionally, licensing agreements with these foreign right holders require payments to be made into “O”-type bank accounts, where funds are frozen without regulatory approval, except for limited circumstances. However, countersanctions do not apply to agreements for the use of intellectual property related to essential sectors like medicine, communication, and software, provided that the right holders from “unfriendly” states do not engage in hostile actions.

There are similar restrictions for payments of funds by residents in connection with the reduction of their authorized capitals, liquidation, as well as within the framework of the procedures applied in bankruptcy cases, to persons from “unfriendly” states (or under their control) in the amount exceeding RUB 10 million (or the equivalent in foreign currency) per calendar month which must be deposited to the “C”-type bank account.⁶

Likewise, currency transactions related to the provision of foreign currency by residents in favor of non-residents under loan agreements are prohibited.⁷

6. Decree of the Russian President No. 737 “On Certain Issues of Implementation (Execution) of Certain Types of Transactions (Operations)” dated October 15, 2022.

7. Decree of the Russian President No. 79 “On Application of Special Economic Measures in Connection with “Unfriendly” Actions by the United States of America and Associated Foreign States and International Organizations” dated February 28, 2022.

In addition, granting by Russian residents of credits and loans in RUB to persons from “unfriendly” states / persons under control of such persons is prohibited.⁸

The above transactions may be carried out (*executed*) only subject to authorization from the Sub-Commission.

Certain restrictions apply also to license agreements concluded by Russian persons (*as licensees*) and persons from “unfriendly” states (*as right holders*). Namely, Russian residents shall pay debts in RUB to a special “O”-type bank account for their use of IP, the exclusive rights to which belong to the certain categories of rightsholders such as from “unfriendly” states or who committed certain “unfriendly” actions.

Without approval of the Sub-Commission, the funds in an “O”-type bank account are frozen and can be debited only in two cases:

- to pay commissions to the bank servicing the “O”-type bank account;
- if funds were erroneously credited to the “O”-type bank account.

The rightsholders, i.e. those entitled to the royalties, and the debtors are entitled to apply for regulatory approval to transfer funds from an “O”-type bank account to another foreign account of the rightsholder.

Provided that a rightsholder has not committed “unfriendly” actions the countersanctions do not apply to:

- agreements with the rightsholders from “unfriendly” states providing the right to use intellectual property for:
 - importing into Russia and/or producing medicines, medical devices, industrial and agricultural products, food products in the territory of Russia;
 - providing communication services (*including services for data transmission, provision of access to the Internet*) and services for traffic transmission;
 - creating and/or using software, databases, information systems and data processing centers; OR
- the rightsholders from “unfriendly” states which duly fulfill their obligations under agreements concluded with Russian counterparties.

2.4 Parallel Import

Key takeaway: *The Ministry of Industry has established a list of goods, such as electronics, vehicles, and medical instruments, that can be imported into Russia without the consent of right holders, exempting importers from liability for infringement. However, the legalization of parallel imports poses significant challenges for foreign investors, including the loss of control over brand image due to unauthorized sales leading to inconsistent pricing and quality, pricing pressures from cheaper alternatives, difficulties in enforcing intellectual property rights, market fragmentation, disruptions to supply chains, negative impacts on local partnerships, consumer confusion over product authenticity, and potential damage to brand reputation from substandard or counterfeit goods.*

The Ministry of Industry has approved a list of goods eligible for import without the consent of right holders⁹. This list includes items like electronics, vehicles, and medical instruments and is quite dynamic, potentially changing based on environmental factors and government or economic requirements.

Furthermore, the law¹⁰ absolves importers of liability for infringement of exclusive rights when importing goods from this list.

8. Decree of the Russian President No. 81 “On Additional Temporary Economic Measures to Ensure Financial Stability in the Russian Federation” dated March 01, 2022.

9. Order of the Ministry of Industry and Trade of the Russian Federation dated July 21, 2023 No. 2701 “On Approval of a List of Goods (Groups of Goods) to which the Provisions of Articles 1252, 1254, Point 5 Article 1286.1, Articles 1301, 1311, 1406.1, Point 1 Article 1446, Articles 1472, 1515 and 1537 of the Civil Code of the Russian Federation, Provided that the said Goods (Groups of Goods) are Introduced into Circulation Outside the Territory of the Russian Federation by the Right Holders (Patent Holders), as well as with their Consent”

10. Article 18 of the Federal Law dated March 08, 2022 No. 46-F “On Amendments to Certain Legislative Acts of the Russian Federation”

The legalization of parallel imports in Russia can have several drawbacks for foreign investors. Here are some key considerations:

- **Loss of Control Over Brand Image:** With parallel imports, products may be sold without the consent of the brand owner, leading to inconsistent pricing, quality, and marketing that can damage brand reputation.
- **Pricing Pressure:** Parallel imports can erode profit margins by providing consumers with cheaper alternatives, forcing foreign companies to adjust their pricing strategies.
- **Intellectual Property Concerns:** The existence of parallel imports can complicate the enforcement of intellectual property rights. Foreign investors may find it challenging to protect their trademarks and patents against unauthorized imports.
- **Market Fragmentation:** The introduction of parallel imports may fragment the market, with different pricing and distribution channels leading to confusion among consumers and dilution of brand loyalty.
- **Supply Chain Disruption:** Parallel imports may disrupt established distribution channels, making it harder for foreign companies to maintain control over their supply chains and logistics.
- **Impact on Local Partnerships:** Companies relying on exclusive distribution agreements with local partners may find their business models undermined, leading to strained relationships and potential litigation.
- **Consumer Confusion:** The presence of unauthorized products can confuse consumers about the authenticity and warranty of the items, leading to dissatisfaction and potential legal issues for foreign brands.
- **Reputation Risks:** The sale of subpar or counterfeit products through parallel channels can harm the overall reputation of a brand, even if the company does not authorize such imports.



3 What options and algorithms for gradual return exist?

Key Takeaway: *There are various approaches for a gradual return to the Russian market, including acquiring assets, re-establishing a presence through branches or representative offices, or structuring relationships with distributors and franchise agreements as well as via localization in “friendly” jurisdictions to create a supply chain to Russia. This can serve as an alternative to dormancy mode off, direct buyback options or the establishment of legal presence through LLCs or JSCs. The choice of strategy depends on foreign investors’ growth plans, market expansion objectives, and the results of tailored risk assessments specific to each industry.*

▶ **Asset deals**

In this scenario, the acquisition could involve acquiring assets, employees, contractual base, and commercial/service agreements from the selling companies to reduce potential historical risks during the interim period since 2022 when the business was transferred. However, this option may also trigger merger control or foreign direct investment (FDI) clearance requirements.

▶ **Re-establishing Presence in Russia**

One approach to re-entering the Russian market is through the establishment of a branch or representative office. Initially, companies may opt for a non-physical entry strategy that avoids setting up LLCs or JSCs. Instead, they can facilitate direct supply through intermediaries such as authorized distributors, licensees, and franchise arrangements. This enables businesses to establish a presence in Russia without full legal commitment.

▶ **Localization in “Friendly” Jurisdictions**

Another strategy involves creating a presence in foreign “friendly” jurisdictions, such as, for instance, Serbia, China, the UAE, or countries within the EAEU. As the risks of secondary sanctions due to changing political dynamics diminish, operating from these locations without a formal presence in Russia may become increasingly viable.

▶ **Resuming Operations from Dormancy**

Many companies that have entered a dormant state—due to outstanding loans, unpaid dividends, or trade restrictions preventing deliveries—can now gradually restart their operations. This transition allows them to minimize their operational footprint while preparing for more favorable economic conditions.

▶ **Buy-Out Options**

Foreign investors may consider buy-out options to redeem their investments. However, it is crucial to recognize that the previous market conditions will not apply. This necessitates a comprehensive revision of financial terms, recalculating valuations, and adjusting return on investment expectations to align with the new market environment.

▶ **Fresh Start: Establishing a New Legal Entity**

Establishing a new legal entity presents a safer and more straightforward route for re-entering the market. However, this approach raises concerns regarding non-compete clauses and disclosures of proprietary production technologies and know-how already disclosed to the partners in Russia when initially exiting the Russian market. Additionally, companies must devise effective strategies to regain their market position and rebuild customer trust.



4 What are the anticipated market changes following the decision to re-enter Russia and possible strategies for adapting to the evolving landscape?

Corporate/Regulatory Issues

Key takeaway: *The process of reverse buybacks for assets and real estate in Russia presents significant challenges, primarily due to the complexities involved in negotiating new terms that address both the recovery of the original owner's investment and the reluctance of current owners to return assets they have improved or invested in. Current regulations dictate that buybacks must occur at market value, which is contentious amidst shifting market dynamics, and there are additional layers of approval needed from regulatory bodies for share acquisitions, dividend payments, and capital outflows. The landscape remains uncertain, as attempts to establish consistent practices for dividend payments or investment compensation have not yet succeeded, complicating the feasibility of repurchase negotiations further.*

► **Complications in Asset/Real Estate Buybacks**

The process of reverse buybacks for assets or real estate from new owners and management can pose significant challenges from a corporate perspective. Negotiating new buyback terms will be essential, especially to facilitate the recovery of the original owner's investment, if applicable, during the interim period. A primary concern is the potential reluctance of the current owners to return the transferred assets, which could complicate the buyback process and create further obstacles for the original owners.

► **New Market Conditions**

Currently, regulations mandate that the repurchase of an asset must occur at its market value as determined on the date the buyback option is exercised¹¹. This process must also ensure an economic benefit for the resident owner of the asset. Additionally, there is a limitation on the duration of the buyback authorization, typically not exceeding two years from the execution of the initial transaction(s) that enable the option to repurchase. However, determining the market value of the asset remains a contentious issue. Given the significant changes in market dynamics, it is unrealistic to expect that the conditions prevailing in the Russian Federation will mirror those of the past.

► **Clearance Obligation in Force**

The requirement for approval of share acquisitions remains in force. As a result, new consent must be obtained from the Sub-Commission under counteraction rules. Additionally, the transaction may be subject to ordinary clearance requirements under merger control and foreign direct investment (FDI) regulations.

¹¹. Extract from the Sub-Commission minutes dated July 07, 2023 No. 171/5

▶ **Dividend and Loan Payments: Released but Clearance Obligations Remain**

While restrictions on dividend payments and profit allocations may be easing, any resulting capital outflows and the release of such payments will still require approval from the Sub-Commission. Consequently, uncertainty persists regarding the approval process.

▶ **Dividends for Investments**

It is also uncertain whether the structure of the option will allow for the payment of dividends in exchange for investments after April 01, 2023¹² in practice. Over the past few years, there have been several attempts to pursue this approach, but these efforts have not yielded successful outcomes, and the prevailing practice is still in the development phase. The compatibility of such options with dividend distribution tends to depend on specific financial, legal, and regulatory frameworks, which remain unclear at this stage.

▶ **Difficulty in Returning Property**

The process of reversing a property acquisition is complicated, especially when there are investments or maintenance costs involved. New owners are unlikely to relinquish their property easily, particularly if they have invested in improvements, repairs, or alterations to the facilities. Such investments not only represent significant financial commitments but also operational ties to the property. This reluctance could complicate any potential repurchase or buy-back options, as the owners may feel the value of their enhancements must be recognized and compensated. Consequently, negotiations surrounding asset repurchases might be challenging and contentious, particularly if the terms and conditions of the original transaction do not adequately account for the investments made by the new owners.

▶ **Key actions:**

- **Conduct Comprehensive Market Analysis:** Evaluate current market conditions to determine the realistic market value of the assets or real estate in question. This should involve thorough research into recent transactions, valuations, and local economic factors that could influence pricing.
- **Develop Negotiation Strategy:** Formulate a detailed negotiation strategy that addresses potential barriers posed by current owners, such as their reluctance to sell. This includes identifying key benefits for the current owners for agreeing to a sell-back, facilitating discussions that recognize their investments and improvements.
- **Clarify Buyback Terms:** Engage legal counsel to ensure that new buyback agreements incorporate terms that are favorable and clearly define responsibilities regarding any investment made by new owners. This could help mitigate disputes over valuation and compensation for enhancements.
- **Streamline Approval Processes:** Begin the process of obtaining necessary approvals from the Sub-Commission proactively, including clearance under merger control and foreign direct investment (*FDI*) regulations, to avoid delays in the buyback process.
- **Assess and Manage Compliance Obligations:** Keep abreast of evolving regulations surrounding dividend payments and capital outflows. Ensure that all financial transactions remain compliant with the requisite clearance obligations and explore alternative pathways to facilitate capital movement.
- **Engage Stakeholders Early and Often:** Foster open communication channels with all stakeholders, including current owners and regulatory bodies. This will help to manage expectations, build trust, and ensure alignment on objectives throughout the buyback process.
- **Evaluate Property Improvement Investments:** Carefully assess any investments made by new owners in the properties to understand their implications on negotiations. Prepare to articulate the importance of recognizing these enhancements in the buyback discussions, ensuring fairness in valuation.
- **Create Contingency Plans:** Formulate plans for various scenarios that could arise during negotiations, including potential refusals from current owners or unforeseen regulatory challenges. This will prepare the team for agile adjustments based on real-time developments in the buyback process.
- **Document All Agreements:** Ensure that all negotiations and agreements are meticulously documented to avoid any ambiguities or misunderstandings that may arise during the buyback process. This documentation should include terms of compensation for investments or improvements made by new owners.

12. Extract from the Sub-Commission minutes dated August 09, 2023 No. 182/5

► **Strategic Considerations for Companies:**

- **Thorough Financial Evaluation:** Conduct an in-depth financial analysis of the target entity, focusing not only on historical financial statements but also on tax compliance and audit reports to ensure a complete understanding of the fiscal health, including identifying potential liabilities.
- **Operational and Compliance Assessment:** Implement a meticulous operational review to evaluate management practices, hierarchy, IT infrastructure, data protection compliance, and company culture. This will help identify inefficiencies, corruption risks, and areas of non-compliance with laws and regulations.
- **Corruption Risk Identification:** Develop a focused framework for identifying and assessing corruption risks in critical areas such as procurement, contracts, and employment practices. Regular audits and checks should be instituted to monitor these areas continuously.
- **Risk Mitigation and Strategic Planning:** Formulate a comprehensive risk matrix that outlines potential disputes, compliance risks, and strategies for employee management, including redundancy planning when necessary. This will facilitate informed decision-making when risks are identified.
- **Strategic Planning for New Ventures:** When considering the establishment of a new entity, thoroughly analyze the legal and financial implications of the existing business relationship and plan negotiations to ensure favorable buyback terms if returning the sold business proves advantageous.
- **Debt Management Strategies:** Prior to any buyback or establishment of a new company, evaluate existing debts or liabilities tied to the former business to create effective debt resolution strategies that prevent financial toxicity from hampering new ventures.
- **Brand and Reputation Management:** Develop a comprehensive strategy for brand transition that addresses potential reputational concerns related to the previous business. Engage stakeholders to rebuild goodwill and create positive perception in the market.
- **Market Re-entry Analysis:** If difficulties arise in negotiating for a buyback, consider alternative strategies for establishing a new company, weighing the benefits and risks of re-entering the Russian market. Explore options that minimize legacy risks and promote a fresh corporate identity.
- **Stakeholder Engagement:** Throughout the entire due diligence and re-establishment process, maintain transparent communication with stakeholders, including former owners, investors, and regulatory bodies, to build trust and facilitate smoother negotiations and transitions.

DR + Compliance

Key Takeaway: *The process of reverse buybacks for assets in Russia and returning of foreign companies to the Russian market creates significant challenges, which substantially increases the risks of potential disputes between the foreign companies returning to the market and its Russian counterparties. We expect the substantial increase of shareholder and corporate disputes related to earlier concluded option agreements and disputes over management decisions. We also could assume a rising wave of claims against foreign companies for unfulfilled contracts due to sanctions, as the statute of limitations nears. Additionally, severed communication between international companies and their Russian subsidiaries increases the risks of local malpractice, leading to expected rise of internal investigations. Proper strategy and action plan might help with limiting or offsetting the potential and existing risks for the business.*

► **Shareholder Dynamics**

A significant number of foreign shareholders have exited the Russian market while retaining the right to buy out their shares in Russian companies within the timeframe outlined in existing agreements. However, many new shareholders and senior managers may not anticipate a return of foreign shareholders and might be reluctant to voluntarily relinquish their ownership rights in Russian entities. As a result, we anticipate a substantial increase in disputes concerning (1) the enforcement of option agreements and (2) challenges to those agreements.

► **Contractual Challenges**

Numerous foreign companies have faced difficulties in fulfilling international contracts with Russian counterparties due to sanctions, which created the ground for sanction-related disputes. Given that this situation began in 2022 and the general statute of limitations in Russia is three years, a wave of claims against foreign companies may be expected—both standalone entities and those within the same corporate group—in pursuit of fulfilling “dormant” contracts in the near future. Potential returning of the foreign companies to the Russian market could create the opportunity for the Russian counterparties to enforce the Russian court judgements against such companies.

► **Communication Gaps and Internal Malpractice**

For the last three years many international companies have reduced or severed communication with the employees and management of their Russian subsidiaries or even exited the market leaving the Russian companies separated from the group. The lack of oversight over activities of the Russian companies inevitably creates the risk of local malpractice, including unfavorable contracts and inappropriate budget expenditures or even corruption and embezzlement. Consequently, we foresee an increase of internal investigations in Russian subsidiaries related to the actions of the local managers and employees for the period of reduced oversight.

► **Disputes Over Management Decisions**

For similar reasons, a significant rise in disputes may be expected contesting transactions and decisions made by Russian management between 2022 and 2025.

► **Key Actions:**

- **Address Shareholder Relations:** Establish clear communication and negotiation strategies with both foreign shareholders and new stakeholders to clarify their rights and expectations regarding option agreements, thereby minimizing potential disputes.
- **Prepare for Contractual Claims:** Implement proactive contract management practices to assess outstanding obligations and prepare for a wave of claims relating to unfulfilled contracts due to sanctions, ensuring legal and operational readiness.
- **Enhance Oversight and Communication:** Re-establish and strengthen communication channels between international firms and their Russian subsidiaries to prevent local malpractice. Regular audits and oversight can help manage risks associated with unfavorable contracts and budget misappropriations.
- **Implement Internal Investigations:** Initiate comprehensive internal investigations in Russian companies to evaluate management decisions and transactions from 2022 to 2025, and to ensure accountability and legal compliance in the face of potential disputes.
- **Risk Management Framework:** Develop a robust risk management framework to monitor and analyze shareholder dynamics and contractual relationships, preparing legal defenses and negotiation strategies in anticipation of increased disputes.

► **Strategic Considerations for Companies:**

- **Integrate Mediation Strategies:** Companies should consider including mediation as a central part of their dispute resolution strategy, fostering open communication and collaboration to reach amicable settlements before resorting to litigation.
- **Legal Framework Analysis:** Assess the legal frameworks governing both domestic and cross-border disputes to develop a tailored litigation and arbitration strategy that effectively aligns with the company's goals and risk tolerance.
- **Proactive Risk Assessment:** Regularly conduct comprehensive risk assessments to identify potential disputes early and evaluate their impact on operations, facilitating informed decision-making in the mediation and negotiation processes.
- **Strengthen Legal Defence Mechanisms:** Enhance legal defense capabilities by ensuring preparedness for inspections by state authorities, as well as for participation in criminal and administrative cases to protect the company's interests.
- **Engagement with Stakeholders:** Maintain ongoing dialogue with all relevant stakeholders, including shareholders, management, and legal advisors, to ensure cohesive strategies for negotiation and efficient dispute resolution.
- **Leverage Expert Representation:** Utilize experienced legal representation and mediation professionals to navigate complex disputes, ensuring skilled advocacy and effective handling of negotiations and enforceability of agreements.
- **Evaluate Litigation vs. Mediation:** Continuously assess the costs, benefits, and potential outcomes of litigation compared to mediation and settlement to choose the most effective approach for each unique situation.

Labor and Employment Perspective

Key Takeaway: *Returning to Russia requires a strategic workforce approach, balancing regulatory compliance, internal risk management, and leadership restructuring. A well-structured labor and employment strategy will be essential for long-term stability and success.*

The return of foreign businesses to Russia brings a range of labor and employment challenges that must be carefully managed to ensure regulatory compliance, business continuity, and workforce stability. Companies should proactively address corporate governance, labor disputes, compliance risks, and migration complexities to mitigate potential legal and operational risks.

▶ **Workforce and Leadership Reassessment**

Foreign businesses re-entering the Russian market may need to restructure employment relationships at various levels, particularly regarding:

- **Key Executives (CEOs, CFOs, and Directors).** Many foreign companies exited Russia by transferring management to local executives or third-party entities. The re-engagement of former leadership or appointment of new foreign or local executives will require careful structuring of employment and corporate governance arrangements, taking into account potential legal risks.
- **Mid-Level and Operational Staff.** Depending on the period of absence, some employees may have left the country, been reassigned, or had their roles modified. A workforce audit is essential to evaluate current competencies, strategic personnel needs, and compliance with labor laws.
- **Labor Law Compliance.** Companies must review employment contracts, benefits, and compensation structures to ensure alignment with Russian labor regulations and avoid potential penalties or claims.

▶ **Key Actions:**

- Conduct a legal audit of current workforce structures and contracts.
- Establish a re-onboarding strategy for returning executives and key personnel.
- Ensure compliance with remuneration, taxation, and employment law standards.

▶ **Internal Investigations and Labor Disputes**

The transition back into the Russian market may reveal compliance risks related to past business conduct, financial transactions, and employee activities during the interim period. Common legal issues include:

- **Unauthorized Transactions & Breach of Fiduciary Duties.** Some local executives may have entered questionable contracts, made financial decisions without oversight, or engaged in conflicts of interest.
- **Unlawful Terminations & Workplace Misconduct.** Employees dismissed without proper legal grounds during a company's restructuring may seek reinstatement or compensation, leading to labor litigation risks.
- **Trade Secrets & Non-Compete Violations.** Former employees may have established competing businesses or disclosed confidential information, requiring legal intervention to protect corporate interests.

▶ **Key Actions:**

- Conduct forensic & HR audits to assess employee activities, contract compliance, and financial transactions.
- Implement remedial actions (*e.g., renegotiating terms, enforcing NDAs, or initiating legal proceedings*).
- Establish internal reporting (*e.g. Hotlines*) and compliance controls to mitigate future risks.

► Migration & Foreign Workforce Compliance

As legal environment changes, foreign businesses may seek to reinstate international executives or recruit new foreign specialists. This shift introduces immigration and compliance challenges:

- **Visa & Work Permit Regulations.** Foreign executives and specialists must comply with Russia's evolving work permit system, including potential restrictions on employment of expatriates.
- **Local Hiring Requirements.** Authorities may introduce mandatory quotas for hiring Russian employees as part of a localization policy.
- **Tax Residency & Compensation Issues.** Repatriated executives may face dual taxation risks or require alternative compensation structures to navigate foreign exchange and salary repatriation restrictions.

► Key Actions:

- Review and align employment contracts with Russian migration laws and tax obligations.
- Assess work permit quotas and consider alternatives such as remote leadership structures.
- Develop localized payroll and tax compliance mechanisms for foreign executives.

► Strategic Considerations for Companies:

- **Pre-emptive Labor Law Compliance** – Ensuring full compliance before scaling operations minimizes legal risks and reputational concerns.
- **Crisis Management Protocols** – Companies should have structured responses for handling workforce restructuring, internal investigations, and labor disputes.
- **Government Relations** – Engaging with local labor authorities and regulatory bodies can facilitate smoother workforce transitions and reduce risks of non-compliance.
- By **proactively addressing employment risks, restructuring leadership roles, and ensuring labor law compliance**, foreign businesses can mitigate legal exposure and facilitate a smoother market re-entry.

Commercial issues: Changes in Logistics Chains and Contractual Revisions

Key Takeaway: *To effectively re-enter the Russian market, companies must revise logistics chains and commercial contracts, explore alternative payment methods, and consider establishing a tax presence through branches or offices. This includes adapting to changes in delivery structures, utilizing «friendly» jurisdictions to ensure compliance, and navigating the complexities introduced by the legalization of parallel imports. A strategic approach is essential to maintain competitiveness while mitigating risks associated with evolving regulatory landscapes and financial restrictions.*

► Review of Logistics Chains

The evolution of logistics chains necessitates a comprehensive revision of existing contracts or entering new contracts to ensure presence of the products in the Russian market. Organizations must adapt to ensure reliable supply through alternative methods, such as direct deliveries via distribution channels or franchising at first step if they do not want to return back to Russia via LLCs/JSCs. This includes leveraging intermediary or distributor frameworks to facilitate transactions through authorized distributors, franchisees, agents or licensees present in the Russian Federation.

► Modification of Commercial Contracts

Commercial contracts must be updated to reflect changes in delivery structures. This includes potential utilizing “friendly” jurisdictions and the Eurasian Economic Union (EAEU) for structuring deliveries, ensuring compliance with evolving regulatory requirements while maintaining efficiency in supply chain operations. Moreover, the commercial contracts shall be drafted in full compliance with the public law, including antimonopoly legislation to avoid any concerns or investigations in this filed further. For instance, one should refrain from resale price maintenance practices, allocation of territories/customers/variety of goods for supply to a particular region if there is no proper economic, technological or some other reasonable justification.

▶ **Exploring Alternative Payment Methods**

There is a pressing need to explore and implement different schemes for export/import financial transactions due to SWIFT ban or other restrictions in financial sector from the U.S. and other Western countries. This could involve mechanisms that avoid traditional cross-border money movement if the restrictions remain in force. Potential solutions include the use of cryptocurrency, cash settlements, barter systems, and non-bank payment solutions. Additionally, establishing accounts directly at banks located in “friendly” jurisdictions can facilitate these processes and mitigate risks associated with sanctions should the risks of secondary sanctions be lifted.

▶ **Establishing Tax Presence through Branches/Offices**

To navigate taxation effectively, companies may consider establishing branches or offices for tax purposes. This will allow businesses to maintain a legal presence within the region, ensuring compliance with local tax laws while facilitating easier movement of goods and financial transactions.

▶ **Challenges Posed by Legalization of Parallel Imports**

At the same time, one should bear in mind that legalization of parallel imports adds another layer of complexity to the logistics landscape and contractual obligations. Companies must consider how this impacts their supply chain strategies and adjust their operational frameworks accordingly to maintain competitiveness.

▶ **Key Actions:**

- **Revise Logistics Contracts:** Update existing contracts or formulate new ones to establish reliable supply channels in the Russian market, utilizing alternative methods such as direct deliveries and franchising.
- **Adapt Commercial Contracts:** Modify commercial agreements to reflect changes in delivery structures, ensuring compliance with public law, including anti-monopoly regulations, while utilizing “friendly” jurisdictions and the Eurasian Economic Union for structuring deliveries.
- **Explore Alternative Payment Solutions:** Investigate and implement diverse financial transaction mechanisms to circumvent restrictions from the SWIFT ban, including cryptocurrency, cash settlements, bartering, and non-bank solutions.
- **Establish Local Tax Presence:** Consider setting up branches or offices in the region to maintain a legal presence, comply with local tax regulations, and facilitate smoother operational processes.
- **Evaluate Impact of Parallel Imports:** Assess how the legalization of parallel imports affects supply chain strategies and adjust operational frameworks to navigate this complexity and maintain competitiveness.

▶ **Strategic Considerations for Companies**

- **Robust Commercial Support:** Essential for effective partnerships in Russia and the EAEU, enhancing operational efficiency and competitive advantage.
- **Contractual Clarity:** Draft clear and comprehensive agreements delineating roles, responsibilities, and expectations to minimize misunderstandings and disputes.
- **Compliance with Regulations:** Ensure agreements adhere to mandatory regulations, including currency control and antitrust laws, to mitigate legal risks and penalties.
- **Intellectual Property Protection:** Incorporate measures within agreements to protect intellectual property rights, safeguarding proprietary information and trademarks.
- **Ongoing Performance Monitoring:** Implement mechanisms for continual oversight and evaluation of partners’ performance to ensure compliance and identify issues early.

Key contacts

We trust that this update provides valuable insights for your business considerations. If your Colleagues would like to subscribe to our newsletters or regulatory updates, please feel free to share the subscription link.

For further guidance on Crisis Management, Economic Sanctions, or Compliance, or to discuss specific legal and strategic aspects relevant to your operations, please reach out to us. We would be pleased to provide tailored materials or arrange a discussion.

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Note: This document reflects our interpretation of the current legal and regulatory landscape. While we endeavor to ensure accuracy and relevance, ALRUD Law Firm and the authors assume no liability for decisions made based on this information.