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Citation: Imanova, A. (2026). To what extent is deoffshorization in the Russian Federation successful in combating the use of offshore jurisdictions?. (Unpublished Doctoral thesis, City St George's, University of London)

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***To what extent is deoffshorization in the Russian Federation
successful in combating the use of offshore jurisdictions?***

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A thesis submitted for the degree of
Doctor of Philosophy

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Word count: 65,780

February 2026

Declaration

I, Aimira Imanova, confirm that the work presented in this thesis is my own. Where information has been derived from other sources, I confirm that this has been indicated in the thesis.

To my parents, your love and encouragement were the foundation of my journey. I dedicate this thesis to you.

Abstract

This thesis investigates the deoffshorization process in the Russian Federation, an initiative launched to fight the use of offshore jurisdictions. This initiative arose as a policy direction in 2012 when President V. Putin announced the necessity of developing a system of measures to deoffshorize the Russian economy in response to the growing concerns about capital outflow to offshore jurisdictions. As deoffshorization emerged as a self-defined policy direction, the existing research has predominantly focused on the interpretation of deoffshorization and its constituent measures, resulting in limited attempts to assess its efficacy. Against this backdrop, the overarching aim of this study is to assess whether or not the deoffshorization process successfully restricts the channels through which capital flows to offshore jurisdictions. The following questions are addressed in this study: Which governmental measures incorporate deoffshorization and its distinguishing characteristics? What are the main factors affecting the course of the deoffshorization process? Does the introduction of anti-offshore regulations prompt any change in Russian companies' use of offshore schemes? To what extent is the deoffshorization in the Russian Federation successful in limiting the capital flow to offshore jurisdictions?

First, this thesis outlines the distinguishing characteristics of deoffshorization and its regulations. Second, this study employs multiple case studies of Russian enterprises to analyse whether the introduction of deoffshorization measures leads to a behavioural change in the use of offshore jurisdictions. The analysis focuses on two distinct groups of Russian companies: state-owned enterprises (SOEs) and private firms. The research indicates that deoffshorization is driven by legal, political and economic factors, which are predominantly overlooked. The mere fiscal measures of the deoffshorization process do not limit the capital flow channels to offshore jurisdictions. By considering the political and economic factors that underpin or hinder the effect of the deoffshorization reforms, we are able to comprehend better the potential for and obstacles to more innovative solutions to the effective fight against the use of offshore schemes. This is the distinctive feature of the Russian case of deoffshorization.

Acknowledgements

This thesis is a testament to the unwavering faith and support of remarkable individuals and those dear to me. Their belief in me has been a source of strength and encouragement throughout this journey.

First and foremost, I would like to thank my supervisors, who guided me through this journey. Great gratitude is due to Professor Ronen Palan for his invaluable guidance and support. His belief in me and his advice to pursue PhD during my final bachelor's year led to this thesis. Thank you for giving me the very opportunity to undertake my PhD. Heartfelt thanks to Dr. Sandy Hager for tireless support and generous feedback. I am deeply thankful for his efforts to review various drafts of this thesis. I also would like to thank the Department of International Politics, City St George's, University of London.

I am grateful to my parents for their unwavering support and belief in me. I owe deep gratitude for the opportunities they have provided for me to pursue my PhD. And to my brothers, who supported me in their own ways. I am also thankful to my friends for their emotional support and colleagues that I was fortunate enough to meet at City St George's, University of London. Last but certainly not least, I would like to thank my love for his continuous support and encouragement. Thank you for making this journey less stressful and being the source of my perseverance.

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List of Abbreviations

ADGM	Abu Dhabi Global Market
ADR	American Depositary Receipts
AJCA	American Jobs Creation Act of 2004
BEPS	Base Erosion and Profit Shifting
BP	British Petroleum
BVI	British Virgin Island
CbC MCAA	Multilateral Agreement of the competent authorities on the automatic exchange of country reports
CEO	Chief Executive Officer
CRO	Ireland Companies Registration Office
CRS MCAA	Common Reporting Standard Multilateral Competent Authority Agreement
CNY	Chinese Yuan
CFC	Controlled foreign company rules
DTT	Double Tax Treaty
EU	European Union
FACTA	Foreign Account Tax Compliance Act
FDI	Foreign Direct Investment
GAAR	General Anti-Abuse Rule
GDP	Gross domestic product
GFC	Global Financial Crisis
GNP	Gross national product
ICIJ	International Consortium for Investigative Journalists
IFC	International Financial Centre
KVK	Dutch Business Register

MED	Ministry of Economic Development
MNE	Multinational enterprise
NLMK	Novolipetsk Steel
OECD	Organisation for Economic Co-operation and Development
OFC	Offshore financial centres
OJSC	Open Joint Stock Company
PJSC	Public Joint Stock Company
PwC	PriceWaterhouseCoopers
RUB	Russian Ruble
RCS	Luxembourg Trade and Companies Register
SAR	Special Administrative Regions
SOE	State-owned enterprises
SPV	Special Purpose Vehicle
TCJA	Tax Cuts and Jobs Act of 2017
TMK	Trubnaya Metallurgicheskaya Kompaniya
TNC	Transnational company
TNK	Tyumen Oil Company
UAE	United Arab Emirates
UEN	Unique Entity Number
UK	The United Kingdom
US	The United States (of America)
USD	United States Dollar
USRLE	Unified State Register of Legal Entities
VAT	Value-added Tax

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Chapter 1: Introduction

1.1. Background and Rationale

The problem of unfair tax competition and the negative impact of offshore financial centres (OFCs) and tax havens have been constantly the centre of attention of the global community, with not only the individual states but also international organisations engaged in the fight against the harmful use of offshore practices. Along with the global movement against offshore schemes, Russia initiated its own fight against the use of offshores,¹ namely the process of deoffshorization (“деофшоризация” in Russian). The beginning of the deoffshorization can be traced back to 2012 when President Vladimir Putin, in his address to the Federal Assembly of the Russian Federation, emphasised the necessity of developing a system of measures to “deoffshorize” the economy.² The purpose was to highlight an increasing concern about the rising use of offshore ownership structures and offshore corporate structuring by Russian businesses. This announcement by V. Putin essentially indicated the deoffshorization as a new policy direction, which subsequently evolved into the development of a system of legal measures to reduce the offshore nature of the Russian economy. For the purposes of this thesis, deoffshorization refers to the anti-offshore policy, while the deoffshorization process encompasses its ongoing development and implementation of legal measures.

The announcement by Vladimir Putin to initiate the deoffshorization reflects an effort to address growing concerns about the ‘offshore nature of Russian economy’ and ‘flight from the jurisdiction’. He referred to Russian corporations shifting their capital to foreign legal regimes, which can promote capital flight from Russia to various offshore jurisdictions.³ Capital flight generally presents a complex problem for governments due to the inherent tension between private and state interests.

¹ The governmental authorities stressed the problem of the offshore abuse and that there is a need for the set of measures to combat it.

² The Official Website of the President of Russia (2012a). See: <http://kremlin.ru/events/president/news/17118>

³ Capital flight refers to a significant net outflows of investment funds from a country that arise due to a risk of conducting business in a country or perceived profit decline, for instance due to political or financial crisis, concern over a devaluation of the currency or higher taxes (Melvin and Norrbín, 2023).

Corporations and individuals typically try to maximise their revenues, and the offshore sector presents substantial advantages for them, such as favourable tax regimes, confidentiality, asset protection and cost savings.⁴ These benefits encourage capital transfer from a home country to an offshore jurisdiction. This restricts countries in the collection of anticipated taxes, which has negative effect on budget deficits and lowering public investment.⁵

While many countries experience this problem of capital outflow to offshore jurisdictions, Russia provides a compelling case due to its distinct ramifications of capital flight. The data indicates that Russia is among the top exporters of capital, trailed only by China.⁶ The Russian budget loses up to \$50 billion a year,⁷ which strains the budget by reducing revenue. The problem is further exacerbated by the fact that Russian businesses generate income in Russia and move assets to offshore jurisdictions for capital accumulation. Only partial capital returns to Russia for productive use,⁸ with approximately 60% of the capital hidden in offshore jurisdictions.⁹ These estimates reveal the pervasiveness of offshorization within the Russian economy, raising the urgency for the de-offshorization of these public and private assets. As a result, the Russian government has established a clear plan to de-offshore the Russian economy and its foreign assets.

The use of offshore jurisdictions produces a strong dependence on foreign jurisdictions, which poses not only economic but also political risks. The necessity of de-offshoring the Russian economy was further reinforced in light of the escalating political disputes over Crimea and Eastern Ukraine and the subsequent sanctions imposed in 2014 and thereafter. These events increased the risk of confiscation of Russian capital held abroad, posing a serious danger for Russian businesses that use offshore schemes.¹⁰ For the Russian government, the geopolitical crisis emphasised

⁴ Wojcik (2012).

⁵ Deppler and Williamson (1987).

⁶ Bulatov (2012); Lipatova and Polezharova (2015).

⁷ Artemiev (2013).

⁸ Kohno (2016).

⁹ Alstadsæter, Johannesen and Zucman (2018).

¹⁰ This thesis will be using the term 'Offshore Schemes' in reference to tax optimization schemes used by offshore businesses in offshore jurisdictions (Zhuk, Makarova and Rudinskaya, 2016).

the urgency of raising more funds for the national budget, especially given the economic sanctions.¹¹ The need for extra capital in the country, not frozen by sanctions, has pushed the progress of the deoffshorization policy. In such terms, deoffshorization is a necessary repatriation campaign not just against capital outflow from Russia but also as a primary economic security strategy against over-dependence on foreign jurisdictions.

From this perspective, the Russian process of deoffshorization is characterised by unique features that distinguish it from global anti-offshore regulatory standards. Unlike international efforts that rely on cooperative tax rules, Russia utilises a mix of coercive repatriation and bespoke domestic incentives to physically and legally re-anchor Russian corporations within the Russian jurisdiction. Deoffshorization reflects the state's desire to recover and protect its sovereignty, regain autonomy over its capital, and ultimately reduce its dependence on external threats. Thus, it primarily aims to facilitate the return of capital to its politico-legal origin—Russia. In fulfilling that, the Russian government initiated a series of regulations oriented toward limiting the offshore flow channels and the presence of Russian companies in offshore jurisdictions. In 2014, the Russian government announced the first amendments made to the Code of the Russian Federation to implement the deoffshorization directives outlined by President Putin.¹² However, deoffshorization has not been formally codified within Russian law and, to this day, lacks a clear definition. It is not outlined through specific regulations, and not all regulations that support the deoffshorization explicitly confirm its connection. As a result, what began as a presidential announcement has evolved into an undefined and ambiguous policy.

This confusion is reflected in the academic literature, which variously interpreted deoffshorization as either an ‘independent institution of the financial law,’¹³ a framework of “elite nationalisation” to expand control over oligarchs and their assets,¹⁴

¹¹ The Official Website of the President of Russia (2014a). See: <http://kremlin.ru/events/president/news/46636>

¹² The State Duma: The Federal Assembly of the Russian Federation (2014). See: <http://duma.gov.ru/news/9856/>

¹³ Andrianova (2022): «возможность обособления деофшоризации как самостоятельного института финансового права» [in Russian].

¹⁴ Petrov (2015, p. 24).

and a primary economic security strategy by which Russia attempts to maintain its sovereignty against external threats.¹⁵ The different understanding of the deoffshorization has led to not only the ambiguity of its nature but also the regulations that constitute deoffshorization. Such shortcomings in the existing literature led to a substantial impediment to evaluating its effect on the Russian economy. While only a handful of studies attempted to assess the effect of deoffshorization in the repatriation of Russian businesses and capital, a consensus on the outcomes remains elusive.¹⁶

The overarching purpose of this study is to evaluate whether the deoffshorization process in the Russian Federation is successful in restricting the use of offshore structures. The key question in this research is to what extent is the deoffshorization in the Russian Federation successful in combating the use of offshore schemes? In this thesis, I will aim to measure the ‘extent’ empirically, namely, by quantifying the changes in the offshore presence of Russian companies over the course of the deoffshorization process.

Deoffshorization, lacking well-defined regulations, presents difficulties in its understanding and assessment. In the absence of a clearly defined policy, this thesis will firstly examine the various rules that have been introduced as a result of deoffshorization. This will present a broad definition of what deoffshorization entails within the Russian context. A comprehensive review of these regulations will be provided in Chapter 3.

Secondly, this study is based on evaluation of how successful the deoffshorization process is in combating the use of offshore schemes. As the purpose of the deoffshorization regulations is to reduce capital flight from Russia and constrain the utilisation of offshore structures, the evaluation of deoffshorization will be based on multiple case studies of Russian enterprises. Russian multinational enterprises (MNEs) are the “main agents of outward FDI”,¹⁷ the analysis of their response to deoffshorization provides a deeper understanding of whether regulations impact these

¹⁵ In the content of the deoffshorization, the external factors are referred to the economic sanctions that were one of the main factors why the deoffshorization process was established.

¹⁶ Lipatova and Polezharova (2015), Kheyfets (2018), Kuznetsov (2022).

¹⁷ Kalotay (2023, p. 265).

capital flow channels. As the existing theories do not explicitly address the distinct features of the deoffshorization process, this study incorporates theoretical insights of the behavioural change in companies with a Russian setting.

To contextualise these theoretical insights in an empirical analysis, this thesis enquires whether Russian companies reduce their use of offshore jurisdictions in response to deoffshorization regulations through the established changes to their offshore presence. This leads to another question: which empirical method is optimal for detecting within-firm variation in offshore presence before and after the introduction of the deoffshorization regulations? To address this, this study employs a quantitative and qualitative pre- and post-deoffshorization comparison through three indicators. The first indicator is based on changes in the pyramidal ownership structure, particularly the complexity and geographical position of ownership control in Russian companies. The second indicator is the changes in the number of active subsidiaries in offshore jurisdictions, whether the deoffshorization regulations led to the liquidation of those subsidiaries or their relocation to Russia. The third indicator is a pre- and post-regulation comparison of offshore-based assets, particularly the ratio of offshore-based assets to the total assets. The measurement of the 'extent' of deoffshorization success through these indicators will provide a better understanding of whether deoffshorization regulations have any effect on capital flow channels to offshore jurisdictions used by Russian companies. Deoffshorization will be regarded as successful where all three indicators illustrate an ongoing decline in offshore presence, partially successful if two of the three indicators, and unsuccessful if only one or no indicators illustrate change.

The empirical analysis has revealed that the deoffshorization is partially successful in prompting the response of Russian companies. The initial stage of deoffshorization implementation (2014-2021) failed to limit the use of offshore jurisdictions by Russian companies. Russian SOEs did not immediately relocate their subsidiaries and assets from offshore jurisdictions. However, their proximity to the government ultimately resulted in the repatriation of offshore-based assets after the termination of the Double Tax Treaty (DTT) with the Netherlands and the amended

DTT with Luxembourg in 2020-2021. Private companies continued to employ offshore schemes mainly due to the issues associated with the political tensions over Crimea and Eastern Ukraine in 2014. With the escalated political situation in 2022, only private companies with good relationships with the Russian government repatriated their offshore subsidiaries to Russia. Not regulations, but the external environment prompted the relocation of Russian companies from offshore jurisdictions. As for Russian companies with no relationship with the Russian government, the analysis reveals that these companies maintained their presence in offshore jurisdictions in the face of the external political environment and sanctions. Hence, the willingness to relocate from offshore jurisdictions to Russia depends on the relationship between the company (and the major shareholders) and the Russian government.

The analysis reveals that the effectiveness of deoffshorization depends on how regulations interact with political and economic factors, such as Western economic sanctions against Russia, the ruble devaluation, inflation, developments in the Russian political regime, and the global geopolitical environment. In particular, the geopolitical environment and Western sanctions restrict the operations of Russian businesses abroad, increasing the costs of offshore routing. In this regard, deoffshorization is successful when regulations concurrently provide favourable circumstances for relocation to Russia amid these political and economic factors. When regulations balance external conditions, the deoffshorization process has a beneficial and positive effect on the repatriation of Russian enterprises. At the same time, deoffshorization has a limited effect if regulations are not aligned with political and economic factors, providing no stimulus to relocate from offshore jurisdictions.

The remainder of this introductory chapter is organised as follows: following the section on Background and Rationale, the upcoming sections will cover Research Methodology (Research design and methods), Findings, Contribution, and the Structure of the thesis.

1.2. Research Methodology

1.2.1. Research Design

As the deoffshorization regulations are oriented toward constraining offshore structures and the channels through which capital flows to offshore jurisdictions, this thesis will conduct multiple-case studies of Russian enterprises to consider whether the introduction of rules and anti-offshore policies leads to a change in their behaviour. In contrast to other qualitative methods, a case study provides versatility that allows conveying the intricate nature of a 'real life' phenomenon,¹⁸ particularly when the subject matter and context cannot be evidently distinguished.¹⁹ A case study allows one to shed some insight into an action or series of actions, including why these choices were made, how they were carried out, and the outcomes.²⁰ Thus, the multiple-case study design will allow for a thorough analysis not only of the effects of these regulations but also of the various factors that affect how Russian companies respond to the regulatory environment. This analysis encompasses case studies of two distinct groups of Russian companies based on their ownership structure: Russian state-owned enterprises (SOEs) and private firms. The companies were selected based on the variations - industry, relationship with the government, and sanctioned against non-sanctioned companies. The key selection factor is based on the leading Russian companies by the size of foreign assets.

The analysis focuses on SOEs and private companies for several reasons. Firstly, the type of ownership structure plays a significant role in determining the degree of the use of offshore schemes. Russian corporate governance is characterised by unique ownership patterns, with a large proportion of listed companies are anonymously controlled by Russian business elite or government entities.²¹ Both private companies and SOEs exhibit strong affiliations with offshore jurisdictions. For instance, one of the largest Russian SOEs, Gazprom had a majority

¹⁸ Ebneyamini and Moghadam (2018).

¹⁹ Yin (2012a).

²⁰ Ebneyamini and Moghadam (2018).

²¹ Chernykh (2008); Bulatov *et al.* (2016).

of its affiliated companies registered in the European offshores, such as *Gazprom Holding Cooperatie* in the Netherlands and *Gazprom Schweiz AG* in Switzerland prior to the deoffshorization process.²² State ownership has a significant impact on the propensity of businesses to grow internationally by exerting pressure on SOEs to adhere to governmental goals. Non-commercial objectives for SOEs include political objectives as opposed to implementing a global competitive strategy. The case studies of Russian SOEs will contribute to an analysis of whether the government's proximity to SOEs has an impact on the positive response to the deoffshorization process. Considering the government's ownership share in SOEs and the proximity to the Russian government, the case study will analyse whether Russian SOEs are highly likely to 'deoffshorize' and repatriate their offshore-based subsidiaries in response to the deoffshorization process.

Hypothesis 1: Russian SOEs are highly likely to 'deoffshorize' and repatriate their offshore-based subsidiaries in response to the deoffshorization process.

Apart from the SOEs, private companies are almost exclusively controlled by so-called oligarchs, often through pyramid offshore structures. Russian companies tend to cover the information on the actual owners by using nominees and foreign offshore structures. There are several reasons to conceal owners of a corporation: potentially to reduce conflict of interests, the lack of trust in the government, weak protection of property rights, tax avoidance, and discretion of dubious sources of capital.²³ However, such control is influenced by the level of legal protection of their votes. In the Russian context, oligarchs use the offshore jurisdictions to safeguard assets from the Russian government.²⁴ In light of the deoffshorization implementation, one must consider whether Russian oligarchs are rearranging their pyramidal offshore structures to circumvent the regulations. This query will not only reveal whether Russian business elite is adaptable to regulation changes but also call into question the success of deoffshorization in increasing corporate ownership disclosure.

²² Kheyfets (2015).

²³ *Ibid.*

²⁴ Fortescue and Hanson (2015).

Hence, I propose two additional hypotheses for the current study:

Hypothesis 2: If an oligarch of a Russian company has a good relationship with the government, a Russian company is highly likely to positively respond to the deoffshorization process.

Hypothesis 3: If an oligarch of a Russian company has no relationship with the government, a Russian company is highly likely to remain in the offshore jurisdictions with no response to the deoffshorization process.

The analysis of behavioural change in Russian SOEs and private companies consists of two components: assessing changes in **ownership structure** and **corporate structure**.

The first component examines ownership structure and the use of pyramidal structure through offshore jurisdictions to handle major corporate structures. This investigation seeks to identify whether Russian businessmen restructure their control over a corporation through offshore shell companies in response to the deoffshorization regulations. The Russian ownership pattern is predominantly characterised by the business elite controlling their shares through pyramidal offshore structures, which is the practice of owning a corporation through a subsidiary company.²⁵ Such structure allows the concealment of true ownership of a company by employing nominees and foreign offshore shell-companies.²⁶ The dominant shareholder is able to facilitate the transfer of wealth among these pyramid companies to maximise their personal gains by arranging intercorporate transactions at adjusted rates. Such practices are significantly correlated with offshore schemes.²⁷ In light of implementing the deoffshorization initiatives, one must consider whether Russian companies reorganise their control over companies through offshore shell entities.

²⁵ Faccio and Lang (2002).

²⁶ Chernykh (2008).

²⁷ Richardson, Wang and Zhang (2016).

The second analysis investigates corporate structures to assess whether offshore structures change as a result of the implementation of the deoffshorization regulations. It further explores the trends regarding the relocation of offshore-based subsidiaries to non-offshore jurisdictions. Most Russian companies utilise the geographical location of their subsidiaries based on differences in taxation policies. Subsidiaries operating under higher tax rates may strategically allocate their profits to subsidiaries situated in lower tax jurisdictions through various business activities. Due to increased risks and restricted access to global financial markets due to Western sanctions, Russian companies can circumvent restrictions by utilising neutral jurisdictions, including offshore venues for capital movement. A critical inquiry arises - does the deoffshorization process provide stimulation to relocate to a friendly home jurisdiction, providing a form of 'shelter from sanctions' – instead of merely focusing on fiscal considerations?

1.2.2. Research Methods

This study adopts a methodological approach that integrates both quantitative and qualitative techniques, essential for an in-depth evaluation of deoffshorization. To differentiate between behavioural change and formal reorganisation, the quantitative research methods centre on an evaluation of changes in the offshore corporate and ownership structures of Russian companies, which allows for assessing the extent of deoffshorization success. For ownership structure, offshore presence is measured by changes in offshore pyramidal ownership, particularly the number of ownership intermediaries, through which Russian companies are controlled. For corporate structure, offshore presence is measured through a pre- and post-regulation comparison of the number of active subsidiaries in offshore jurisdictions and the ratio of assets in offshore-based subsidiaries. Such analysis can offer insights into and clarify whether Russian companies reorganise their ownership and corporate structures to maintain offshore operations while minimising exposure to governmental reach, or whether this is a behavioural change in response to regulatory pressures. The time frame of the analysed data is from the pre-deoffshorization stage (2012-

2014) to the implementation of deoffshorization (2014-2021) and 'New Reality' (2022 – currently), which allows for a pre- and post-regulations comparative assessment.

The main limitation of this research is the scarcity of information on offshore-based subsidiaries and their assets. Offshore jurisdictions have strong confidentiality regulations; thereby, only publicly accessible data could be utilised in this thesis. The data sourced from Bloomberg and Eikon provided important information on the offshore activities of various Russian companies. The relevant information collected from these databases included the list of offshore-based subsidiaries, the total assets of both parent companies and their offshore-based subsidiaries, and the shareholder structure. The analysis of this data enabled the exploration of variations in the foreign presence of Russian companies and facilitated the monitoring of changes in total assets pre- and post-implementation of deoffshorization regulations.

Certain data was not easily obtainable due to confidentiality regulations in offshore jurisdictions, which may point to the presence of unreported capital in offshore-based subsidiaries. To confirm company registration and its status, I cross-checked with the national commercial registers of offshore jurisdictions. The national commercial registers reviewed included those from Cyprus,²⁸ Luxembourg,²⁹ Switzerland,³⁰ the Netherlands,³¹ and Ireland.³² This process allowed for verification of whether offshore-based subsidiaries were active or had been dissolved during the deoffshorization process.

As part of the deoffshorization policy, the introduction of Special Administrative Regions (SARs) in Russia established a framework for some subsidiaries to relocate from global offshores to Russia. In such instances, I manually verified with the Russian Unified State Register of Legal Entities (EGRUL)³³, which lists every legal entity that has been lawfully established and is currently in existence in accordance with Russian legislation. EGRUL has been developed in accordance with para 1 of

²⁸ See <https://www.companies.gov.cy/en/21-eservices/esearch-in-business-entity-s-registry>

²⁹ See <https://www.lbr.lu/>

³⁰ See <https://www.zefix.ch/en/search/entity/welcome>

³¹ See <https://www.kvk.nl/zoeken/?source=all&q=&start=0&site=handelsregister>

³² See <https://www.gov.ie/en/service/search-for-company-documents-in-the-companies-registration-office/>.

³³ See <https://egrul.nalog.ru/index.html>.

Article 7 of the Federal Law of August 8, 2001, No. 129-FZ “On State Registration of Legal Entities and Individual Entrepreneurs”.³⁴ If a company or Russian subsidiary cannot be found in the database, it doesn't exist in the Russian Federation. Another possibility is that the company changed its name to hide its prior affiliations or to disassociate from past dealings in offshores.

To perform further authentication and delineate the structure of business groups and their subsidiaries, this thesis undertook a systematic examination of publicly available information. The consolidated financial statements served as the foundation for evaluating information on Russian companies, which also included information on the subsidiaries of the corporations. According to Article 8 of Federal Law N 208-FZ "On the Consolidated Financial Statements",³⁵ enacted on 27 July 2010, organisations whose securities are admitted to a quotation list and admitted to organised trading are required to prepare consolidated financial statements.

In addition to financial statements, further qualitative research methods included a systematic review of journal articles, official reports, working papers, and business news to identify the factors influencing companies' responses to the deoffshorization regulations. As previously indicated, most Russian companies are not directly controlled by shareholders; rather, control is often exercised through intermediary companies based in offshore jurisdictions. This qualitative approach facilitated the examination of how these companies are restructuring in relation to the research focus on offshore ownership structures. A detailed survey of business news offered updated information regarding Russian shareholders, including complex informal ownership structures. With this data on the Russian owners and their registered addresses, I recognised connections and uncovered hidden relationships.

It should be acknowledged that this study involved the extensive use of data in the Russian language. This included the current regulations, which have not been previously explored in international scholarly sources. The main Russian legal databases' broad accessibility in English was taken into account.

³⁴ See: <http://www.kremlin.ru/acts/bank/17299>

³⁵ See: <http://www.kremlin.ru/acts/bank/31552>

1.3. Findings

The empirical findings of this study are divided into two chronological stages of the deoffshorization development: Stage I: unsuccessful initiation of the deoffshorization regulations (2014-2021), and Stage II: the politico-economic elements and the effects of the deoffshorization (2022-currently).

The initial stage of deoffshorization was predominantly based on fiscal measures, the results of which reveal that such implementation did not yield positive outcomes regarding the repatriation of Russian businesses from offshore jurisdictions. First, Russian SOEs did not immediately relocate their subsidiaries and assets from offshore jurisdictions. However, their proximity to the government ultimately resulted in the repatriation of offshore-based assets after the termination of the Double Tax Treaty (DTT) with the Netherlands and the amended DTT with Luxembourg in 2020-2021. The findings partially align with Hypothesis 1, indicating that relocation is mostly driven by political and economic factors.

As for the private companies, Hypotheses 2 and 3 were not supported by initial empirical evidence due to the issues associated with the political tensions over Crimea and Eastern Ukraine in 2014. These political disputes aggravated the Russian business environment, by which offshore jurisdictions appeared as a safe haven for asset protection and favourable conditions for capital movement. Initial regulations were oriented on fiscal measures, providing no incentive for any limit in the use of offshore schemes. This resulted in the continued use of pyramidal ownership structures and tax minimisation schemes by private companies, all while circumventing deoffshorization policies and exploiting regulatory loopholes. As of 2020, private companies had no substantial changes in response to the amendments to the DTT. Only a handful of subsidiaries and companies chose to terminate their operation in European offshore jurisdictions and relocated to other non-sanctioning regions, such as Abu Dhabi, Dubai, and Singapore.

In Stage II, the case studies demonstrate that, following the increased sanctions in 2022, the deoffshorization regulations transitioned from a primarily fiscal measure to a mechanism for providing a 'shelter from sanctions'. The analysis reveals that

regulations began to align with political and economic elements, such as the escalation of the geopolitical environment, severe Western sanctions, and asset freezes, providing Russian companies with an alternative in the face of rising uncertainty. The introduction of SARs reflects this regulatory shift in the deoffshorization process, its development as an anti-sanction measure facilitated the relocation of offshore companies to Russia, including the re-domiciliation of holdings that control ownership shares, parent entities, and subsidiaries. When regulations are aligned with these external conditions, particularly reducing the risks of sanctions and providing an alternative to offshore, the deoffshorization process has a beneficial and positive effect on the repatriation of Russian enterprises. This trend has not only involved Russian state-owned enterprises (SOEs) relocating their subsidiaries to SARs but also included participation from private companies with good relationships with the Russian government. As hypothesized, the results confirm proximity to the government positively impacts businesses' willingness to relocate to Russia. The case studies reveal that Russian companies with no relationship with the Russian government maintained their presence in offshore jurisdictions. With the risk of sanctions, Russian businessmen of these companies were compelled to distance themselves from their companies. The results lend robust support to Hypothesis 3, presenting that deoffshorization regulation did not incentivise relocation to Russia and Russian SARs for companies with no relationship to the government in the face of the external political environment and sanctions. This underscores the limitations of the deoffshorization regulations.

Overall, the deoffshorization regulations are primarily found to be unsuccessful. The failure to repatriate capital at the early stages of deoffshorization can be credited to a broad failure of the initial measures to address Russian companies' primary use of offshore jurisdictions. The potential of an effective deoffshorization process depends on several factors, including the political and economic dynamics within the Russian Federation, which are frequently overlooked. The omission of these elements results in an incomplete perception of the deoffshorization process since the Russian alternative approach to the fight against the use of offshore schemes results from the historical complexities and challenges that Russia faced. By considering the political

and economic factors that underpin or hinder the effect of the deoffshorization reforms, we are able to comprehend better the potential for and obstacles to more innovative solutions to the effective fight against the use of offshore schemes.

For this distinctive feature of the Russian case of deoffshorization, I propose that deoffshorization has a *multifaceted approach*, and there are two underlying aspects of it – the politico-economic and the legal aspects. Although both aspects exert distinct impacts on the implementation of the deoffshorization, these aspects are interconnected and mutually reinforcing, thereby constituting the whole deoffshorization in the Russian Federation. The variance in findings can be endorsed by the fact that the existing research failed to take into consideration the political and economic elements of the deoffshorization. The sole evaluation of the effect of the deoffshorization regulations cannot provide the full picture of whether the Russian government is successful in restricting the use of offshore schemes by businesses and individuals. I argue that understanding the multifaceted approach of deoffshorization will broaden the understanding of the extent of its success.

The politico-economic aspect includes the process by which political and economic elements compose the course of deoffshorization. For instance, in which ways the political and economic risks, such as economic sanctions or the crisis of the Russian economy, can impact the success of the deoffshorization. For Russian businesses, the economic sanctions of 2014 marked a turning point and set them apart from other emerging economies, such as China and India.³⁶ As Russian MNEs are “the main agents of outward FDI”,³⁷ sanctions, along with other political factors, fuel uncertainty for businesses, muddle supply chains, and drive up transaction costs.³⁸ Whereas the external circumstances become unfavourable, businesses are under more pressure to change their business priorities.³⁹ Due to geopolitical variables over which businesses may have little or no influence, pressures from external

³⁶ Panibratov and Gaur (2022).

³⁷ Kalotay (2023), p. 265.

³⁸ Meyer *et al.* (2023).

³⁹ Panibratov and Gaur (2022).

circumstances may be especially significant for businesses operating in international marketplaces.

The legal aspect of deoffshorization is presented as the set of legal rules and reforms that operate as an instrument developed to limit capital channels to offshore jurisdictions, achieve economic and financial transparency, and reduce the vulnerability of the economy of the state to external factors. The ambiguous legal framework can provide the basis for companies and individuals to abuse legal loopholes. I argue that the goal of the deoffshorization lies at the heart of the legal aspect, while the politico-economic aspect defines the course of the deoffshorization. In other words, while political and economic factors outline how and in which direction the deoffshorization will be taking place, the extent of successfulness of regulations establishes how successful the state can be in the fight against the use of offshore schemes.

It is important to note that the deoffshorization process in the Russian Federation is currently ongoing, with new regulations and rules being introduced. The regulation setting involves a wide range of stakeholders, each with unique interests and interactions that change and develop over time. As such, the analysis of the response of Russian companies to the deoffshorization excludes the aspects that will be further introduced, establishing opportunities for more research. A few of the findings from the study might require careful re-examination.

1.4. Contribution

This thesis contributes to the growing body of literature as the first comprehensive and in-depth evaluation of the success of deoffshorization in the Russian Federation. Although a limited number of studies have explored the impact of deoffshorization on the repatriation of Russian businesses and capital, a thorough and methodical examination of this issue remains largely absent. The findings highlight that deoffshorization is a complex process which incorporates various factors that must be considered in policymaking. Given the current geopolitical landscape and

economic downturn in Russia, it is imperative to develop and implement feasible strategies that could improve the business climate of the country to attract companies. This systematic evaluation enriches academic discourse regarding practices designed to combat the use of offshore schemes and tax avoidance while providing valuable insights for policymakers to frame more effective policies aimed at preventing capital outflows and facilitating the repatriation of Russian businesses and investments.

Moreover, this thesis expands the understanding of the Russian approach to harmful offshore practices by examining its alternative framework. It contributes to the broader literature on innovative perspectives and methods utilized to address the challenges of tax evasion on both domestic and global levels. The analysis of historical, political, and economic contexts that have shaped this unconventional Russian approach not only advances academic inquiry into alternative methods for mitigating the use of offshore schemes but also helps lawmakers and government representatives in developing more sophisticated and impactful measures to combat practices that facilitate capital flight. In this way, this research has implications for also potentially informing other countries dealing with similar challenges.

The alternative approach adopted by the Russian Federation underscores the critical role of the state in relation to businesses. This thesis demonstrates that the significant interference of the state in business affairs has fundamentally shaped the perception of offshore jurisdictions in Russia, as it significantly led to offshore jurisdictions being 'shelter' for wealthy Russian individuals.⁴⁰ The findings indicate that Russian oligarchs use offshore structures for asset protection as a response to the prevailing influence of the Russian state. Specifically, the relationship between the Russian government and businesses manifests itself in the fragile connections with the governmental individuals and questionable favourable positions. Despite the risks posed by the severity of sanctions and rigorous deoffshorization regulations, a considerable number of oligarchs have persisted in maintaining their offshore structures.

⁴⁰ Ledyeva et.al. (2015).

This study also adds new evidence to the existing literature on the effectiveness of sanctions targeting Russian oligarchs.⁴¹ The findings reveal that sanctions have prompted diverse strategic responses from sanctioned Russian companies linked to the state. Some members of the business elite have opted to consolidate their affiliations with the Russian government, thereby reinforcing their positions within the political system, while others have pursued a strategy of distancing themselves from the Russian state in an effort to minimise their vulnerability and exposure to ongoing sanctions. The dichotomy of response exemplifies the multifaced relationship between corporate interests and government in the modern Russian economy.

1.5. Structure of the Thesis

This thesis is composed of 8 chapters.

Chapter 1 offers an introduction and a brief overview of the key aspects of the current study.

Chapter 2 then presents the factors that prompted the initiation of the deoffshorization process in Russia and why it is important to the Russian approach against the use of offshore schemes. This chapter underscores that these factors feature the general peculiarities of the deoffshorization process in Russia, which set it apart from global practices. The chapter then explores the reasons behind the offshore capital movement from Russia. The chapter concludes with a literature review on the deoffshorization process in Russia.

Chapter 3 presents the necessary insights into the development of the deoffshorization process. The first section of the chapter delineates three chronological stages of deoffshorization development. The second section outlines the regulations that underpin deoffshorization in Russia, which establishes the foundation for an evaluation of deoffshorization success.

⁴¹ Meyer *et. al.* (2023), Abramova and Garanina (2018), Panibratov and Gaur (2022).

Chapter 4 explores the behavioural aspects of companies' responses to newly introduced rules and regulations. This review examines two levels: corporate ownership, which investigates the role of shareholders in influencing business behaviour and the use of offshore jurisdictions, and corporate structure through the offshore jurisdictions and its restructuring of offshore subsidiaries. The second section of the chapter outlines the research methodology. Considering the complex nature of the deoffshorization, the current study employs a case study using a variety of data. To systematically evaluate the deoffshorization effect, the study employs the case studies of two types of Russian companies using mixed methodology.

Chapter 5 focuses on the case studies of two key Russian SOEs to evaluate their response to the deoffshorization process. The case studies analyse whether the government's proximity to Russian SOEs has an impact on the positive response to the deoffshorization process.

Chapter 6 investigates leading Russian private companies by the size of their foreign assets, assessing whether these companies continue to use offshore schemes after the implementation of the deoffshorization policies and regulations. This chapter analyses whether companies without proximity to the government positively respond to regulations.

Chapter 7 provides an analysis of Russian Special Administrative Regions (SARs) as a part of the deoffshorization process. This chapter addresses the nuances of good relationships between private companies and the government, highlighting its effect on the relocation of these companies to Russian SARs.

Chapter 8 concludes the study with a discussion of the overall results achieved by this thesis.

Chapter 2: The Russian Case of Deoffshorization: an alternative approach to the fight against the use of offshore schemes

2.1. Introduction

According to Gërzhani and Wintrobe (2021), every country is exposed to harmful offshore practices, including countries with compound legal systems. Not only Russia but different countries worldwide suffer from the adverse effects of offshore schemes and have incurred colossal revenue losses.⁴² The OECD estimates that the relocation of profits by multinational enterprises (MNEs) results in annual losses between \$100 billion and 240 billion, representing 4-10% of global corporate income tax revenues.⁴³ While the Russian budget loses up to \$50 billion a year,⁴⁴ the United States loses over \$100 billion a year,⁴⁵ and the European Union loses to tax havens around €37.3 billion annually.⁴⁶ Consequently, policymakers worldwide focused on reinforcing domestic and international regulations against offshore jurisdictions.⁴⁷ Global measures such as the introduction of OECD Base Erosion and Profit Shifting (BEPS) Project, the UN Double Taxation Agreement⁴⁸ and national measures such as the Foreign Account Tax Compliance Act (FACTA)⁴⁹ of the United States, General Anti-Abuse Rule (GAAR)⁵⁰ of the United Kingdom, are internationally recognised anti-offshore policy initiatives. The same initiative was followed by the European Union, which enacted the Anti-Tax Avoidance Directive.⁵¹ Hence, the deoffshorization in the Russian Federation is not a novel practice against the use of offshore schemes. This raises several

⁴² Global Financial Integrity (2015).

⁴³ OECD (2015a).

⁴⁴ Artemiev (2013).

⁴⁵ Addison (2009).

⁴⁶ Álvarez-Martínez et al. (2022).

⁴⁷ Dominguez et al. (2020).

⁴⁸ Bird and Mintz (2019).

⁴⁹ Christensen and Hearson (2019).

⁵⁰ Keesoony (2022).

⁵¹ Bayer (2021).

questions: Which governmental measures incorporate deoffshorization and its distinguishing characteristics? What are the main factors affecting the course of the deoffshorization process? To what extent is the deoffshorization in the Russian Federation successful in combating the use of offshore jurisdictions?

This chapter aims to enhance our understanding of the deoffshorization process in the Russian Federation. The first section of this chapter will provide a background overview of why the Russian government is concerned about offshore jurisdictions and factors which prompted the initiation of the deoffshorization process. This chapter will highlight that these factors highlight the general peculiarities of the deoffshorization process in Russia, which set it apart from global practices. It will then explore the reasons behind offshore capital movement from Russia. Finally, the chapter concludes with a review of the existing literature on the deoffshorization process in Russia. Throughout this review, it will be emphasised that the extensive academic literature on deoffshorization does not analyse whether it is a success or failure. This is the gap in knowledge this thesis attempts to fill.

2.2. Why is the Russian Government Concerned about the Use of Offshores?

One of the main factors that led to the deoffshorization policy was the growing concern about capital flight from Russia to various offshore jurisdictions. In general, capital flight presents a complex problem for governments. As offshore jurisdictions provide a number of benefits, individuals and corporations shift profits abroad.⁵² As a result, capital moves from a home country to an offshore jurisdiction, which leads to sovereignty being 'shared' among countries⁵³, or in other words, the 'offshore unbundling'.⁵⁴ In the conventional sense, the offshore sector symbolises a 're-territorialisation' of the sovereign country, where the residency assists and accelerates

⁵² Johannesen and Purttillä (2016).

⁵³ Palan (2002), p. 29.

⁵⁴ Hudson (2000), p. 275.

the capital movement through countries.⁵⁵ In this way, capital is not associated with any specific territory but rather flows transnationally. Global capital is, to some extent, 'nomadic' since it does not have any attachment to any specific country.⁵⁶ This leads to losses of investible capital in a home country, which results in declining tax revenues, escalating public debt, and growing inequality.⁵⁷

Russia provides a compelling case due to its ramifications of capital outflow.⁵⁸ Data indicates that Russia is the second of the top exporters of capital, only following China.⁵⁹ The Russian budget loses up to \$50 billion a year,⁶⁰ which presents a financial strain on the budget in the face of substantial risk of revenue reduction. According to Komolov (2019), the issue of capital flight has been a persistent occurrence that has solidified as an essential aspect of the Russian economy. Alstadsæter, Johannesen and Zucman (2018) conducted a country-by-country analysis of offshore wealth and found that, in contrast to other economies, Russia experiences exceptional offshore capital outflow, which, as a result, has a negative indication for the Russian wealth distribution with approximately 60% of the capital is hidden in offshore jurisdictions.⁶¹ Similarly, Artemiev (2013) identified that since 2008, between 60% and 80% of the Russian economy was controlled through offshore jurisdictions. Figure 2.1 illustrates a gradual increase in capital outflow to offshores since 2009, peaking in 2013. Such capital outflow negatively influences the ability of Russia to levy expected taxes, which leads to budget deficits and lower public investment.

Interestingly, while Russia ranks as the second largest exporter of capital after China, capital flow from China exhibits a greater degree of productivity. According to Alstadsæter, Johannesen and Zucman (2018), the capital owned by China's wealthy individuals in offshore jurisdictions is 20 times lower than Russia's. Moreover, a crucial

⁵⁵ Vlcek (2009).

⁵⁶ Palan (2003); Vlcek (2009).

⁵⁷ Alesina and Tabellini (1989).

⁵⁸ Zhemukhova (2015), Artemiev (2013), Belous (2010), Kohno (2016), Kheyfets (2013).

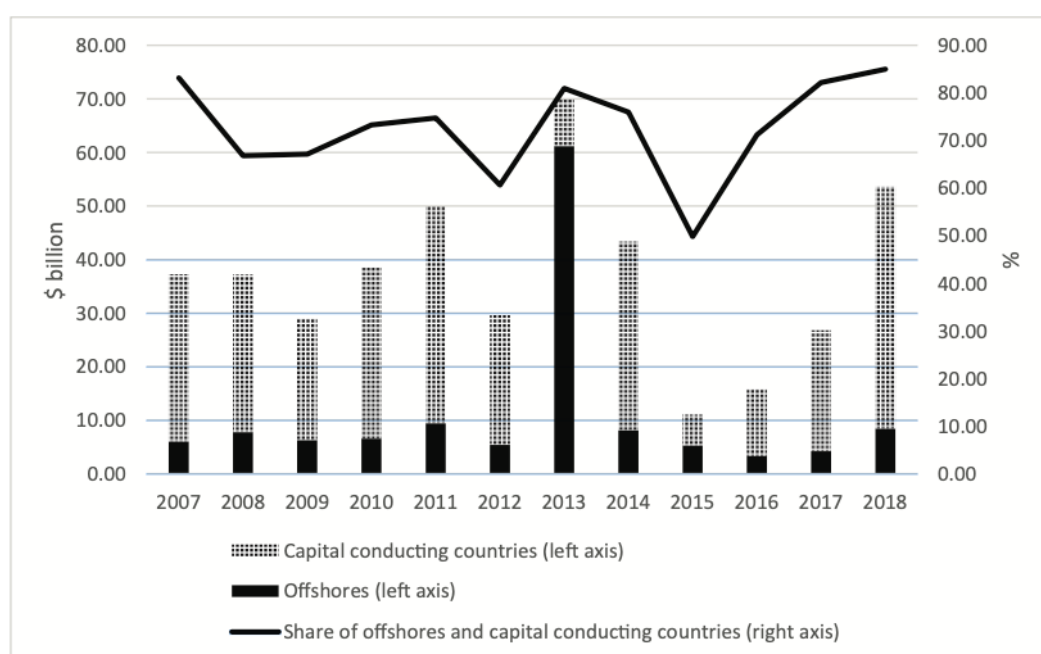
⁵⁹ Bulatov (2012); Lipatova and Polezharova (2015).

⁶⁰ Artemiev (2013).

⁶¹ Alstadsæter, Johannesen and Zucman (2018).

component of FDI inflow to China is round-tripping from Mainland China and offshore jurisdictions before re-entering China.⁶² This contrasts Russia, where only a portion of the capital is returned to Russia for use in production,⁶³ which predominantly consists of the reinvested profits from state-owned enterprises.⁶⁴

Figure 2.1. Net Outflow of Investments from Russia. Komolov (2019).



The significance and urgency of this massive capital outflow from Russia have been extensively emphasised by the Russian authorities.⁶⁵ Those who stressed the negative effect of capital outflow were former Head of the Central Bank of the Russian Federation Sergey Ignatiev,⁶⁶ Minister of Finance Anton Siluanov,⁶⁷ and former Director of the Consolidated Department of Macroeconomic Forecasting of the Ministry of Economic Development (MED), Oleg Zasov.⁶⁸ In the annual address to the Federal Assembly of the Russian Federation, President Putin highlighted that 20% of Russian exports and half of the \$50 billion in Russian investments are going via

⁶² Fung, Yau and Zhang (2011).

⁶³ Kohno (2016).

⁶⁴ Epova (2021).

⁶⁵ Komolov (2019).

⁶⁶ Busvine and Golubkova (2013).

⁶⁷ Hirst (2014).

⁶⁸ RBC News (2013a).

offshore jurisdictions.⁶⁹ Vyacheslav Volodin, the Chairman of the State Duma of the Russian Federation, asserted that the multitude of capital flow is detrimental to the Russian economy.⁷⁰ According to Andrei Klepach, the Deputy Minister of Economic Development, approximately \$4 billion left Russia in April 2013, which presents certain risks for Russia and its banking sector.⁷¹ Sergey Glazyev, the previous advisor to the president of the Russian Federation from 2012 to 2019, promoted the anti-offshore policy development and reformation of the Russian economy, which currently requires the investment of significant resources in upgrading infrastructure.⁷² He highlighted that the deoffshorization policy was essential to reduce the offshorization of Russian companies and reduce the capital outflow from Russia.⁷³

Capital outflow is not the only challenge that led to the implementation of the deoffshorization policy.⁷⁴ As capital transfers to offshore jurisdictions, it increases the vulnerability of the home country to external influences, representing economic and political risks.⁷⁵ The consequence of capital flight for the Russian government is undermined national security.⁷⁶ As private companies transfer their assets offshore, their properties and assets located within the territory of Russia are effectively exposed to foreign influence. While Russian businesses are fully or partially dependent on foreign capital and thereby influence the current and strategic development of the country,⁷⁷ the capital outflow indicates the instability and inefficiency of the functioning of the entire economic and financial system. For instance, the Cypriot financial crisis of 2012-2013 illustrated how dependence on offshore can be dangerous to the Russian economy.⁷⁸ Cyprus is ranked first in

⁶⁹ The Official Website of the President of Russia (2013). See: <http://en.kremlin.ru/events/president/transcripts/messages/19825>

⁷⁰ The State Duma of the Russian Federation (2021).

⁷¹ RBC News (2013a).

⁷² Åslund (2013).

⁷³ Loukianova, Nikulin and Kanivetc (2017).

⁷⁴ Kheyfets (2013); Barsukova (2019); Petrov and Karapetyan (2014); Ledyeva et al. (2015).

⁷⁵ Hanson (2019); Petrov and Karapetyan (2014); Lev, et. al (2021); Kheyfets (2022); Chistilin and Perehod (2018), Komolov (2019).

⁷⁶ Puzakova and Shepel (2016)

⁷⁷ Artemiev (2013).

⁷⁸ Ledyeva et al. (2015).

incoming FDI and outward FDI with almost 35 per cent of total flows from Russia.⁷⁹ As one of the most favourable offshore jurisdictions, Cyprus presents a phenomenon of “round-tripping”, which implies that Russian capital comes back to Russia through round-tripping masked as foreign direct Cypriot investment.⁸⁰ In 2011, \$128 billion was transferred from Cyprus to Russia, which is five times more than the GDP of Cyprus.⁸¹ As a result of the anti-crisis measures introduced in 2013, the Russian economy suffered significant losses, as it is interdependent on political and economic stability in the offshore countries.⁸² In such terms, deoffshorization is a necessary repatriation campaign against capital outflow from Russia and a primary economic security strategy against overdependence on foreign jurisdictions.

The growing political tensions over Crimea and Eastern Ukraine and Western sanctions imposed in 2014 drastically reinforced the idea of de-offshoring the Russian economy. The first round of sanctions against Russia was introduced against certain individuals and companies, particularly restricting not only their travel but also freezing their assets.⁸³ The three primary industries targeted by the restrictive sanctions were finance, oil, and defence technology.⁸⁴ Considering the substantial capital flight from Russia, the geopolitical turmoil of 2014 and its continuing consequences imposed substantial pressure on foreign assets held by Russians. The confiscation possibility of foreign capital of Russian origin posed a danger for Russian businesses that use offshore jurisdictions.

On the other hand, with sanctioned Russian businesses losing prospects of being financed by Western companies, they were prompted to seek assistance from the Russian government.⁸⁵ These developments led to governmental compensation derived from public resources, which negatively impacted Russian finances. This challenge was highlighted by President Putin, stating the urgency of raising more

⁷⁹ Repousis, Lous and Kougioumtsidis (2019).

⁸⁰ *Ibid.*

⁸¹ *Ibid.*

⁸² Mikhaylin and Grigoryeva (2016).

⁸³ Amuzinskaya (2015).

⁸⁴ Åslund (2019).

⁸⁵ Ashford (2016).

funds for the national budget in the face of budgetary constraints.⁸⁶ For instance, the Russian government enabled the state-owned oil corporation Rosneft to recapitalise itself using state funds.⁸⁷ A problem for Russia in that position was that, on the one hand, the Russian government was financing sanctioned companies while simultaneously experiencing budgetary constraints. According to Trickett (2018), the Russian government was already concerned with budget constraints and infrastructure underinvestment prior to the deoffshorization initiation. The first wave of sanctions in 2014 further exacerbated the unfavourable economic trends in Russia that already existed prior to the Ukraine crisis.⁸⁸ The Russian economy has been sensitive to the global environment, which improved at the beginning of the transition but drastically deteriorated after the Crimean crisis in 2014 and, notably, after the Russia-Ukraine conflict in 2022.⁸⁹ For instance, Dreger *et al.* (2016) suggest that economic sanctions imposed by Western countries could have led to ruble devaluation. Given its reliance on foreign investment, the export of raw materials, and the import of consumer goods, the Russian economy was substantially sensitive to fluctuations in exchange rates. Following a conflict and subsequent sanctions against Russia, the Russian ruble lost 50% of its value against the US dollar.⁹⁰ Furthermore, the imposition of sanctions amplified the decline in the oil price that occurred in 2014.⁹¹ Russia is one of the major suppliers of oil and gas, which account for more than 50% of budgetary revenues and two-thirds of all exports.⁹² Due to its heavy reliance on commodity exports, the Russian economy is highly susceptible to changes in the price of its main exports. As a result, the value of Russian exports significantly decreased, with a general decline in export revenues⁹³ and rising inflation.⁹⁴ GDP contracted in 2015 and 2016, and the budget was negatively impacted.⁹⁵ These

⁸⁶ The Official Website of the President of Russia (2014a). See: <http://kremlin.ru/events/president/news/46636>

⁸⁷ *Ibid.*

⁸⁸ Kuchins (2015); Havlik (2014); Kuznetsov (2017), Kalotay (2023); Dreger *et al.* (2015); Oxenstierna and Olsson (2015); Borisov, Popova and Rasoulinezhad (2020); Korotin *et al.* (2019).

⁸⁹ Kalotay (2023).

⁹⁰ Dreger *et al.* (2016).

⁹¹ Oxenstierna and Olsson (2015)

⁹² *Ibid.*

⁹³ Borisov, Popova and Rasoulinezhad (2020).

⁹⁴ Oxenstierna and Olsson (2015).

⁹⁵ *Ibid.*

instances underscored the development of deoffshorization – the need for extra capital in the country, not frozen by sanctions.

Russia has been undergoing a number of challenges. These challenges that led to the need for deoffshorization of the Russian economy did not emerge overnight. According to Kheyfets (2018), the deoffshorization approach was not consistent, and its realisation was chaotic. He suggested that the Russian deoffshorization strategy is generally in line with the global anti-offshore movement, where similar processes are actively taking place. What defines the peculiarities of deoffshorization is its start under challenging circumstances, including a drawn-out economic recovery and a harsh conflict with several Western nations. Therefore, deoffshorization emerged as an alternative approach different from global practices, predominantly as the result of the historical complexities and challenges that Russia faced. Russia is a post-transitional state with a complex system; it would be inaccurate to suppose that the application of globally recognised initiatives against offshore schemes would have the same result in Russia as applying them in Western nations. Particularly, Russian deoffshorization has faced additional difficulties that other nations have not encountered, such as the economic sanctions that have placed the Russian economy in a challenging situation.⁹⁶ This is a distinguishing feature of the Russian case of deoffshorization.

2.3. Drivers of Russian capital movement to offshore jurisdictions

As the above section highlighted the significance of capital outflow from Russia, this section provides necessary background information on the factors behind the offshore capital movement from Russia. An understanding of the motivations behind the capital movement is important as it will highlight the intricacies of this phenomenon and its consequences for deoffshorization process.

⁹⁶ Kheyfets (2018).

One of the typical factors behind the offshore capital movement from Russia is the FDI motives of Russian multinationals (MNEs).⁹⁷ These companies often establish intermediaries in offshore jurisdictions, through which the majority of its FDI flows to the world's most varied locations.⁹⁸ Traditionally, companies are using offshore jurisdictions in order to enjoy significant benefits, such as tax advantages, strong confidentiality regulations, ownership secrecy, and streamlined international legal proceedings.⁹⁹ In particular, one of the motives for Russian corporations is the creation of a strong global reputation and brand.¹⁰⁰ The global practice of offshore schemes allows Russian businesses to compete more successfully on the global level, as offshore jurisdictions ease the conduct of international transactions and lessen complications involved with cross-border operations. Luxembourg, for instance, is one of such offshore jurisdictions known for its strong financial system that provides flexibility for capital management.¹⁰¹ In terms of the cost of creating and maintaining a business, Luxembourg is a more expensive jurisdiction than Cyprus and the British Virgin Islands, but Luxembourg is more convenient for managing collective investments.¹⁰² Interestingly, even Russian SOEs use offshore jurisdictions, predominantly to conduct business operations abroad.

On the other hand, offshore jurisdictions concentrate Russian capital hidden from the government. The foremost important point to consider here is the critical role of the state as the Russian government initially facilitated the offshorization of the Russian economy. The Russian government is characterised by a centralised organisation of power.¹⁰³ This is reflected in legal, political, and business arrangements that place the government at the heart of a compound network of political and economic connections.¹⁰⁴ Political-economic networks in Russia require a straightforward, individual approach to influence to obtain the means for prosperity,

⁹⁷ Joint Report by Vale Columbia Center and IMEMO (2013).

⁹⁸ Closson and Dainoff (2015).

⁹⁹ Wojcik (2012).

¹⁰⁰ Joint Report by Vale Columbia Center and IMEMO (2013).

¹⁰¹ Sherimov (2015).

¹⁰² Belous (2010).

¹⁰³ Moses (2015).

¹⁰⁴ Kelley (2017).

and oligarchs spread their connections to avoid being on the failing side of any fight for ultimate authority.¹⁰⁵ As such, the social setting in Russia is based on ‘guarantees in exchange of loyalty’.¹⁰⁶ According to Rothacher (2021), there are two types of Russian oligarchs: those who have a close relationship with the government and those who have a complex relationship with the Russian government. Russian businessmen are the key figures in the business sector, yet they are detached from involvement in politics.¹⁰⁷ Consequently, whereas businesses are excluded from political decisions, the Russian government actively engages in business matters. The significant interference of the state in business matters has essentially shaped the perception of offshore jurisdictions in Russia, as it notably resulted in these areas becoming a ‘shelter’ for wealthy Russian individuals. In particular, offshore jurisdictions provide security and certainty for businesses and individuals that are not connected to the government with no access to safeguarded property rights.¹⁰⁸ Fortescue and Hanson (2015) outlined that the Russian business elite wishes to safeguard their assets abroad to prevent the government from seeking assets beyond its reach. Artemiev (2013) notes that Russian companies shift their capital in response to economic and political risks. He highlighted that Russian companies transfer their assets, in contrast to Western companies transferring profits to offshore jurisdictions. Thus, Russian companies use offshore schemes for their property rights protection from the Russian government. Even if oligarchs are politically deemed, in order to protect their holdings, they transfer such assets to offshore jurisdictions.¹⁰⁹ The reason is that it is questionable that even current oligarchs would continue to enjoy favourable positions.¹¹⁰

Another contributing factor to the flight of Russian capital to offshore jurisdictions is corruption.¹¹¹ After the global financial crisis (GFC) of 2008, the total inflow of net investments from abroad started to decline, which led to the exacerbation

¹⁰⁵ Hale (2017).

¹⁰⁶ Nalbandov (2016).

¹⁰⁷ Hale (2017), Sakwa (2008), Åslund (2019), Barsukova (2019), Titov (2022).

¹⁰⁸ Åslund (2019).

¹⁰⁹ Bulatov et.al. (2017).

¹¹⁰ Markus (2017).

¹¹¹ Le and Rishi (2006).

of rivalry for budget resources.¹¹² By and large, for businesses, the government agreements assured substantial benefits, which stimulated massive corruption rates in Russia. It became a common practice for Russian taxpayers to hide illegally corrupted capital through offshore jurisdictions,¹¹³ the proceeds of which account for a sizable portion of the illegal financial flows from Russia to offshore jurisdictions.¹¹⁴ OFCs and tax havens are also famous as destinations for illegal capital associated with money laundering, corruption, and bribery.¹¹⁵ These are found to be linked to the illicit funding of political parties, bribery of public officials, and other corrupt and illegal actions.

In summary, as articulated by Soltakhanov and Osmanova (2016), there are three identified types of Russian companies that move capital to offshore jurisdictions. The first group moves capital to offshore jurisdictions to enjoy tax benefits and the stable legal environment that offshore jurisdictions provide. The second group endeavours to hide illegal activity, such as money laundering, corruption offenses or other crimes that can be hidden in the offshore jurisdiction. The third group employs offshore jurisdictions to effectively develop their business, which is not necessarily driven by tax consideration.

2.4. Review of the Literature on the Deoffshorization Process in Russia

The body of literature focused on the deoffshorization process in Russia has been considerably expanding in recent years. Although Western sources on this topic are scarce, growing Russian academic and official sources have undertaken initiatives to examine various aspects of deoffshorization.

As deoffshorization began as a policy announcement, the prevailing focus of the existing literature is the interpretation of its nature.¹¹⁶ Both legal and political

¹¹² Barsukova (2019).

¹¹³ Kheyfets (2013), Artemiev (2013).

¹¹⁴ Ledyeva et al. (2015), Bulatov (2012).

¹¹⁵ Christensen (2011).

¹¹⁶ Andrianova (2022); Soltakhanov and Osmanova (2016); Kheyfets (2018).

economy studies have distinct views on the nature of deoffshorization. The political economy literature views deoffshorization as a process aimed at reducing detrimental capital outflow to offshore jurisdictions.¹¹⁷ For instance, Komolov (2019) described the deoffshorization as a general repatriation policy oriented on the problem of capital outflow from Russia. Markus (2017, p. 31) considers the deoffshorization as a governmental “campaign encouraging business to repatriate capital and stop registering companies offshore”. Petrov (2015, p. 24) suggests that the deoffshorization is rather a framework of “elite nationalisation” to expand control over oligarchs and their assets. Furthermore, the deoffshorization is argued to be a mandate for all business conflicts to be arbitrated solely within Russian borders. On the other hand, Soltakhanov and Osmanova (2016) present deoffshorization as a primary economic security strategy by which Russia attempts to maintain its sovereignty against external threats.¹¹⁸

Legal studies consider deoffshorization as a set of regulations oriented to combat the misuse of the law through offshore jurisdictions,¹¹⁹ as an ‘independent institution of the financial law.’¹²⁰ However, deoffshorization is not recognised as a systemically unified regulatory framework through official governmental documents.¹²¹ This reflected on the lack of consensus among the existing literature, and currently, there is no common approach to which regulations are considered as a part of the deoffshorization.¹²² Lipatova and Polezharova (2015) presented that the deoffshorization is associated with the changes to the Tax Code of the Russian Federation, with the essential conceptions of the Russian process of deoffshorization are the regulations of the controlled foreign companies (CFC), the notion of the beneficial owner and the regulations of the tax residence. Ponomareva (2020) provides that the deoffshorization regulations include not only CFC rules, beneficial

¹¹⁷ Mikhaylin and Grigoryeva (2016); Kheyfets (2018); Komolov (2019); Petrov (2015).

¹¹⁸ In the context of the deoffshorization, the external factors are referred to the economic sanctions that were one of the main factors that facilitate the deoffshorization process.

¹¹⁹ Shakhmametyev (2021); Kanashevskiy (2023); Ponomareva (2020); Neocleous (2015); Andrianova (2022).

¹²⁰ Andrianova (2022): «возможность обособления деофшоризации как самостоятельного института финансового права» [in Russian].

¹²¹ Konduktorov (2023)

¹²² Andrianova (2022).

ownership, and tax residency but also thin capitalisation rules. The author also suggests that the list of the deoffshorization regulations corresponds to the solutions to the erosion of the tax base. According to Neocleous (2015), the deoffshorization regulations are rather limited to the development of CFC rules.

The varied interpretations of deoffshorization in the existing literature have led to various approaches for measuring success. What stands out from the limited research on the topic is the excessive focus on the legal framework of the deoffshorization process in Russia and the limited analysis of whether the deoffshorization process is successful against its purpose. For instance, Dolinskaya, Inshakova and Kalinina (2020) compiled their own list of deoffshorization regulations and conducted a comparative analysis of global offshore measures. While they noticed similarities, the authors advocated for concentrating on combating tax evasion rather than concentrating on capital outflow. Kilinkarova (2020) expanded on this discussion by evaluating deoffshorization in the context of evolving regulations of cross-border taxation in Russia. She found that Russian deoffshorization regulations differ from accepted international standards, combining soft law notion and generally recognised methods. More recently, Kanashevskiy (2023) examined the list of anti-offshore regulations in Russia. He concluded that deoffshorization regulations have fostered the isolation of the Russian economy from international markets, and Russian measures would benefit from integration with global efforts. However, the isolation of the Russian economy can also be attributed to the escalated political environment and sanctions rather than to deoffshorization measures.

Several scholars have focused on the evaluation of the effectiveness of individual deoffshorization regulations.¹²³ Castelyn (2020) evaluated Russian CFC rules introduced as part of the deoffshorization regulation and compared them to OECD's Recommendations for the Design of Effective Controlled Foreign Company Rules. The results illustrate that Russian CFC rules are effective, yet there are concerns regarding the broad scope and inherent unpredictability of these rules. Pinskaya, Malis and Migolov (2015) revealed that Russian CFC rules are more

¹²³ Neocleous (2015); Castelyn (2020); Pinskaya, Malis and Migolov (2015); Kilinkarova (2020).

intricate than the foreign ones. This regulation essentially conflicts with existing Double taxation treaties, which are established to refrain capital from being subject to taxation in several jurisdictions. Similarly, Neocleous (2015) stressed that CFC rules cannot surpass obligations under international agreements. The author analysed how Russian CFC rules affect corporate structures in Cyprus, highlighting the potential complications and negative ramifications for Russian companies doing business abroad. Zykova (2018) analysed a different deoffshorization regulation, namely capital amnesty. She identified significant gaps in the legislation, such as ambiguities in conditions, the inability to file a special declaration in any territorial tax authority convenient for the individual, and a limited period of capital amnesty.

Other scholars evaluated deoffshorization within a broader context. For instance, Mikhaylin and Grigoryeva (2016) analysed the overall effect of the deoffshorization process in the context of the Russian investment climate. Their findings conclude that deoffshorization regulations led to a greater tax burden. Smirnov (2019) discovered that the success of the deoffshorization policy largely depends on the effectiveness of the interaction between regulatory and law enforcement agencies, which is still not optimal. He concluded that effective deoffshorization can be achieved when the fiscal and monetary authorities discontinue a policy that renders business in Russia unprofitable. Interestingly, he pointed out that the implementation of a deoffshorization policy does not particularly frighten businesses; rather, in its practice, new schemes are being developed to optimise taxation (for example, consulting companies are widely involved in the development of such schemes). Although the author highlighted the main directions of improving the deoffshorization regulatory framework, an in-depth analysis of its effectiveness was not provided.

Only a handful of studies have attempted to evaluate whether deoffshorization is successful in achieving its objective of repatriating Russian businesses and capital from offshore jurisdictions. Kuznetsov (2022) broadly analysed the changes in foreign direct investment (FDI) outflows from Russia and pointed out that deoffshorization efforts in the reduction of outward FDI are contradictory. The decline is rather

attributed to various factors, such as Western sanctions, depreciation of the Russian Ruble and the COVID-19 pandemic. Kheyfets (2018) assessed the success of deoffshorization in repatriating offshore assets in light of Western sanctions. He found some positive indicators of its success, yet he pointed out that early deoffshorization attempts failed to balance the conflicting interests of the several parties participating in this process. He further highlighted that the political complexities in 2014 added uncertainty to the deoffshorization process. While the increased scrutiny of offshore-based assets compels repatriation, sanctions necessitate pursuing measures to hide negatively impacted money. Loukianova, Nikulin and Kanivetc (2017) investigated whether companies intended to relocate back to Russia in response to deoffshorization measures. The authors used an event research methodology, concentrating on two categories of events: reorganisation announcements of Russian companies and government measures. Notably, they found no common response among Russian companies, as the timeframe of the analysis was limited only to 2014. Certain companies announced their relocation back to Russia, while others preferred to maintain their offshore structures.

There have been different attempts to analyse the deoffshorization process in Russia. Yet, the most important question remains: is the deoffshorization process in Russia successful? There is practically no study that attempts to comprehensively and systematically assess the success of deoffshorization. This is the gap in knowledge this thesis attempts to fill.

2.5. Conclusion

The purpose of this chapter was to enhance an understanding of the Russian case of the deoffshorization process. First, this chapter explored the principal aspects associated with the emergence of the deoffshorization process in Russia. This discussion underlined the significance of offshore jurisdictions and its implications for the Russian government. Deoffshorization reflects the economic and political concerns Russia faces, it is not just a Russian representation of its participation in the global

movement against the use of offshore schemes. It is a story of a country that wants to recover and protect its sovereignty while regaining its autonomy over its capital and, subsequently, becoming independent of any external dangers. With the Russian deoffshorization emerging as a presidential announcement, resulting in ambiguous policy, its comprehension has been continuously changing. This is reflected in the existing literature that has not only variously interpreted deoffshorization but also differently measured its success.

The next chapter will outline the key insights to the development of the deoffshorization process and its regulations.

Chapter 3: The Development of Deoffshorization Measures

3.1. Introduction

This chapter offers an overview of deoffshorization development essential for the subsequent empirical analysis. First, this chapter divides the development of deoffshorization into three stages. As this chapter illustrates, each stage of deoffshorization development signifies a response to political and economic factors, which, in turn, changes its approach to deoffshorization regulations. In this chapter, I outline the deoffshorization stages to establish a foundation for a more comprehensive assessment of how Russian companies responded to deoffshorization at various points of its development.

Secondly, this chapter systematically outlines deoffshorization regulations. In particular, this systematisation addresses the deoffshorization regulations that Russian policymakers have formally acknowledged. Deoffshorization is not outlined through specific regulations, and not all regulations that support deoffshorization explicitly confirm its connection. The few empirical studies that evaluate deoffshorization have no consensus on what regulations compose deoffshorization. Thus, the systematic outline of deoffshorization regulations enables laying out the basis for an evaluation of whether deoffshorization is successful in prompting any change in companies' use of offshore schemes.

3.2. Three stages of deoffshorization development

This thesis outlines that the development of deoffshorization can be divided into three stages. Each stage of development has been continually evolving in response to various political and economic factors, leading to continually changing comprehension of deoffshorization.

3.2.1. Initiation of Russian anti-offshore policy: 2012 – 2014

Before the Russian government officially commenced the deoffshorization process in 2014, the negative effects of capital outflow had a substantial impact on the Russian economy. The intention to recover Russian capital that has been relocated abroad originated from a discussion in 2012, prior to the new challenges associated with the conflict in Crimea and Donbas.¹²⁴ These events have driven the imposition of financial sanctions, subsequently leading to an increased capital flight. Therefore, this thesis argues that although deoffshorization officially commenced in 2014 following the enactment of the regulations, the realisation of deoffshorization started in 2012.

Prior to the official initiation of the deoffshorization process in 2014, the Russian government acknowledged the challenges associated with high levels of offshorization and implemented limited policies against offshore schemes. For instance, some of the regulations were introduced following 2011-2012, as such the introduction of transfer pricing norms with the adoption of a law No. 227-FZ of July 18, 2011.¹²⁵ In addition, Law No. 321-FZ of November 16, 2011, introduced the concept of a “consolidated taxpayer group” to unify the income tax base for companies that are interdependent.¹²⁶ Although in the case of Russia, the previous section showed that both state-owned enterprises and large businesses engage in various offshore practices that are on the verge of being legally permitted. Consequently, with the rise of the offshorization of the economy, the Russian state found itself in a tough situation where it was impossible to penalise every company that violated the law at once.

As a result, President Putin started to actively promote anti-offshore policy following his third inauguration in May 2012.¹²⁷ The primary goal was rapid economic growth, which was the case from 1999 to 2008, yet there has been a subsequent decline of 50% since 2009. The course was set in subparagraph “b” of paragraph 2 of

¹²⁴ Trickett (2018).

¹²⁵ Lysenko (2011).

¹²⁶ *Ibid.*

¹²⁷ Åslund (2013).

Presidential Decree No. 596 “On the Long-Term State Economic Policy” of May 7, 2012, where the federal government was instructed to:

*“...improve budgetary and tax policy, increasing the effectiveness of budget expenditures and public procurement... to ensure by the end of December 2012, the implementation of measures aimed at increasing the transparency of the financial activities of business entities, including combating tax evasion in the Russian Federation with the help of offshore companies and shell companies”.*¹²⁸

Furthermore, on May 23, 2012, the government released ‘The Main Directions Of The Tax Policy Of the Russian Federation for 2013 and for the planned period of 2014 and 2015’, which stated the main aim is to maintain an effective and balanced budget system of the Russian Federation.¹²⁹ It specified that the Russian Federation is making efforts to counteract capital outflow and is considering legally defining the concept of foreign-controlled companies, where the retained earnings of controlled foreign companies will be taxed from their Russian owners.

However, the term ‘deoffshorization’ was first used on December 12, 2012, at the Federal Assembly when President Putin commented that:¹³⁰

*“According to some estimates, nine out of ten significant transactions concluded by large Russian companies, including, by the way, companies with state participation, are not regulated by domestic laws. We need a whole system of measures to **deoffshorize** our economy. I instruct the Government to make appropriate comprehensive proposals on this issue.”*

This speech prompted the official initiation of the development of deoffshorization measures. This was a major breakpoint to the initiation of Russian anti-offshore policy, Putin declared the fight against the capital outflow to other jurisdictions as a state priority. It was expressed both in the actually implemented changes in the legislation and in the emergence of official and informal groups

¹²⁸ The Official Website of the President of Russia (2012b). See: <http://www.kremlin.ru/acts/bank/35260>

¹²⁹ The Official Website of the Ministry of Finance of the Russian Federation. See: <https://minfin.gov.ru/>

¹³⁰ The Official Website of the President of Russia (2012a). See: <http://kremlin.ru/events/president/news/17118>

developing their proposals for deoffshorization.¹³¹ The active development of the legal framework for deoffshorization began in 2013 and was officially initiated in 2014.¹³² According to Kheyfets (2013), deoffshorization only commenced in 2014 due to the lack of a common position among experts of the International Financial Center (IFC) in Moscow, the Ministry of Economic Development, the Antimonopoly Committee, the Presidential Council for Codification, the State Duma and business representatives. It is no surprise that several promising deoffshorization policies encountered fierce opposition, though the situation rapidly changed because of the economic sanctions imposed against Russia in 2014.

3.2.2. Implementation of the deoffshorization process: 2014 – 2021

The next development of the deoffshorization policy substantially changed when geopolitical tensions and sanctions further exacerbated the Russian economic position after 2014. Although the initial stage of deoffshorization targeted capital outflow as the main challenge of anti-offshore policy, the official implementation of the deoffshorization process occurred under different conditions.

The imposition of sanctions against Russia provided a new foundation for the development of deoffshorization. According to Åslund (2019), Putin's efforts to isolate Russia from the West through "deoffshoring" and import substitution may have benefited from the sanctions and countersanctions. As Russian MNEs are "the main agents of outward FDI,"¹³³ sanctions along with other political factors fuelled uncertainty for businesses, muddled supply chains, drove up transaction costs, and had a detrimental impact on revenues.¹³⁴ According to Ahn and Ludema (2020), sanctions restrict a targeted company's access to foreign intermediate supplies, which increases the cost of the company's supply to both the government and the general

¹³¹ Kheyfets (2013).

¹³² Shahmametiev (2018).

¹³³ Kalotay (2023), p. 265.

¹³⁴ Meyer *et. al.* (2023).

public. These circumstances have produced an excellent rationale for capital return to Russia.¹³⁵

In light of these developments, the Russian government passed its first comprehensive deoffshorization regulations – Controlled Foreign Company (CFC) rules by the Federal Law No. 376-FZ of November 24, 2014, "On Amending Part One and Part Two of the Tax Code"¹³⁶.¹³⁷ The regulation was designed to create tax measures for foreign companies with the intention of discouraging them from accumulating substantial assets abroad. Moreover, CFC rules were oriented to restrict the capital transfer of parent companies to low-tax jurisdictions based on the straightforward premise that capital within Russia cannot be frozen or confiscated by international sanctions. In December 2014, President Putin proposed another important element of deoffshorization measures, introducing a one-time capital amnesty intended to facilitate the repatriation of assets to Russia. Therefore, Federal Law No. 140-FZ presented capital amnesty, which allowed the taxpayer to obtain the legal status of their property and ensure its capital safety through the voluntary declaration of the hidden property without persecution of their owners due to violation of the law. This measure was developed to encompass foreign capital principally held in offshore jurisdictions. Given the severity of sanctions, individuals were encouraged to declare and return their foreign assets to Russia free of liability for tax violations.¹³⁸

This stage of deoffshorization implementation evolved in the difficult period of the complexities of the geopolitical environment and subsequent sanctions, presenting Russian businesses with two main options: either divesting their assets in Russia to explore Western markets or repatriating foreign assets to Russia. According to Kuznetsov (2021), the negative impact of the political climate has led to a decrease in outward FDI made by Russian MNEs, partly as a result of revaluing their assets due to the ongoing deoffshorization process.¹³⁹ For instance, in 2014, Sberbank, a

¹³⁵ Kheyfets (2018).

¹³⁶ Regarding the taxation of profits of controlled foreign companies and the income of foreign organizations.

¹³⁷ Kheyfets (2015).

¹³⁸ Kheyfets (2015), Komolov (2019).

¹³⁹ Kuznetsov (2021).

predominantly state-owned bank, closed one of its subsidiaries in Bermuda, the brokerage company Rocket Bermuda Limited.¹⁴⁰ In 2015, private shareholders of the Vnukovo Airport, which own a quarter of the stake, transferred the asset from the British Virgin Islands to the Russian Federation (about 25% of its shares).¹⁴¹

In 2018, sanctions targeted more individuals in an effort to pressure the Russian government.¹⁴² This fostered the idea of establishing Special Administrative Regions (SAR) in Russia as an alternative to offshore jurisdictions. The idea became especially pertinent when businesses with registrations in such offshore jurisdictions faced sanctions against their Russian owners. Given the substantial obstacles presented by these sanctions, Russia implemented an alternative solution, further advancing the deoffshorization process. One such notable instance involves Oleg Deripaska, a well-known oligarch with links to Putin, UK Politics¹⁴³ and former Trump campaign chairman Paul Manafort.¹⁴⁴ Previously, he managed his MNEs, EN+ and Rusal, through offshore-based companies. On April 6, 2018, the USA imposed targeted sanctions on all of Oleg Deripaska's assets, including Rusal and En+. ¹⁴⁵ The US Department of the Treasury indicated that the sanctions might be lifted if Deripaska relinquished control of the company by selling his holdings.¹⁴⁶ Consequently, Deripaska agreed to reduce his ownership in En + from approximately 70% to 44.96%, with no compensation to be received.¹⁴⁷ A year later, En+ and Rusal relocated from offshore jurisdictions to the Russian SARs in 2019.¹⁴⁸ This action occurred in an attempt to create a more advantageous operating environment that is less susceptible to international sanctions.

Along with Oleg Deripaska, US sanctions were also imposed on Viktor Vekselberg's Renova Holding Limited, which has stock in several Russian energy

¹⁴⁰ Kheyfets (2015).

¹⁴¹ RIA News (2015).

¹⁴² CNN (2018).

¹⁴³ Davies (2022).

¹⁴⁴ Stone (2019).

¹⁴⁵ Borak (2018).

¹⁴⁶ Panibratov and Michailova (2019).

¹⁴⁷ Forbes (2019).

¹⁴⁸ RBC News (2019c).

firms.¹⁴⁹ As a result, Vekselberg's assets in Switzerland were frozen by UBS and Credit Suisse.¹⁵⁰ Given the fact that the assets are in U.S. dollars, no international bank can refuse without the risk of falling under secondary American sanctions.¹⁵¹ In connection with such a policy against Russian oligarchs, the Russian state planned the second phase of the capital amnesty to promote the repatriation of their capital to Russia. Initially, the capital amnesty was intended as a one-time deal, but the Russian government responded to further sanctions by running the second stage of capital amnesty from March 1, 2018, to February 28, 2019.¹⁵² At the same time, for the success of this amnesty, on January 1, 2018, Russia implemented the Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA) on the automatic exchange of financial information. On March 25, 2020, Russian President Vladimir Putin specified that all capital in the form of interest and dividends going out of Russia to offshore dominions should be taxed with an adequate tax rate of at least 15 percent.¹⁵³ He instructed to adjust agreements on the avoidance of double taxation with some countries, starting with those through which significant resources of Russian origin pass.¹⁵⁴

This stage illustrates that Russia has undergone a series of additional challenges, including adverse political events, subsequent sanctions, and budget restraints. These factors played a substantial role in the development of deoffshorization. In response to external pressures, the focus of deoffshorization development from 2014 to 2021 changed from a measure to reduce capital outflow to providing a compelling incentive for the repatriation of Russian companies and their assets from offshore jurisdictions. In this regard, the claim made by Trickett (2018) that money in Russia cannot be frozen or confiscated by sanctions, represents the shifting focus of deoffshorization at this stage.

¹⁴⁹ The Official Website of the U.S. Government of the Treasury (2018). See: <https://home.treasury.gov/news/>

¹⁵⁰ Jones (2022).

¹⁵¹ Kheyfets (2018).

¹⁵² *Ibid.*

¹⁵³ RIA News (2020).

¹⁵⁴ Russia Business News (2020).

3.2.3. New Reality: 2022 – current stage of deoffshorization

In 2022, a new phase of the Ukraine conflict broke out, which opened a new page of international relations and created a new reality. This resulted in severe sanctions that led to Russian isolation from global financial and trade flows, unprecedented since the Second World War.¹⁵⁵ Not only Western countries imposed stricter sanctions, but also jurisdictions that are neutral towards Russia.¹⁵⁶ Hence, the sanctions introduced in 2022 are different in intensity and severity from the first wave of 2014 sanctions on Russia. The economic consequences of the exacerbated political situation for Russia in the medium and long term are significant, such as the collapse of the ruble exchange rate, inflation, rising prices due to the rise in the cost of imports and the tightening of export controls. According to Titov (2022), with the new reality, the Russian government faced two fundamental threats. The first is the rising military expenses. The second factor is its capacity to handle the negative economic effects of Western sanctions. It's unclear if the Russian state will be able to handle things and to what extent deoffshorization is effective in responding to these challenges. Therefore, it is important to keep in mind that Russia has experienced a string of economic crises over the past 14 years, including a sharp 9% contraction in 2008–09, sanctions that caused another recession in 2014–15 and, more importantly, the collapse of the price of oil, and the COVID pandemic's effects in 2020–21, financial isolation following 2022 and the Ukraine conflict.¹⁵⁷ After a long string of crises that the Russian economy has survived, it is now entering another one.

The first wave of sanctions in 2014 allowed Russia to prepare for a variety of restrictions, including financial ones, with certain deoffshorization policies that enabled the repatriation of Russian businesses and capital. Yet, the Russian economy was not prepared for the severity and speed of Western sanctions, which included the trade

¹⁵⁵ Kheyfets (2022).

¹⁵⁶ Timofeev (2022).

¹⁵⁷ Titov (2022).

embargo in several important industries and the freezing of central bank assets held in the West.¹⁵⁸ Given the challenges, such a situation provides a basis for the so-called ideal experiment to enhance the deoffshorization of the country. The current deoffshorization stage is based on a high level of uncertainty in its economic policies, as opposed to prior factors like the deteriorating investment climate and a lack of facilities for effective capital investment. Russia was compelled to increase its defence mechanisms against harsh Western sanctions and build solid walls to safeguard its independent economy to maintain economic security. In an odd manner, the deoffshorization of the Russian economy is being helped by the expulsion of the Russian business elite from the West.¹⁵⁹ To facilitate the relocation of Russian businesses to Russia, the government initiated another stage of capital amnesty on March 14, 2022. Contrary to other capital amnesties, this one was implemented in the precarious environment of the freezing of accounts of the Russian business elite and the seizure of their property abroad.¹⁶⁰ Among other things are the prohibition of the supply of consulting and secretarial services on trusts and trust management agreements. Moreover, it is no accident that SARs started to be referred to as "Russian offshores" and were thought of as a substitute for international ones. The emergence of the SAR is linked to the unique deoffshorization conditions in Russia, which emerged in response to the deterioration of the global geopolitical situation and the Western-imposed sanctions that have a negative impact on Russian foreign trade and the stability of the Russian economy.¹⁶¹

The key factor is that deoffshorization reflects the geopolitical and economic issues of Russia, highlighting that deoffshorization is an alternative approach to the fight against the use of offshore schemes. As this chapter outlined, these factors did not emerge overnight, and, accordingly, each stage of the deoffshorization development has been continually evolving in response to political and economic factors. These factors form the changes in the regulatory approach to deoffshorization.

¹⁵⁸ *Ibid.*

¹⁵⁹ *Ibid.*

¹⁶⁰ Kheyfets (2022).

¹⁶¹ *Ibid.*

This is what led to the rationalisation of the multifaceted approach of deoffshorization. The question now arises: What regulations comprise the deoffshorization process? It is essential to clarify the methods employed to deoffshorize the Russian economy. This will be systematised in the following section.

3.3. The Methods of Deoffshorization: Legal Framework

The developmental trajectory of the deoffshorization regulations commenced from an undefined and ambiguous policy direction, which has resulted in an incoherent legal structure. Deoffshorization is not outlined through specific regulations, and not all regulations that support deoffshorization explicitly confirm its connection. As outlined above, the deoffshorization process has been evolving along with both external and internal developments. This was reflected in the changes to the regulatory approach. Various policymakers and financial documents predominantly emphasise individual measures as part of deoffshorization, with no systemic and unified outline of its constituent regulations. For instance, a Letter from the Ministry of Finance of the Russian Federation dated May 27, 2019 No 03-01-11/38162 identified deoffshorization regulations as CFC rules, the automatic exchange of financial information, capital amnesty and Special Administrative Regions (SARs) in Russia.¹⁶² However, a subsequent document prepared by the Ministry of Finance in 2024 delineated deoffshorization measures differently. In 2024, the Ministry of Finance prepared the document “Main Directions Of Budget, Tax And Customs-Tariff Policy For 2025 And For The Planning Period Of 2026 And 2027”, which primarily considered Russian SARs as the keystone of the deoffshorization strategy.¹⁶³

Thus, section 3.3 will clearly outline the regulatory framework that underpins deoffshorization. In particular, this systematisation will address the deoffshorization regulations that have been formally acknowledged by Russian policymakers.

¹⁶² The Ministry of Finance of the Russian Federation – Official Documents. See: [https://minfin.gov.ru/ru/document?TYPE_ID_4\[\]=6](https://minfin.gov.ru/ru/document?TYPE_ID_4[]=6)

¹⁶³ The Ministry of Finance (2024).

3.3.1. CFC Rules

One of the initial deoffshorization regulations is the CFC (Controlled Foreign Company) rules, which was introduced by Federal Law No. 376-FZ of November 24, 2014, "On Amending Part One and Part Two of the Tax Code" (regarding the taxation of profits of controlled foreign companies and the income of foreign organisations).¹⁶⁴ According to Anton Siluanov,¹⁶⁵ the Minister of Finance, and Dmitry Medvedev,¹⁶⁶ the Chairman of the Russian Government, CFC rules are the primary deoffshorization regulation devised to address the problems of the Russian economy.

The CFC rules are a step towards more transparency, the initiative of which is linked to the OECD strategy - BEPS.¹⁶⁷ The Russian government introduced the CFC rules to address the capital flow channels by which Russian companies shift their profits to offshore jurisdictions. This regulation presented measures for foreign companies of Russian origin, restricting their capital transfer and potential use of offshore schemes.¹⁶⁸ The regulation outlines that a CFC is a foreign organisation that is not a resident of Russia but is controlled by a Russian resident. Control is regarded as the capacity to impact the decision-making process of the profit distribution or in cases where a Russian resident's ownership share does not exceed 25%. This threshold is lowered to 10% if the total share of participation of Russian residents in a CFC exceeds 50%.¹⁶⁹ As such, the introduction of CFC rules serves as a legal tool that eases the recognition of the untaxed revenues of foreign companies through the taxation of the Russian taxpayer, who indeed controls the company. This potentially discourages capital shift from Russia to offshore jurisdictions through Russian-controlled companies.

¹⁶⁴ Federal Tax Service of Russia. See: <https://www.nalog.gov.ru/rn77/taxation/cfcomp/conforcom/>

¹⁶⁵ RBK News (2014).

¹⁶⁶ The Official Website of the Government of the Russian Federation (2014).

¹⁶⁷ *Ibid.*

¹⁶⁸ Alekseeva, Nikonova and Yusupova (2014).

¹⁶⁹ Deloitte (2017).

However, the regulation has yet to establish a thorough process for identifying the taxable base within complex corporate structures. Article 309.1 of the Tax Code of the Russian Federation (TCRF) stipulates that unconsolidated financial statements are used to determine the profit of a CFC.¹⁷⁰ One of the limitations of this requirement is its impracticability to the financial realities of transactions between connected companies of the same business group. Irrespective of the existence of DTT, it is possible that CFC tax will be imposed by multiple jurisdictions in a complex global chain of ownership.¹⁷¹ While CFCs are allowed to deduct taxes paid in foreign jurisdictions, the amount cannot exceed the tax payable in the Russian Federation.¹⁷²

In terms of compliance, Russian taxpayers are required to notify tax authorities about their involvement in a foreign entity and submit information about foreign companies. Failure to do so may result in a fine exceeding 50 thousand rubles.¹⁷³ This fine is further applicable to non-payment of taxes by a CFC. Initially, the CFC rules were not successful, resulting in a penalty increase to 100 thousand rubles, eventually reaching 500 thousand rubles in 2020.¹⁷⁴ This rise in fines reflects a determined effort of the Russian government to increase compliance and timely submission of information about CFCs. The analysis of whether the CFC rules prompt any response in relocation from offshore jurisdictions will be conducted in the empirical chapters 5, 6 and 7.

3.3.2. Capital Amnesty

Another important element of the deoffshorization measures is capital amnesty, which allows Russian individuals to report and repatriate undisclosed foreign assets without legal prosecution for a limited period of time.¹⁷⁵ Its status as a deoffshorization

¹⁷⁰ The Tax Code of the Russian Federation, Part II. See: <https://www.nalog.gov.ru/html/sites/www.eng.nalog.ru/Tax%20Code%20Part%20Two.pdf>

¹⁷¹ Para 1, Article 309.1 of TCRF.

¹⁷² Para 3, Article 311 of TCRF.

¹⁷³ Federal Law No. 376-FZ of November 24, 2014.

¹⁷⁴ Federal Law No. 368-FZ of December 29, 2020.

¹⁷⁵ PwC (2018).

measure has been emphasised by several government officials. For instance, Dmitry Medvedev, then Prime Minister of Russia, articulated that the conditions for capital amnesty were formulated to support deoffshorization effort.¹⁷⁶ Elvira Nabiullina, the current governor of the Central Bank of Russia, has identified capital amnesty as a vital component of this policy.¹⁷⁷ To improve the effectiveness of capital amnesty, she has proposed amendments to the currency legislation aimed at reducing loopholes that allow the withdrawal of capital.

Federal Law No. 140-FZ of 2015 on capital amnesty presented the possibility for the taxpayer to obtain the legal status of their property, ensuring its capital safety through the voluntary declaration of the hidden property without persecution of their owners due to violation of the law.¹⁷⁸ Initially, the Press Secretary of the President, Dmitry Peskov, indicated that the capital amnesty was a 'strictly one-time action',¹⁷⁹ taking place from July 1 to December 31, 2015.¹⁸⁰ However, by the end of 2015, it became clear that the response to this initiative was much less than expected, with only 200 declarations filed. Given this low level of response and in an effort to encourage further compliance, V. Putin signed Federal Law No. 401-FZ to extend capital amnesty from December 31, 2015 to June 30, 2016.¹⁸¹ The extension resulted in an additional 2,500 declarations being filed.¹⁸²

Regulation on capital amnesty provides guarantees offshore-based assets, the withdrawal of which were committed before January 1, 2015. Article 4 of Federal Law No. 140-FZ provides that the declarants are exempt from criminal liability, and the declared information will not be used by other authorities. Nonetheless, it lacks a clear rule regarding what capital will be subject to a taxation and whether the origin of the capital will be questioned. Importantly, in 2016, the amnesty declaration was used in

¹⁷⁶ The Official Website of the Government of the Russian Federation (2015).

¹⁷⁷ TASS (2016).

¹⁷⁸ Federal Tax Service of Russia. See:

https://www.nalog.gov.ru/html/sites/www.new.nalog.ru/docs/fz/fz140_080615.pdf

¹⁷⁹ Vedomosti (2016a).

¹⁸⁰ *Ibid.*

¹⁸¹ The Federal Tax Service of Russia. See: https://www.nalog.gov.ru/rn53/news/activities_fts/5979447/

¹⁸² Vedomosti (2016a).

the case of Valery Izraylit, the co-owner of the Ust-Luga company.¹⁸³ Although the capital amnesty is supposed to guarantee no persecution of the owners of declarations, the Federal Security Service confiscated Izraylit's declaration from the tax authorities and used it in a criminal case against him. The investigation stated Izraylit was a member of a criminal group and was withdrawing funds abroad on false documents, fraud, and money laundering. Although Izraylit argued that capital amnesty exempts from liability in any criminal case, the court disagreed and stated that the law on police operations does not prohibit the use of such declarations. As a result of this case, the businesses started questioning the reliability of the capital amnesty.

In light of the dismal results of the first capital amnesty, the Russian government initiated the second phase over a period spanning from March 1, 2018 to February 28, 2019.¹⁸⁴ This phase established a framework for the repatriation of CFCs and their assets, which included tax and legal guarantees to encourage the liquidation of these foreign entities.¹⁸⁵ In response to concerns about possible legal implications following the case of Valery Izraylit, President V. Putin made it clear that the government will protect those who filed declarations.¹⁸⁶ To reflect that, the Supreme Court Presidium ruled out the ban on the use of capital amnesty declarations as evidence in criminal cases.¹⁸⁷ As such, the second phase aimed to provide legal guarantees for the safety of capital, the information of which is considered a tax secret. According to the Minister of Finance, this initiative had positive results, as taxpayers declared more than 10 billion euros.¹⁸⁸ As a result, this legal tool, although of a temporary nature, allowed the collection of the revenues of taxes that were hidden from the government.

¹⁸³ The Moscow Times (2019).

¹⁸⁴ State Duma of the Federal Assembly of the Russian Federation (2018); Federal Law No. 33-FZ of February 19, 2018.

¹⁸⁵ Federal Law No. 34-FZ of February 19, 2018.

¹⁸⁶ RBC News (2019a).

¹⁸⁷ The Official Website of the President of the Russian Federation (2019a).

¹⁸⁸ RBC News (2019b).

The third phase of capital amnesty was implemented alongside the introduction of Special Administrative Regions (SARs) from June 1, 2019 to February 29, 2020.¹⁸⁹ Similarly to the previous phases, this capital amnesty provided a guarantee that each relocated company will face no criminal consequences for any tax violations they committed before January 1, 2019.¹⁹⁰ However, the prerequisites of this phase were the repatriation of capital and the registration of foreign entities in (SARs) in Russia.¹⁹¹ The Ministry of Finance links this phase of capital amnesty as a deoffshorization measure to stimulate investment activity.¹⁹²

The exacerbated geopolitical environment in 2022 presented a new opportunity for further repatriation of Russian businesses targeted by sanctions and subsequent freeze of their assets. As such, European banks prohibited Russian residents from keeping deposits exceeding 100 thousand euros.¹⁹³ Switzerland, known for its neutrality, has frozen the assets of sanctioned individuals.¹⁹⁴ As a result, the Russian government announced the fourth phase of capital amnesty from March 14 to February 28, 2023,¹⁹⁵ emphasising its importance in ensuring the security of Russian capital abroad.¹⁹⁶

With the confidentiality stipulation, the data on companies that repatriated as a result of capital amnesty is limited. The utilisation of this initiative by Russian companies will be challenging to investigate, thereby it will be considered along with CFC repatriation to Russia.

¹⁸⁹ Federal Law No. 110-FZ of May 29, 2019.

¹⁹⁰ The Official Website of the President (2019b).

¹⁹¹ State Duma of the Federal Assembly of the Russian Federation (2019).

¹⁹² The Ministry of Finance of the Russian Federation (2020).

¹⁹³ Reuters (2022a).

¹⁹⁴ Bloomberg (2024); Hirt, O. and Neghaiwi, B. (2022).

¹⁹⁵ The website of the Federal Tax Service of Russia. See: https://www.nalog.gov.ru/rn01/news/activities_fts/12111806/

¹⁹⁶ Vedomosti (2022a).

3.3.3. Exchange of Financial Information

With the increased mobility of individuals and businesses, the deoffshorization initiative required the consideration of worldwide cooperation for the efficient execution of measures. The international exchange of financial information is one such example of cooperation between tax authorities in obtaining information from their foreign counterparts on the foreign assets of residents. Consequently, to implement the directive of President Putin on the deoffshorization of the Russian economy, the Russian government was instructed to conclude the agreements aimed at expanding the practice of financial information exchange.¹⁹⁷

The first multilateral tool utilised in the deoffshorization initiative was the OECD Convention on Mutual Administrative Assistance in Tax Matters (Convention ETS N 127, 1998). Russia signed¹⁹⁸ and ratified this convention through Federal Law No. 325-FZ, 2014.¹⁹⁹ The convention establishes a framework for countries to support each other in exchanging information, conducting concurrent tax audits, gathering tax debts and taking interim measures. As a result, this legal tool ought to improve the management of tax compliance, which increases the base for the collection of revenues and have a positive impact on capital flow. Nonetheless, Russia did not include the state and local taxes in the list of taxes as to what the government can reject administrative help.²⁰⁰ In 2017, Russia signed the Multilateral Agreement of the Competent Authorities on the Automatic Exchange of Country Reports (CbC MCAA) under Action 13.²⁰¹ This agreement provides a mechanism for member nations to automatically exchange financial information pertaining to multinational enterprises' (MNEs) country-by-country reports. Additionally, Russia implemented the Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA) in 2018.²⁰² This agreement harmonises the gathering and reporting of financial account information between jurisdictions. The list of countries and territories for the exchange

¹⁹⁷ The Official Website of the President of Russia (2015) See: <http://kremlin.ru/acts/assignments/execution/49143>

¹⁹⁸ OECD (2014).

¹⁹⁹ The Official Website of the President of Russia (2014b). See: <http://www.kremlin.ru/acts/bank/38992>

²⁰⁰ Lipatova and Polezharova (2015).

²⁰¹ OECD (2025).

²⁰² OECD (2024).

of information was approved by the Federal Tax Service, which contains 79 jurisdictions and 12 territories. For instance, for 2017, Russia received information on Russian foreign assets in 58 jurisdictions, which allowed it to uncover 10-15% of discrepancies in taxpayer's reports.²⁰³ Currently, the Federal Tax Service is aware of 539.1 thousand tax residents of Russia who maintain financial accounts abroad from the automatic exchange of information with other countries.²⁰⁴

It is crucial to emphasise that for the effective function of the exchange of financial information, the pertinent regulations must be incorporated into national legislation. Federal Law No. 340-FZ of 27 November 2017 expanded the framework for the automatic exchange of financial information and country reports with foreign countries.²⁰⁵ This legislation established the basis for the automatic exchange, which plays an essential theoretical and practical role in international tax administration and sets the trend for tax transparency. Furthermore, Federal Law No. 340-FZ led to the introduction of Chapter 20.1 "Automatic exchange of financial information with foreign states (territories)", and Chapter 20.2 "International automatic exchange of country reports in accordance with international treaties of the Russian Federation" of The Tax Code.

The automatic exchange of financial information provided the basis for the identification of undisclosed CFCs, enhancing the deoffshorization process. This measure provides an important tool for comparison of information on the foreign entities owned by the Russian business elite and identification of any discrepancies with previously declared income. It is expected to increase positive response by Russian companies as to the reduced improper use of foreign financial accounts. Thus, the adoption of the exchange of financial information plays an essential role in the deoffshorization reforms, as it sets the positive trend for developing the transparency of reported foreign assets, income among residents and business structures.

²⁰³ Vedomosti (2019).

²⁰⁴ The Federal Tax Service (2024).

²⁰⁵ The Official Website of the President of the Russian Federation (2017).

Following the onset of the escalated political situation in 2022, the exchange of financial information between Russia and other countries has been challenging. Complicating matters further are occasions of unexpected developments that obscure compliance efforts. In September 2022, Switzerland, along with other European Union member states, officially suspended the exchange of financial information (CRS) with Russia.²⁰⁶ Subsequently, the Federal Tax Service of Russia has removed Switzerland from the list of jurisdictions with which it conducts the automatic exchange of information.²⁰⁷ It is anticipated that the Federal Tax Service of Russia will discontinue the automatic exchange of financial information with additional jurisdictions within the European Union.²⁰⁸ Such a decision would significantly alter the trajectory of deoffshorization efforts, as the termination of the automatic exchange of financial information confounds the retrieval of data on taxable incomes of Russian residents in offshore jurisdictions.

3.3.4. Revision of the Double Tax Treaties with Offshore Jurisdictions

A Double Tax Treaty is an international agreement oriented on the promotion of economic cooperation between countries.²⁰⁹ The main purpose of DTTs is to eliminate issues related to taxpayer liability and double taxation, which can negatively affect the investment between countries. DTTs operate as a bilateral mechanism to solve the issue of the multiple tax burden and cross-border tax issues, the opposite effect of which is related to the abuse of DTTs for the purpose of tax evasion. For instance, one of the main problems is treaty shopping, which is an action where a resident of a third state pursues to get an advantage from DTT between two other regulations by registering in one of the countries that are part of DTT.²¹⁰ In light of these considerations, Russian President Vladimir Putin addressed several economic measures to the citizens. Predominantly, he specified that all capital in the form of

²⁰⁶ KPMG (2022).

²⁰⁷ RBC News (2023a); The Federal Tax Service of Russia (2022).

²⁰⁸ Forbes (2024a).

²⁰⁹ Lushnikova (2022).

²¹⁰ Guglyuvatyy (2011).

interest and dividend payments exiting Russia to offshore dominions should be taxed with an adequate tax rate of at least 15 percent.²¹¹ He further instructed to adjust agreements on the avoidance of Double taxation with some countries, starting with those through which significant resources of Russian origin pass.²¹² In October 2020, the Prime Minister of Russia, Mikhail Mishustin, sanctioned the revisions of DTTs as deoffshorization measures.²¹³ Thus, the current study considers the revision of DTTs with offshore jurisdictions as one of the deoffshorization measures. The primary focus is on companies registered in Cyprus and a number of other offshore jurisdictions through which significant resources of Russian origin pass.²¹⁴ With the development of the deoffshorization in the Russian Federation, DTTs with Cyprus and Luxembourg have already been amended, and DTT with the Netherlands has been terminated.

The amended DTT between Cyprus and Russia was presented in 2021 with the new terms.²¹⁵ It is noted that out of other offshore jurisdictions, Cyprus positions as first in incoming FDI and outward FDI with almost 35 per cent of total flows from Russia.²¹⁶ As indicated by McConvill (2013), Cyprus is attractive to Russian and other businesses due to its extensive network of double tax treaties. The jurisdiction is mostly regarded as a 'transit' economy, where Russian businesses often register shell companies to pay dividends with lower tax rates before transferring their income to another jurisdiction.²¹⁷ It was a starting point for the Russian government to amend the Double tax treaty in favour of the deoffshorization process and can be considered a 'game-changer' for the prospect of Russian businesses in Cyprus.²¹⁸ The former tax treaty allowed for a reduction in tax on dividend payments to a maximum of 5% and imposed no tax on interest from loans. The amendments are much less appealing for Russian business than the previous double tax agreement,²¹⁹ as the amendments led

²¹¹ The Official Website of the President of Russia (2020a). See: <http://en.kremlin.ru/events/president/news/63061>

²¹² Russia Business News (2020).

²¹³ The Official Website of the Russian Government (2020). See: <http://government.ru/news/40700/>

²¹⁴ Banki.ru (2020).

²¹⁵ EY (2020).

²¹⁶ Repousis, Lous and Kougioumetsidis (2019).

²¹⁷ Pelto, Vahtra and Liuhto (2004).

²¹⁸ Forbes (2020).

²¹⁹ *Ibid.*

to a 15% withholding tax on both interest and dividend payments from Russia. These revisions provided the basis for the Russian government to derive earnings from these financial flows and replenish budget revenues. The amendment to the DTT between Luxembourg and Russia in 2020 is similar to Cyprus concerning withholding taxes on dividends and interest at 15%. Regarding the cost of maintaining a business, Luxembourg is a more expensive jurisdiction than Cyprus, but more convenient for managing collective investments.²²⁰

As for the termination of DTT with the Netherlands, it is a favourable jurisdiction for holding structures of MNCs that provide a wide-ranging system of low-tax rate bilateral treaties. Russian natural resource corporations manage their financial subsidiaries in the Netherlands to position their business in Russia, while Western MNCs invest into Russia through the Netherlands.²²¹ The termination implies a substantial effect on companies that operate in these countries. The consequences of the termination result in the application of Russian tax rates, including withholding taxes on dividends, interest and royalties. As a result, the companies are subject to double taxation. It is clear that the termination of DTT was oriented on the subsequent tax collection of the revenue that was otherwise payable to the Netherlands.

The Russian government further partially suspended DTTs with 38 'unfriendly' countries in response to sanctions imposed in 2022.²²² This suspension affects several notable offshore jurisdictions, such as Ireland, Singapore, and Switzerland.²²³ The already amended DTTs with Cyprus and Luxembourg have also been suspended as part of this initiative. The provisions of previously provided preferential rates are subject to nullification, indicating that tax payments made abroad will be levied at rates established by Russian legislation. As for the 'friendly countries', the Ministry of Finance has initiated negotiations for further revision of DTTs.²²⁴ This initiative also

²²⁰ Kravchenko (2019).

²²¹ Ledyeva et.al. (2015).

²²² RBC News (2023b).

²²³ Decree of the President of the Russian Federation dated 08.08.2023 No. 585

"On the suspension by the Russian Federation of certain provisions of international treaties of the Russian Federation on taxation issues".

²²⁴ Forbes (2024b).

comprises the negotiations between Russia and the United Arab Emirates (UAE) aimed at establishing a new agreement on double taxation. The existing treaty with the UAE, established in 2011, covers only SOEs and sovereign funds, leaving no benefits to ordinary companies.²²⁵ In light of the political developments in 2022 and the tightening of sanctions, many Russian businesses are establishing legal entities in the UAE or relocating their structures from Cyprus and other previously popular offshore jurisdictions.²²⁶ Thus, the forthcoming agreement with the UAE is expected to cover private companies and individuals.²²⁷ According to Alexey Sazanov, State Secretary and Deputy Minister of Finance, the new framework will feature a tax rate of 10% on income from dividends, interest and royalties.²²⁸ The agreement will enter into force in January 2026.²²⁹

It is essential to note that while the option to shift to another jurisdiction remains, it is not a point of urgency. There is no assurance that the Ministry of Finance will not opt to accommodate the DTT with the new state.²³⁰ The revisions of DTTs effectively introduced a double taxation regime to Russian taxpayers, which may render their business activities within the Russian Federation less appealing. The impact of the DTT amendments will be analysed in the empirical chapters 5, 6 and 7.

Conversely, there is always an option of re-domiciliation within the Russian Federation to Special Administrative Regions, commonly referred to as Russian offshores, which have been introduced as part of the deoffshorization process.²³¹ This will be explored in greater detail below.

²²⁵ Interfax (2025).

²²⁶ Forbes (2024b).

²²⁷ RIA News (2025).

²²⁸ The Moscow Times (2025).

²²⁹ Vedomosti (2024).

²³⁰ Grinkevich (2020).

²³¹ *Ibid.*

3.3.5. Special Administrative Regions (SARS) in the Russian Federation

The pressure of the global political situation and subsequent sanctions required the establishment of favourable conditions in Russia, which would encourage the repatriation of offshore companies of Russian origin. As part of this initiative, on August 2018, President Putin signed a set of laws that established Special Administrative Regions (SARs) in the territories of the Kaliningrad region (ostrov Oktyabrsky) and Primorsky Krai (ostrov Ruski).²³² According to prime minister Mikhail Mishustin, Russian SARs are part of the deoffshorization process set to foster a supportive environment for repatriated Russian companies.²³³ The primary rationale behind the Russian SAR is to provide an alternative for foreign offshore companies of Russian origins to relocate to Russian territory.

The implementation of the Russian SARs is the result of a set of regulations that have been evolving since 2018 to establish an efficient mechanism for the relocation of foreign legal entities.²³⁴ The first federal law No 291-FZ²³⁵ delineated the specifics of the establishment, functioning and dissolution of SARs and specified the requirements necessary for obtaining participant status. The second federal law No 290-FZ²³⁶ established the special status of an international company in the SAR for redomiciled foreign legal entities. The law introduced the concept of re-domiciliation to Russian law,²³⁷ which is a complex organisational procedure that provides an alternation of a legal entity's affiliation from foreign to Russian. There are three main methods through which Russian businesses can re-domicile to the Russian SAR: re-domiciliation of holdings that control the ownership shares, re-domiciliation of the parent entity, and re-domiciliation of subsidiaries. Each method of re-domiciliation assigns the specific status of an international company to a foreign entity.²³⁸ Similarly

²³² The Official Website of the President of Russia (2018).

²³³ The Official Website of the Government of the Russian Federation (2023).

²³⁴ This set of regulations has been outlined on the Official Website of the Government of the Russian Federation. See: <http://government.ru/activities/selection/303/32892/>

²³⁵ Federal Law No 291-FZ of August 3, 2018 "On special administrative regions in the territories of the Kaliningrad region and Primorsky Krai".

²³⁶ Federal Law No 290-FZ of August 3, 2018 "On International Companies and International Funds".

²³⁷ Dolinskaya, Inshakova and Kalinina (2020).

²³⁸ RBC News (2025).

to offshore companies, an international company in Russian SARs enjoys no foreign currency controls, financial reporting requirements and a special procedure for auditing. Furthermore, the special status of SAR prohibits tax audits in the Russian Federation concerning tax periods prior to relocation and provides a chance to implement the principles of international corporate law. The Russian SARs provide numerous tax benefits, established by a third federal law No 294-FZ.²³⁹ Kaliningrad and Primorsky Krai apply a reduced rate on dividends of 5% on income received and 10% on income paid, which are a more positioned level of taxation in comparison to the standard Russian tax rates (20%). Despite certain similarities, the status of an international company is different from that of an offshore company in a number of aspects.²⁴⁰ An international company is established within the confines of the special administrative region and is bound to invest in Russia, contrary to an offshore company, which is not confined in investments to specific territories. Offshore jurisdictions have long-established arrangements for international businesses, including clear legal mechanisms for company incorporation. On the other hand, the relatively recent introduction of SAR is underlined by the lack of extensive practice by Russian companies. Therefore, the establishment of Russian SARs as the deoffshorization policy cannot be considered Russian offshores. The Russian SARs are not oriented to attract global residents of high-tax jurisdictions seeking to avoid taxation. Instead, the main objective of Russian SARs is to facilitate the return of foreign companies of Russian origin and their assets from foreign offshore jurisdictions to the Russian Federation.

Only certain offshore jurisdictions allow outward re-domiciliation, such as Luxembourg, Switzerland and Dubai.²⁴¹ The re-domiciliation to the Russian SARs is a lengthy process,²⁴² and, given the geopolitical environment, the re-domiciliation from ‘unfriendly’ jurisdictions may drag on for years.²⁴³ If a company cannot be smoothly

²³⁹ Federal Law No 294-FZ of August 3, 2018 “On Amendments to Part One and Chapter 25 of Part Two of the Tax Code of the Russian Federation (regarding the specifics of taxation of international holding companies)”.

²⁴⁰ Dolinskaya, Inshakova and Kalinina (2020).

²⁴¹ HM Treasury (2022).

²⁴² Vedomosti (2022b).

²⁴³ RBC News (2025).

redomiciled from a foreign jurisdiction, a solution may involve the liquidation of an old company and registration of a new company in the Russian SARs.²⁴⁴ Apart from that, a foreign company of Russian origin cannot be simply relocated to SAR. A company must be created before January 2018 and ought to invest at least 50 million rubles in Russia within six months upon relocation,²⁴⁵ which has now increased to 300 million rubles.

Consequently, the beginning of Russian SARs experienced a relatively modest influx of Russian foreign companies, with fewer than 70 companies re-domiciling to these regions. The number of relocated companies in the SARs began to increase in 2022, following the imposition of anti-Russian sanctions.²⁴⁶ Indeed, if previously Russian companies went offshore to protect businesses and assets from the Russian government, SAR, as the deoffshorization tool, presented a reverse setting where Russian companies could return to Russia to protect assets from Western sanctions. The analysis of the success of Russian SARs as the deoffshorization measure will be provided in Chapter 6.

3.4. Conclusion

This chapter has provided essential insights into deoffshorization development, aiming to provide the foundation for assessing the impact of deoffshorization for subsequent chapters. This chapter divided the development of deoffshorization into three distinct stages to demonstrate how it has been persistently changing in response to political and economic factors. These factors form the foundation for the legal framework of deoffshorization, with each outlined stage of deoffshorization representing substantial changes in approach to its regulations. This is what led to the rationalisation of the multifaceted approach of deoffshorization proposed in this thesis. A grasp of these changes in deoffshorization provides an empirical basis for

²⁴⁴ *Ibid.*

²⁴⁵ Vedomosti (2018b).

²⁴⁶ Interfax (2024).

evaluating their effect at various points in time. In fact, evidence in the subsequent empirical chapters presents that the regulatory changes impacted how variously Russian SOEs and private companies responded in different stages of deoffshorization. The primary empirical focus of this study will be on the practical consequences of changing regulatory strategy for Russian companies.

Furthermore, this chapter outlined the main deoffshorization regulations with reference to Russian policymakers. Given the lack of consensus on what regulations compose deoffshorization, a systematic review of deoffshorization regulations presents the foundation for evaluating whether deoffshorization is successful in prompting any change in companies' use of offshore jurisdictions. As this chapter outlined, every regulation that was introduced at each stage of deoffshorization has a varied impact on the companies' use of offshore jurisdictions.

The following chapter will establish an alternative framework for deoffshorization evaluation, which is essential for an in-depth assessment of the impact of its regulations on the Russian companies.

Chapter 4: An approach to evaluate deoffshorization

4.1. Introduction

As the previous chapter outlined, the deoffshorization approach to regulations is multifaceted as a result of changing political and economic factors influencing deoffshorization. This leads to the following question: Are deoffshorization regulations successful in prompting any change in companies' use of offshore jurisdictions? Chapter 2 previously outlined that there is no theory or established methodology on deoffshorization available to rely on. Thus, to establish an empirical approach to evaluate deoffshorization, I consider whether the introduction of rules and anti-offshore policies leads to a change in behaviour of Russian companies, which is viewed here as the business decision of shareholders and managers, observable in changes to offshore corporate and ownership structures.

The rationale for analysing the corporate behaviour of Russian companies in response to regulations rather than capital flow movement is based on two factors. First, although capital flow to offshore jurisdictions occurs in different forms, it is predominantly the result of business operations and decisions of Russian companies. As Kalotay (2023, p. 265) states, Russian multinational enterprises (MNEs) are the “main agents of outward FDI”. Russian business elite and their controlled companies have factories in Russia, yet with the benefits provided by offshore jurisdictions, they easily and discreetly transfer substantial assets offshore.²⁴⁷ The main channels of this capital flow include transfer pricing and intra-company debt shifting.²⁴⁸ The analysis of companies' response to deoffshorization provides a deeper understanding of whether regulations impact these capital flow channels. Second, the analysis of capital flow is inherently limited due to the challenge of differentiation of outflows, the volatility of which is influenced by numerous internal and external causes.²⁴⁹ Thus, the analysis of

²⁴⁷ Murphy (2006).

²⁴⁸ Dharmapala (2014).

²⁴⁹ Schneider (2003), Ahn and Ludema (2020).

Russian companies provides a more in-depth assessment of whether the deoffshorization is successful.

This chapter is structured as follows. The first section of this chapter provides an extensive review of the aspects of behavioural change and corporate use of offshore schemes to see if the introduction of rules and policies leads to a change in the strategic decisions of shareholders and managers of Russian companies. In particular, it considers how shareholders and managers restructure corporate and ownership structures in response to these rules and policies. This study integrates insights from the literature on the causation between regulatory changes and the behavioural changes of companies through the restructuring of pyramidal ownership structure and relocation of subsidiaries. The subsequent section sets out the methodological approach based on the behavioural considerations of companies. Given that deoffshorization regulations have a multifaceted approach, the study will be carried out utilising a case study design per the research objectives and questions.

4.2. Disentangling behavioural change and corporate use of offshore schemes

4.2.1. Corporate governance and behaviour of a company

Ownership is fundamental to corporate governance,²⁵⁰ which impacts the conduct of the company, its decision-making process, strategic goals, and behaviour.²⁵¹ Shareholders exercise their power mainly through voting rights, the scope of which can range from majority ownership to a number of minorities of ownership.²⁵² There is extensive literature on how corporate governance plays a

²⁵⁰ Jensen and Meckling (1976); Weimer and Pape (2008); Castañer et al. (2022); Zattoni (2011); Kumar and Zattoni (2017).

²⁵¹ Garanina and Aray (2021).

²⁵² Yoshikawa, Zhu and Wang (2014).

significant role in determining the offshore-related policy of a company.²⁵³ Corporate taxes are a substantial financial burden on shareholders.²⁵⁴

Generally, companies have ownership separated from control; managers as agents oversee the companies, while the shareholders as principals own the companies and play limited role in operational activities.²⁵⁵ This thesis considers agency to be present among these actors within Russian companies, managers have agency in decision-making of companies under the oversight that shareholders establish, while shareholders are the principals that have control rights.²⁵⁶ According to Joulfaian (2000), it is managers, not companies, that make a decision whether to make tax-efficient choices.²⁵⁷ As ownership and control of a company are distinct, company owners are likely to set up optimal rewards to guarantee that managers make tax-favoured choices, which ultimately boost the owners' income. Krupa and Utke (2020) discovered shareholders' tax choices reflect variations in managers' readiness to employ different funding strategies for these payouts. To be more precise, businesses will bear various expenses if the allocation of dividends is impacted by outside observers rather than insiders who are narrowly focused on their own immediate tax benefits. Hanlon and Hoopes (2014) examined the response of managers to the expected dividend tax rise upon the end of the Jobs and Growth Tax Relief Reconciliation Act of 2003. The findings show that managers responded with the intention of maximising shareholder value, adjusting dividend payment dates prior to the expected increase in dividends tax rise. Hanlon and Hoopes (2014) also highlight that companies paid a disproportionately high number of special dividends. Ming-Chin and Chia-Wen (2022) found similar results related to tax reforms in Taiwan. Kaserer, Rapp and Trinchera (2012) found a drop in the tendency to pay dividends and the payout ratio following the German Tax Reduction Act 2001.

²⁵³ Hanlon and Heitzman (2010); Mikhail (1999); Chen et al. (2010); Chen and Chu (2005); Khan, Srinivasan and Tan (2017); Desai and Dharmapala (2009).

²⁵⁴ Khan, Srinivasan and Tan (2017).

²⁵⁵ Arlen and Weiss (1995).

²⁵⁶ This thesis will use the term 'company behaviour' to refer to corporate decisions made by shareholders and managers within an organisational framework.

²⁵⁷ Joulfaian (2000).

Some studies suggest that executives of companies have a major role in determining the use of offshore schemes in a company.²⁵⁸ Chyz et al. (2014) find a positive correlation between CEO overconfidence and the company's proactive employment of tax avoidance schemes. The research conducted by Graham et al. (2014) established that reputational concern plays a significant role in tax planning decisions among executives. On the other hand, Baudot et al. (2020) found few patterns of reputational repercussions associated with tax avoidance that would prompt an alteration in company behaviour. Companies such as Apple and Amazon have been involved in tax-related controversies yet found to have good corporate reputations. According to Hanlon and Heitzman (2010), taxes are one consideration for managers when making cost-effectiveness balancing choices, but they are frequently not a particularly crucial one. Knowing the significance of taxes gives information that is helpful in making policies.

Graham, Hanlon and Shevlin (2010) study the response of tax executives of U.S. companies to the American Jobs Creation Act (AJCA) of 2004, which provided a brief deduction on repatriated dividends received from foreign profits. The responders claimed to have spent substantial expenses in order to employ tax-minimization strategies to avoid taxation during the years the Act was not in force. 44% of companies responded through debt financing, while 20% of companies made investments in foreign assets. Graham, Hanlon and Shevlin (2010) conclude that the Act on the temporary deduction is believed to lock foreign assets within the U.S. Overesch, Reichert and Wamser (2023) conducted an analysis of the U.S. multinationals' behavioural response to the Tax Cuts and Jobs Act (TCJA) of 2017, which reduced corporate tax rate from 35% to 21%. While the reduction appears to be beneficial, the study found that the regulation did not alter the U.S. foreign tax-planning practices, with companies continuing profit-shifting to avoid taxation. Chow et al. (2022) survey whether the changes in corporate income tax affect the managerial decision to relocate corporate headquarters. The studies find that the location of headquarters is influenced by corporate tax, the increase of which raises the

²⁵⁸ Chen and Chu (2005); Chyz et al. (2014); Joulfaian (2000); Graham et al. (2014).

probability of headquarters relocation. Voget (2011) finds that the introduction of CFC rules reduces the attractiveness of a country as a headquarters location.

On the other hand, Chen and Chu (2005) point out that the controlling shareholder must fabricate ambiguous data to reduce taxable income, which diminishes the information resources available to managing directors. When shareholders give the management the authority to alter earnings, the manager is free to misuse this authority for personal gain. Arlen and Weiss (1995) comment that, despite being tasked with protecting shareholder interests, managers' personal goals don't always align with those of the company. Cheety and Saez (2005) suggest that if management has an ownership share, then they are highly likely to respond to regulatory tax changes. The study found that businesses that lacked powerful management incentives did not respond to dividend tax changes related to the Jobs and Growth Tax Relief Reconciliation Act of 2003, while businesses with management ownership responded with dividend payments following the regulation.

Depending on the corporate structure, shareholders influence the position of societal objectives and shareholder profit optimisation.²⁵⁹ Berzins, Bohren and Stacescu (2019) investigated the regulatory shock in Norway that raised the personal dividend tax rate from 0% to 28%. The findings state that dividends tax change balances tax and agency issues, with the regulatory change leading to the increase of indirect ownership through a tax-exempt company. Kovermann and Velte (2019) argue that different corporate governance structures influence the level of offshore use based on the conflicting interests of stakeholders. This involves balancing the costs associated with tax compliance of a company or the use of offshore schemes. Increased use of offshore schemes may result in higher non-tax costs of tax avoidance, while tax compliance – higher tax costs greater than incentives of tax compliance. Furthermore, shareholders are required to balance the advantages of tax avoidance with the costs of possible prosecution, penalties, and damage to the company's reputation.²⁶⁰ La Porta et. al (1999) comment that controlling shareholders

²⁵⁹ Pedersen and Thomsen (1997).

²⁶⁰ Khan, Srinivasan and Tan (2017).

are in charge of companies and are in an advantageous position to oversee the management. By maintaining significant cash flow rights, controlling shareholders frequently deploy pyramidal structures to handle major corporate structures, which is a practice of a dominant shareholder partially owning a corporation through another company.²⁶¹ The dominant shareholder is able to transfer wealth amongst pyramid organisations in order to maximise their personal gains by arranging intercorporate transactions at adjusted rates,²⁶² which is substantially correlated to corporate tax avoidance.²⁶³ According to Chernykh (2008), the Russian ownership structure is predominantly characterised by oligarchs controlling their shares through pyramidal offshore structures. In fact, Russian companies tend to cover the information on the actual owners by using nominees and foreign offshore structures. There are a number of reasons to conceal owners of a corporation, potentially to reduce conflict of interests, the lack of trust in the government, weak protection of property rights, tax avoidance, and discretion of dubious sources of capital.²⁶⁴ However, such control is influenced by the level of legal protection of their votes.

The general conclusion is that the type of ownership structure plays a significant role in determining the degree of company's offshorization. For instance, Mikhail (1999) argues that ownership structure disparities (such as public and private companies) are most noticeable in offshore strategies. Prior research points to the fact that private firms employ more tax-minimization schemes.²⁶⁵ Khan, Srinivasan and Tan (2017) discover a substantial positive connection between institutional ownership and corporate use of offshore schemes. Chen et al. (2010) observe family companies against non-family companies on tax aggressiveness, finding that family-owned companies are less tax aggressive due to the concern over the possible reputational harm than non-family-owned companies. On the other hand, Gaaya, Lakhal, and Lakhal (2017) report contradictory results, suggesting that family businesses take advantage of tax avoidance for their own profit due to the competing interests between

²⁶¹ Faccio and Lang (2002).

²⁶² Morck, Wolfenzon and Yeung (2005).

²⁶³ Richardson, Wang and Zhang (2016).

²⁶⁴ *Ibid.*

²⁶⁵ Chen et al. (2010).

family shareholders and minority shareholders. Mafrolla and D'Amico (2016) reports comparable findings for Italian family-owned businesses, as family participation negatively impacts higher tax aggressiveness. Kasahara and Orihara (2022) analyses the response of Japanese family businesses to the Japanese dividend tax reform in 2011, which increased the dividend rate from 10% to 20%. The study found that family companies increased dividends to offset tax rises. There may be disparities in views toward family businesses because private ownership is not as common as it is in other nations.

In addition to family-owned companies and institutional ownership, the government can also act as a long-term shareholder. It might appear that the government, which collects taxation, would void tax-minimisation techniques. For instance, Boycko, Shleifer and Vishny (1996) contend that government-controlled companies are inclined to follow political agendas imposed by politicians. Enikolopov and Stepanov (2013) state that the government are frequently compels SOEs to meet social objectives or commitments (such as maintaining high employment levels), which conflicts with their desire to maximize shareholder value. Compared to other shareholders, the government may be a less effective overseer. Wahab et al. (2017) discover a strong correlation between business tax avoidance and political ties. Kim and Zhang (2016) argue that politically associated companies use tax avoidance due to factors such as lower anticipated charges of tax prosecution, less demand for transparency, and increased reckless behaviour brought on by connections to the government.

On the contrary, Bradshaw, Liao and Ma (2019) found that government-controlled companies are more tax-compliant, which is correlated to promotions for managers. Tax compliance reduces when government-controlled companies become privatised. Tang, Mo and Chan (2017) observed the effect of agency conflict between local and central administration on tax avoidance by studying government-controlled companies in China. The confounding issue is based on conflicting motivations, where dominant shareholders have an incentive to minimise payable taxes, while local government is compelled to fulfil the criteria of tax revenue collection. The study found

that intergovernmental agency conflict may lead to offshore use in government-controlled companies, which is influenced by the government's share of ownership.

The studies above highlighted that the regulatory changes do not alter the use of offshore jurisdictions by companies, yet their ownership type determines the extent of offshore use. As such, private companies concentrate on profit maximisation to the extent of employing pyramidal structures to handle corporations. This contrasts with other types of companies, such as SOEs, where the government imposes political objectives on SOEs. Depending on the ownership structure, these companies variously respond to the regulatory changes. Building on that, the empirical research on deoffshorization can focus on the analysis of companies' ownership structures, particularly focusing on two distinct types. As such, with the implementation of the deoffshorization, do Russian businessmen restructure their control over a company through offshore shell companies?

4.2.2. Business Groups and corporate use of offshore schemes

According to Khanna and Rivkin (2001, p. 47), a business group is defined as “a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action.” Multidivisional frameworks are commonly used to organise this interconnected structure as they are helpful for handling large and diverse organisations.

One of the distinguishing characteristics of business groups is the diverse array of companies that frequently distribute resources among them.²⁶⁶ To the detriment of minority shareholders, the controlling shareholders may transfer resources from subsidiaries where they have low cash-flow rights to subsidiaries where they have higher cash-flow rights.²⁶⁷ These subsidiaries don't run on their own; rather, they are part of a complex network that includes other businesses, institutions, and formal and

²⁶⁶ Gopalan and Jayaraman (2012).

²⁶⁷ Belenzon, Hashai and Pataconi (2019).

informal connections.²⁶⁸ A subsidiary operates as a distinct entity that is typically located outside of the home jurisdiction.²⁶⁹ The subsidiary plays a role in accordance with its significance to the business or when there is a high level of competitiveness among national vendors, clients, and rivals.²⁷⁰ Each subsidiary's role is viewed largely as an element of its local environment, where a number of external variables to the corporation, such as regional adaptability and broad integration, have an influence on the role of a subsidiary.²⁷¹ Therefore, a subsidiary may carry out a particular activity (such as manufacturing) or the full value chain for a range of objectives (such as market-seeking, resource-seeking, or efficiency-seeking) and created by a range of methods (such as acquisition or joint venture).²⁷² According to Birkinshaw, Hood and Jonsson (1998), a particular host country may occasionally have numerous subsidiaries (of the same parent) that follow different developmental paths.

Business groups can collectively utilise offshore strategies to improve their financial performance and operational efficiency. According to Belenzon, Hashai and Pataconi (2019), business groups (including SOEs) often have a pyramidal organisation, where the controlling shareholder is in charge of networks of subsidiaries.

A vast literature has explored how business groups react to variations in corporate tax rates.²⁷³ Huizinga and Voget (2009) considered the effect of international double taxation on the corporate structure. More precisely, high international double taxation of profit from foreign sources decreases the probability that parent companies will locate in a given nation after a cross-border acquisition. Affiliates within business groups may be subject to the same tax rate, yet their tax burdens might differ significantly based on their net operational expenses and any tax advantages they may have. With varying tax burdens, business groups are able to

²⁶⁸ Singh and Delios (2017).

²⁶⁹ Birkinshaw and Hood (1998).

²⁷⁰ Birkinshaw, Hood and Jonsson (1998).

²⁷¹ *Ibid.*

²⁷² Birkinshaw and Hood (1998).

²⁷³ Grubert and Mutti (1991); Azémar (2010); Desai, Foley and Hines (2002); Doo and Yoon (2020).

redistribute taxable income among entities to lower overall tax liability.²⁷⁴ Doo and Yoon (2020) demonstrate that subsidiaries subject to greater tax rates transfer their profits to those with reduced tax rates through business activities. According to an analysis of Belgian companies conducted by Beuselinck and Deloof (2006), entities related to business groups maintain profits more effectively than independent companies. Gramlich, Limpaphayom and Rhee (2004) studied keiretsu business groups in Japan, finding that Japanese keiretsu redistribute taxable profit among entities to pay lower overall taxes. Barrios et al. (2012) investigate the effect of tax rates of both host and home jurisdictions based on a broader set of companies in 33 European economies. The findings illustrate that tax rates of both host and home jurisdictions have an important effect on the location of new subsidiaries. High-fixed assets subsidiaries are less likely to be affected by tax rates in the host jurisdiction, while low-fixed assets subsidiaries are more susceptible to location choices, particularly taxation in the home jurisdiction of the parent company and host jurisdiction. Bartelsman and Beetsma (2003) find that a rise in the tax rate leads to reduced government revenue following the drop in reported income and the shifting of profit by companies.

Profit shifting is used not only by business groups but also by multinationals globally.²⁷⁵ Cristea and Nguyen (2013) demonstrate that multinationals are motivated to diverge the arms-length prices from profit-maximising rates when trading with both related and unrelated entities to hide profit shifting. Grubert and Mutti (1991) indicate that U.S. multinationals transfer more profits from the parent company to low-taxed jurisdictions with the principles of profit shifting. In this vein, Desai, Foley and Hines (2002) find that tax rate disparities have an exceptional impact on the distribution of assets and profits by European subsidiaries of U.S. companies. Alexander, De Vito and Jacob (2020) focus on European multinationals and their subsidiaries in Europe and analyse a broader set of corporate tax reforms from 2003 to 2013. The study finds a unique trend of declining tendency in profit shifting, which indicates that conclusions on U.S. companies cannot be applied to European companies. Azémar (2010) states

²⁷⁴ Beuselinck and Deloof (2006).

²⁷⁵ Davies et al. (2014).

that subsidiaries in low-tax jurisdictions disclose higher profits and are less inclined to repatriate dividends. Altshuler and Grubert (2002) discover tax-related repatriation strategies employed by subsidiaries. A subsidiary from a low-tax jurisdiction may shift its profits to a subsidiary from a high-tax jurisdiction to serve as a tool for tax-free repatriation. Another option includes an upper-level subsidiary that may provide equity transfer to a subsidiary from a low-tax jurisdiction. Altshuler and Grubert (2002) highlight that if low-taxed profits are captive due to repatriation tax, these profits remain in all foreign subsidiaries collectively. High repatriation taxes force CFCs (controlled foreign firms) to transfer profits more in linked subsidiaries and distribute a larger portion of their dividends to other foreign subsidiaries. Blouin and Krull (2009) observed the effect of the American Jobs Creation Act of 2004 on repatriations from foreign subsidiaries. The findings indicate that companies with few foreign and domestic investment options are more inclined to react positively to the Act of 2004.

Businesses transfer taxable profits not only through transfer pricing but also by using debt and locating intangible assets in offshore jurisdictions.²⁷⁶ Dharmapala and Riedel (2013) comment that the use of debt financing between subsidiaries is a potentially more reliable strategy for tax minimisation and profit generation. According to Gu, Mooij and Poghosyan (2012), companies employ debt financing in high-tax jurisdictions as part of tax-minimisation. Debt financing is appealing in high-tax jurisdictions as it allows for a higher rate of interest cost deduction, whereas low-tax jurisdictions tax profits at a lower rate. Faccio and Xu (2015) find that companies typically decrease debt in response to the rise in personal taxes on interest profits, while they typically raise debt in response to an increase in corporate taxes or personal taxes on dividend income.

An important question is whether tax enforcement plays any role in the behavioural change of the companies. The findings by Beuselinck, Deloof and Vanstraelen (2015) indicate that multinationals manage offshore strategies by accounting for differences in tax enforcement among jurisdictions. Private multinationals take advantage of weak law enforcement to transfer profits out of parent

²⁷⁶ Auerbach et al. (2017).

companies more readily than public multinationals. Similarly, Davies et al. (2014) point out that if the possibility of punishment is greater than the difference in tax rates, multinationals may choose not to evade taxes.

In this respect, companies employ various strategies to enjoy the benefits of offshore jurisdictions, with the main distinction is that behavioural change takes various forms. The corporate structure is not only the result of financial structuring but also a complex instrument to navigate through the differences in the regulatory landscape. An analysis of subsidiaries as part of the larger networks of business groups sustains insights into the behavioural responses of companies to regulatory changes. Within this approach, the relocation of subsidiaries from offshore jurisdictions and diverting capital flow channels as a strategic response serves as an important factor for the analysis of deoffshorization.

4.2.3. Corporate structure and its variations

Various companies around the world have distinct ownership structures, behaviour; and performance, the historical context of which has greatly altered the way that the concept of ownership has evolved. According to Claessens et al. (2002), the ownership patterns of the U.S. companies show comparatively low concentration.²⁷⁷ In continental Europe, family-owned businesses are more significant, with a sizable portion of larger businesses under state ownership.²⁷⁸ Business groups are prevalent in emerging markets and transitional market economies.²⁷⁹ The business structure that heavily involves family makes sense, given the institutional framework that businesses must contend with. For instance, Saxena (2013) identifies that family business groups are established within the larger framework of the historical, economic, and political conditions of a particular environment in India.

²⁷⁷ Claessens et al. (2002).

²⁷⁸ Faccio and Lang (2002).

²⁷⁹ Khanna and Rivkin (2001); Singh and Delios (2017); Young et al. (2008); Beuselinck and Deloof (2006).

Various labels are used to identify business groups in various nations, such as chaebols in South Korea,²⁸⁰ keiretsu in Japan,²⁸¹ qiye jituan in China,²⁸² and oligarchs in Russian business groups.²⁸³ Although not all emerging countries' companies are coupled to business groups, informal connections are ingrained in corporate governance.²⁸⁴ In emerging economies, the formal institutions that influence the behaviour of companies are unstable; as such, informal institutions serve as a primary source of guidance.²⁸⁵ Strong motivations and capacities to pressure lawmakers and public officials for privileged treatment are created by the concentrated nature of ownership of corporations in the hands of a small number of families and individuals.²⁸⁶ For instance, East Asian companies are distinctive to being part of an intricate web of strong ties between public officials, government and financial institutions.²⁸⁷ Claessens, Djankov and Lang (2000) comment that East Asian companies use pyramid structures and crossholdings by one large shareholder. The pyramidal structure substantially reduces information transparency through offshore subsidiaries, acting as a gauge of organisational complexity.²⁸⁸

The perspective within corporate governance ignores the various settings in which businesses are placed. An unconventional institutional approach provides that ownership structure and company behaviour are heavily influenced by existing institutions and regulations.²⁸⁹ According to Shleifer and Vishny (1997, p. 738), “corporate governance mechanisms are economic and legal institutions that can be altered through political process.” Different countries have different company regulations, which have a variety of effects on the ownership structures and behaviour of firms. Historical, cultural, geographical, and institutional variations that are pertinent

²⁸⁰ Almeida et al. (2011); Doo and Yoon (2020).

²⁸¹ Dewenter (2003); Tomeczek (2022).

²⁸² Keister (1998); Cai et al. (2016).

²⁸³ Estrin, Poukliakova and Shapiro (2009); Avdasheva (2009).

²⁸⁴ Singh and Delios (2017).

²⁸⁵ Young et al. (2008); Gama and Bandeira-de-Mello (2021).

²⁸⁶ Claessens, Djankov and Lang (2000).

²⁸⁷ Wahab et al. (2017).

²⁸⁸ Hsu, Liu and Nathan (2020).

²⁸⁹ Pedersen and Thomsen (1997).

to different markets have been exemplified by numerous research.²⁹⁰ These studies have illustrated that not just regulatory pressures but also these differences impact the conduct of companies. The analysis of such companies requires a sophisticated approach to uncover their essential characteristics. As Beuselinck and Deloof (2006) state, the conclusions of one country cannot be broadly applied to different institutional contexts. It would be inaccurate to compare the actions and outcomes of businesses in emerging and developed markets without accounting for the crucial institutional distinctions between them.²⁹¹

It is acknowledged that the agency theory principles are often in contradiction with established Russian norms.²⁹² Nevertheless, this thesis attributes agency to corporate actors (with shareholders as principals and managers as agents) rather than to a company, to clarify that the decisions made by shareholders and managers to reshape ownership and corporate structure constitute the behavioural change in Russian companies. The Russian institutional setting is notably distinct from other countries; the behavioural change of companies can take different forms. Russian business is distinguished by weak regulations that oversee the conduct of companies, encouraging reliance on informal institutions such as culture and ethics.²⁹³ In accordance with McCarthy and Puffer (2008), culture is understood as the shared values and norms, particularly the Russian cultural norm of reliance on personal networks, rigid hierarchy, and a cultural propensity to distrust individuals and structures outside of private relationships. Thus, culture plays a more important function than just acting as a substitute for transactions in the distribution of resources. Through socialisation, culture also influences the behaviour of companies.²⁹⁴ DeBacker, Heim and Tran (2015) contend that cultural influences have a significant impact on a crucial decision to use offshore schemes. Such external factors reduce the number of feasible choices for corporate governance and limit behaviour to known standards in the decision-making process, which is reflected in the lack of

²⁹⁰ Moerland (1995); Claessens (2006); Pedersen and Thomsen (1997).

²⁹¹ Fan, Wei and Xu (2011).

²⁹² McCarthy and Puffer (2008).

²⁹³ Puffer and McCarthy (2011).

²⁹⁴ Saxena (2013).

transparency. The application of informal practices offers clarification and a better understanding of Russian behaviour.²⁹⁵ The reliance on informal institutions, where culture plays a major role, can affect the preference of Russian companies for offshore jurisdictions and capital channels. Low trust promotes secrecy, leading to discreet ownership-chains through offshore intermediaries and trusted beneficiaries. In this study, I consider Russian cultural norms as pivotal in encouraging the Russian capital to shift offshore and in confining the response of Russian companies to deoffshorization under conditions of weak formal enforcement. Puffer and McCarthy (2011) suggest that it is crucial to analyse how institutions and culture interplay in nations like Russia rather than examining each component independently. According to Black (2001), there is a greater opportunity for between-firm heterogeneity in the context of an economy with loose laws and standards, leading to the possibility of more robust outcomes.

Russia has been undergoing a series of economic and political changes from the 1980s to the 1990s that impacted the current financial environment.²⁹⁶ Particularly, Russia had major economic reforms after the Communist period from 1990 to 1998. In 1992, the Russian government started the State Privatization Program, which provided a foundation for the 'offshorization' of Russian businesses.²⁹⁷ Privatization occurred without banking reforms amid weak regulatory and judicial systems, with adverse consequences for the growing ownership structure and corporate governance of Russian companies, and significantly restricting managers' strategic options. In this economically and politically difficult period, privatization led to the formation of 'oligarchs' who acquired major corporations such as Yukos and Norilsk Nickel,²⁹⁸ yet did not create a base of private property. Rather, it had a negative impact on the economic and legal basis for business development, leading to companies depicted by low efficiency, a lack of transparency, and limited external control over business activities. Moreover, the production disruptions, macroeconomic instability, high

²⁹⁵ Ledeneva (2009).

²⁹⁶ Barsukova (2019).

²⁹⁷ Degtereva, Tsyganov and Makarevich (2017).

²⁹⁸ Chekmareva (2017).

inflation, and an inadequate tax system encouraged massive tax evasion.²⁹⁹ This unstable institutional environment reinforced distrust in the political and economic system of the state, necessitating reliance on personal connections, buying protection, and frequently accepting bribes. All these practices restricted resources for creating new products, markets, and technologies, thereby lowering a company's ability to compete.³⁰⁰

Even if oligarchs are currently politically supported by, or have a good relationship with, senior Russian state officials, they transfer their assets to offshore jurisdictions in order to protect their holdings.³⁰¹ To the detriment of minority shareholders, the controlling shareholders may transfer resources from subsidiaries where they have low cash-flow rights to subsidiaries where they have higher cash-flow rights.³⁰² One of the most significant flaws in the Russian corporate governance structure is the ultimate ownership's opacity.³⁰³ Despite being extensively discussed in the wider corporate governance literature, comprehensive empirical research on corporate ownership in Russia is essentially limited. While the available information provides direct ownership records, it does not acknowledge hidden individuals as a distinct group of ultimate Russian major shareholders controlling companies through offshore holdings.³⁰⁴ At the same time, Russian businesses indicated a high level of ownership concentration among subsidiaries of holding groups as a way to protect from disputes and asset redistribution.³⁰⁵ Subsidiaries showed the largest concentration, which was employed to retain them within the corporate framework while additionally concealed behind the ownership of legal entities.

Given the historical complexities of Russia, this study incorporates theoretical insights of the behavioural change in companies with a Russian setting. The latter includes the interrelationship between the Russian government, companies and the

²⁹⁹ Lapina (2003).

³⁰⁰ Puffer and McCarthy (2011).

³⁰¹ Bulatov et al. (2017).

³⁰² Belenzon, Hashai and Pataconi (2019).

³⁰³ Chernykh (2008).

³⁰⁴ *Ibid.*

³⁰⁵ Dolgopyatova (2009).

use of offshore jurisdictions to address the complex analysis of deoffshorization. As Chapter 2 outlined, Russian companies have different motivations for using offshore jurisdictions; the leading one is the involvement of the government. As such, the response to deoffshorization regulations involves more complex patterns, requiring diverse approaches to its analysis.

This section presented a review of the literature to construct a theoretical basis for understanding the behavioural patterns of companies using offshore jurisdictions in response to regulatory pressures. The next section will set out the methodological approach in connection to the outlined behavioural patterns associated with the use of offshore schemes.

4.3. Research Methodology

This section explores the methods that will be employed in the current study. The existing literature on deoffshorization has no consensus on direct indicators that unambiguously demonstrate the effect of the regulations on limiting the channels of capital outflow to offshore jurisdictions. Some studies use macroeconomic indicators to determine the impact of the deoffshorization reforms.³⁰⁶ With this approach, I considered analysing the fluctuation of capital flight at the macroeconomic level in evaluating the deoffshorization process, as much of FDI and capital flight out of Russia can be attributed to offshore channels.³⁰⁷

However, there are several limitations to this approach. First, capital outflow includes both licit and illicit origin, where the former may stem from the latter's source.³⁰⁸ Due to the confidential nature of such movements and the unwillingness of offshore jurisdictions to divulge information about the financial transactions they assist, it is difficult to quantify the true amount of illegal capital flows that are conducted via offshore jurisdictions. Statistical analysis of FDI flows can be over or underestimated

³⁰⁶ Sultanov (2018), Ivanova and Kazakov (2015), Vishnevsky et al (2020), Davletshin (2019).

³⁰⁷ Ledyaeva, Karhunen and Whalley (2013), pp. 53.

³⁰⁸ Ledyaeva et al. (2015).

as capital flows through offshore jurisdictions, which is not purely transparent.³⁰⁹ The common scheme of round-tripping among Russian businesses through Cyprus, the British Virgin Islands, and other offshore jurisdictions substantially reduces the transparency of capital moves and actual figures of assets.³¹⁰

Second, Ivanova and Kazakov (2015) outline that macroeconomic indications are not adequate, providing that other factors can impact the dynamics of the Russian economy (such as inadequate infrastructure, the role of the oil and gas industry in the economy, and external political factors). It is challenging to estimate if there are concurrent macroeconomic shocks in a target country,³¹¹ which is the case for the Russian Federation with a decline in oil prices, ruble devaluation, and the COVID-19 crisis. Given the peculiarities of the Russian approach in the fight against the use of offshore schemes, capital outflow is driven by a variety of factors that are difficult to differentiate empirically.³¹² Schneider (2003) highlights the challenge of quantifying capital movement. As a result of their inadequate statistical foundation, efforts to distinguish it as a particular group of external assertions are restricted. Considering the complex external and internal political and economic factors, it necessitates categorising data based on attributes that are tangentially and sporadically related to the constructs being examined. Furthermore, the statistical analysis does not provide differentiation of the companies and their relationship with the government.

³⁰⁹ Kuznetsov (2021).

³¹⁰ Joint Report by Vale Columbia Center and IMEMO (2013).

³¹¹ Ahn and Ludema (2020).

³¹² Deppler and Williamson (1987).

Figure 4.1. Russia - Foreign Direct Investment, net inflows (% of GDP), The World Bank Data.

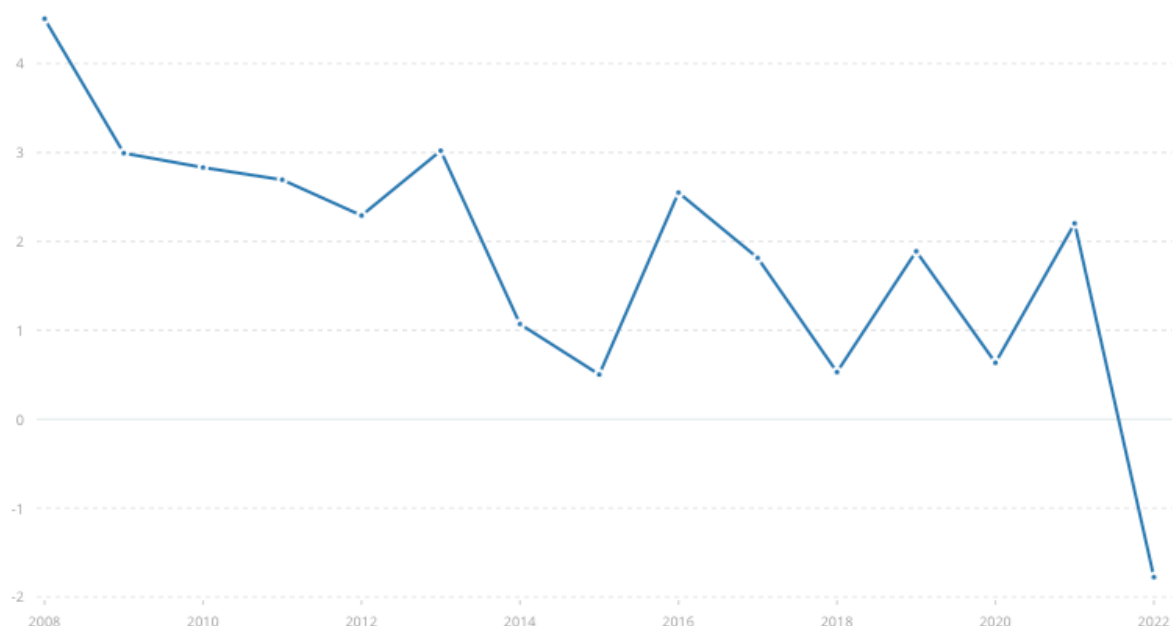


Figure 4.1 illustrates the data from the World Bank after the launch of the deoffshorization process. The FDI inflows to Russia have been fluctuating, but the trend, to the largest extent, suggests that the FDI inflows were decreasing. The data does not differentiate outflows, the volatility of which is influenced by numerous internal and external causes. For instance, from 2015 to 2020, internal factors remained relatively constant – there was no change in the Russian corporate income tax and the governmental administration.³¹³ On the other hand, external factors were erratic at that period (geopolitical tensions, sanctions, drop in oil prices, ruble devaluation), which made capital outflows riskier. Hence, the statistical data does not measure the extent to which the deoffshorization process is effective and the main factors that influence the fluctuations.

Other existing studies suggested different methods of evaluating the effect of regulations. Ivanova and Kazakov (2015) provide one of the intra-system criteria for the evaluation of tax reforms, which is the level of collected taxes to budget sufficient for the state to perform its functions. Further clarification on that was proposed by

³¹³ Bulatov (2022).

Shmelev (2017), who argued that the criteria for assessing the effectiveness of tax regulations should not be merely confined to the maximisation of the tax revenues, but as well as economic, social, organisational, innovative, and administrative factors. He argues that the effects of anti-offshore policy should be assessed by taking into consideration the quality of tax legislation, management of tax compliance, and availability of law enforcement against tax offences that provide the base for the collection of tax revenues. However, the current study does not focus on the analysis of the tax system of the Russian Federation, as it is outside of the scope of this thesis. Rather, it focuses on the regulations against the use of offshore schemes and structures.

The different methods discussed above illustrate the primary challenge of estimating the direct impact of regulations. As Russian companies are the “main agents of outward FDI”,³¹⁴ I shifted focus to the main target of the deoffshorization effect – Russian companies. Thus, I decided to reconsider a research method that would enable me to not only analyse the success of the deoffshorization process but also to recognise factors that influence the response of Russian companies to the regulations at various points of deoffshorization development. The question is: did the deoffshorization policies lead to a behavioural change among Russian companies in reducing the offshore presence, as it was supposed to do? The analysis of a multifaceted approach to deoffshorization would necessitate the use of diverse approaches, combining quantitative and qualitative techniques, which can be achieved through the case study method.

Drawing on the insights covered in the previous section on corporate behaviour in companies in response to regulatory change, I consider case studies to evaluate behavioural change at two levels: ownership structure and business structure. The first level includes ownership structure and the use of pyramidal structure through offshore jurisdictions. With the implementation of the deoffshorization, do Russian businessmen continue to control a company through offshore shell companies? The second level includes an analysis of corporate restructuring in response to the

³¹⁴ Kalotay (2023, p. 265).

introduction of the deoffshorization regulations as to whether offshore-based subsidiaries relocate from offshore jurisdictions. The rest of this section further discusses the research methods adopted for this study.

4.3.1. Case studies

Chapter 3 previously outlined that the deoffshorization process in Russia is impacted by various factors prominent at different stages, the consideration of which cannot be disregarded. Significant occurrences that happen at different stages might become crucial to comprehending the effect of the deoffshorization process. Given this, it is imperative that the current study employs a case study method to gain insight into the deoffshorization and evaluate its success in prompting any change in companies' use of offshore jurisdictions. In contrast to other qualitative methods, a case study provides versatility that allows conveying the intricate nature of a 'real life' phenomenon,³¹⁵ particularly when the subject matter and context cannot be evidently distinguished.³¹⁶ It handles the exclusively specific circumstances where there will be numerous more variables important to consider than data points and allows to methodically derive meaning from the monitored occurrences.³¹⁷ A case study aims to shed some insight into an action or series of actions, including why these choices were made, how they were carried out, and the outcomes.³¹⁸

The most appropriate methodology for the empirical portion of the study is largely determined by how the research topic is formulated,³¹⁹ which provides the basis for identifying the research strategy.³²⁰ The "what" question of deoffshorization can be classified as exploratory, as it seeks to determine the nature and key components of deoffshorization. However, the question "how" successful the deoffshorization process requires the utilisation of experiments, histories, and case

³¹⁵ Ebneyamini and Moghadam (2018).

³¹⁶ Yin (2012a).

³¹⁷ Gagnon (2009).

³¹⁸ Ebneyamini and Moghadam (2018).

³¹⁹ Mills, Durepos and Wiebe (2010).

³²⁰ Yin (2012a).

studies. This is due to the fact that these types of queries deal with functional connections that must be tracked throughout time, not just occurrence.³²¹ Therefore, the case study is chosen as it allows an in-depth analysis of Russian companies' responses to deoffshorization.

Although a case is often a defined element (a person, group, event, or other social phenomena), there may be an eroding of boundaries distinguishing the case from its contextualised settings in both time and space.³²² Determining the precise boundaries of the case study is important. This thesis employs a case study of the deoffshorization process of the Russian Federation, focusing on the response of the Russian companies prior to (2012) and following the implementation of the deoffshorization regulations (from 2014 - currently) as to the restructuring of offshore pyramidal ownership structures and business structure through offshore subsidiaries.

4.3.2. Case Study Design

A crucial component of the case study research is case selection, which can be a single-case or multiple-case design.³²³ This current study will employ a multiple-case design (Figure 4.2), which will adhere to a replication rather than sampling reasoning.³²⁴ According to Yin (2012b), it allows to anticipate either comparable outcomes or contrasting outcomes yet for predictable grounds. Tellis (1997) highlights that every case study is a complete investigation, which gathers information from multiple sources and draws conclusions from it. Each case study would help to provide an understanding of how successful deoffshorization is in prompting behavioural change in Russian companies' use of offshore jurisdictions.

While the deoffshorization process is a unique case, this thesis will not employ a single-case design for the below reasons.³²⁵ As opposed to single-case design,

³²¹ *ibid.*

³²² Yin (2012b).

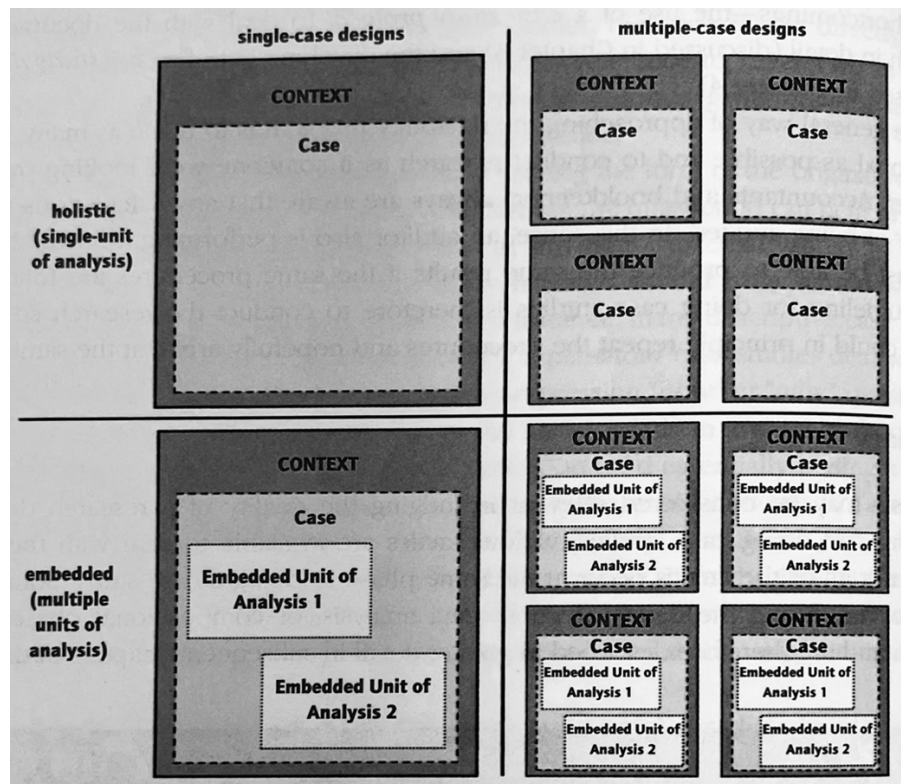
³²³ Mills, Durepos and Wiebe (2010); Yin (2012b).

³²⁴ Tellis (1997).

³²⁵ Single-case studies generally used to examine uncommon and crucial event or, paradoxically, ordinary event (Tellis, 1997; Yin, 2012b).

multiple-case design will bolster the validity of findings through the pattern-matching of each case intended to explore a contrasting aspect of the research subject. Single-case design is more limited in providing a thorough analysis of the deoffshorization process that could lead to greater generalisability. Furthermore, to evaluate its effect on the company's usage of offshore jurisdictions, a sample of Russian companies can be explored for replication.³²⁶

Figure 4.2. Types of Designs for Case Studies (Yin, 2014, p. 50).



As the case study is focused on the success of the deoffshorization process in the Russian Federation, this thesis will employ a multiple-case study design (single unit of analysis) to conduct a wider evaluation of the complex phenomenon of deoffshorization. The primary unit of analysis is the deoffshorization process as a whole, eight separate case studies of Russian companies (Figure 4.2). The main factors that are used to determine the quantity and selection of cases are internal

³²⁶ A single-case design is the only option accessible to the researcher when no further examples are available for replication (Tellis, 1997).

validity and generalisation of results.³²⁷ Selecting contrasted cases allows for the rejection of other possible rationales, which is optimal for internal validity.³²⁸ On the other hand, it limits the sufficient comparability to rule out all pertinent different explanations, which leads to the exclusion of the contrasted cases from the current study. According to Yin (2014), case selection is conducted to either 1) estimate analogous findings (literal replication) or 2) estimate findings that are different yet predictable (theoretical replication). While some case studies can be literal replications, others may be intended to follow distinct patterns of theoretical replications.

The extensive literature focuses on how the ownership type of companies plays a significant role in determining the use of offshore schemes.³²⁹ As Mikhail (1999) states, ownership structure disparities (such as public and private companies) are most noticeable in offshore strategies. With these insights from the body of literature, I selected two different groups of Russian companies based on their ownership structure – SOEs and private companies. Russian corporate governance displays distinctive ownership traits, as an exceptionally large proportion of listed companies are either anonymously controlled by the Russian elite or by the government.³³⁰ Both Russian SOEs and private companies have close ties to offshore.³³¹ However, the difference between SOEs and private companies lies in the extent of government involvement and imposed objectives. SOEs have political objectives that the government imposes on them.³³² This state involvement presents limited profit motivations in Russian SOEs, in contrast to private companies that predominantly aim to maximise profits.³³³ Shleifer and Vishny (1997, p. 768) state that the government has ‘only an indirect concern about profits’, as profits are added to the state budget, yet the political objective would prevail. Moreover, the government appoints the

³²⁷ Mills, Durepos and Wiebe (2010).

³²⁸ *ibid.*

³²⁹ Hanlon and Heitzman (2010); Mikhail (1999); Chen et al. (2010); Chen and Chu (2005); Khan, Srinivasan and Tan (2017); Desai and Dharmapala (2009).

³³⁰ Chernykh (2008); Bulatov *et al.* (2016).

³³¹ Bulatov *et al.* (2016).

³³² Estrin et al. (2016); Nurgozhayeva (2022); Bruton et al. (2015); Enikolopov and Stepanov (2013); OECD (2015b).

³³³ Nurgozhayeva (2022).

directors and corporate boards, whose duty is to fulfil the state's aims.³³⁴ Given the proximity to the government and being controlled by the government, the Russian SOEs appear to be more likely to follow the deoffshorization process and relocate their subsidiaries from offshore jurisdictions. In contrast to SOEs, state involvement in Russian private companies is not exercised through political objectives but rather in business matters of the business elite. As stated in Chapter 2, Russian business owners transfer their assets to offshore jurisdictions to prevent the Russian state from seeking assets beyond its reach.

For these reasons, the following hypotheses navigate the analysis of behavioural change in Russian companies:

Hypothesis 1: Russian SOEs are highly likely to 'deoffshorize' and repatriate their offshore-based subsidiaries in response to the deoffshorization process.

Hypothesis 2: If an oligarch of a Russian company has a good relationship with the government, a Russian company is highly likely to positively respond to the deoffshorization process.

Hypothesis 3: If an oligarch of a Russian company has no relationship with the government, a Russian company is highly likely to remain in the offshore jurisdictions with no response to the deoffshorization process.

No prior research has evaluated the response variations to the deoffshorization process among various ownership groups using a data set that essentially encompasses the presence of every selected company of the current study in offshore jurisdictions. This study categorises companies based on one distinction (ownership structure) to establish the internal validity of the causal assertion of the effect of the deoffshorization process on Russian companies. According to Mills, Durepos and Wiebe (2010), every instance selected for replication that exhibits dissimilarity on a single aspect permits the extension of conclusions to this aspect, given that

³³⁴ *ibid.*

evaluations validate anticipated results. It also strengthens internal validity and adds persuasiveness to the evidence by demonstrating consistency.

Due to the variety of factors affecting deoffshorization, the logic of replication rather than sampling will be applied to reflect the response of Russian companies to the deoffshorization process.³³⁵ Two case studies of SOEs are intended to explore literal replication, while six case studies of Russian private companies will pursue distinct theoretical replication patterns. The combined result of these eight cases would be adequate to establish internal validity of the causal assertion of the deoffshorization process effect on the behavioural change of Russian companies.

A smaller sample size may be sufficient to ensure the accuracy of the results, yet this approach increases the difficulty of choosing a sample and increases the potential danger of invalidity. Pertinent theoretical requirements must be established, which are typically more obvious towards the conclusion of the study process than when instances are being chosen. Cases that are acceptable by theory may be hard to locate leading to a risk of ambiguous research of unanticipated outcomes from a case that aims for replication.

4.3.3. Company Selection

The sample of selected case studies for this thesis is based on the largest Russian companies by the size of foreign assets at the first deoffshorization stage, namely 'Initiation of Russian anti-offshore policy' (2012-2014), and the substantial presence in the offshore jurisdictions. This is because the actual size of offshore assets is not generally disclosed to the public, while the decrease in foreign assets of Russian companies can be associated with the repatriation to the Russian Federation. Generally, official statistics do not provide such information, while the financial reports of Russian companies do not disclose offshore and foreign assets. The fragmented nature of the data and estimations highlights the absence of research conducted on the offshore assets of Russian companies. Hence, I turn to the list of the leading

³³⁵ Yin (2014).

Russian companies by the size of foreign assets provided by Kuznetsov (2016), Table 4.1.

Table 4.1. Ratings of top 20 Russian nonfinancial multinationals by foreign assets. Source: Kuznetsov (2016).

Place rated in 2014	Company	Industry	Foreign assets, \$ billion		Share in total assets in 2014	Foreign long-term assets, \$ billion	
			2013	2014		2013	2014
1	Gazprom	Oil-and-gas	40.1	36.0	13	31.6	27.8
2	Lukoil	Oil-and-gas	32.6	32.9	29	25.7	26.3
3	VimpelCom	Telecommunications	36.8	30.4	74	30.5	23.3
4	Rosneft	Oil-and-gas	8.4	9.4	6	6.6	7.1
5	Evrast	Steel	8.7	5.3	46	4.6	3.7
6	Sovkomflot	Transport	5.3	5.3	83	4.3	4.3
7	Rusal	Nonferrous metallurgy	3.7	2.8	19	3.0	2.2
8	Russian Railways	Transport	3.2	2.8	4	1.9	1.6
9	TMK	Steel	2.6	2.5	44	1.7	1.5
10	Zarubezhneft	Oil-and-gas	2.4	2.4	67	2.0	2.0
11	Atomenergoprom	Nuclear	2.8	2.4	6	2.2	1.8
12	Sistema	Conglomerate	3.0	1.7	8	2.0	1.1
13	Nordgold	Nonferrous metallurgy	1.7	1.6	73	1.1	1.0
14	Inter RAO UES	Electricity	1.6	1.6	15	1.1	1.0
15	Eurochem	Chemical	1.5	1.4	23	1.1	1.0
16	NLMK	Steel	1.6	1.3	12	1.1	0.8
17	Transneft	Transport	1.5	1.1	3	1.0	0.8
18	MMK	Ferrous metallurgy	1.1	1.0	12	0.9	0.7
19	Polymetal	Nonferrous metallurgy	0.2	1.0	35	0.2	1.0
20	Norilsk Nickel	Nonferrous metallurgy	0.6	0.7	5	0.3	0.4

The companies were selected based on the variations - industry, relationship with the government, and sanctioned against non-sanctioned companies.³³⁶ While Russian MNEs are particularly diversified in terms of industries and FDI, natural resource-based businesses constitute the majority of the top 20 industry structures, with oil and gas corporations holding the top three positions.³³⁷ To narrow down the sample, the empirical setting of the current study will involve Russian MNEs from three leading industries. Kalotay (2008) outlines three main categories of Russian TNCs: the oil and gas sector (which comprises the most prominent Russian companies, such as Gazprom and Lukoil), the metallurgy sector (NorNickel, Mechel and Severstal), and telecommunications (MTS and Vimpelcom). Zubkovskaya and

³³⁶ Mills, Durepos and Wiebe (2010).

³³⁷ Kalotay (2023).

Michailova (2014) also concentrate on three primary industries: oil and gas, telecommunications, and metallurgy.

1. Russian State-Owned enterprises

To conduct literal replication, I selected Gazprom and Rosneft as two Russian SOEs for the several seasons. Firstly, Gazprom and Rosneft are leading the list by the size of foreign assets among other Russian SOEs. Sovcomflot, Russian Railways, Atomenergohrom, and Zarubezhneft (Table 4.1) do not possess publicly known subsidiaries in the offshore jurisdictions. Furthermore, the Russian state controls a substantial share of Gazprom and Rosneft,³³⁸ while Sovcomflot, Russian Railways, Atomenergohrom, Zarubezhneft are fully-state owned enterprises. Excluding them from the case study sample will enhance the comparability of Gazprom and Rosneft in regard to replication logic.

Secondly, Gazprom and Rosneft are the most outstanding companies within the Russian oil and gas sector. Gazprom maintains a transmission and export monopoly on large-scale upstream gas production, with 78% of the national output.³³⁹ Rosneft has seen its share of oil output increase dramatically over the past several years.³⁴⁰ Both Gazprom and Rosneft are approved to utilize reserves on the continental shelf.³⁴¹ In the case of Russia, the state is confined to significant involvement in only crucial industries such as oil and gas,³⁴² which have long played a significant role in the country's economy.³⁴³ The oil and gas industry brings half of the federal budget and approximately 30% of the whole's budget revenue.³⁴⁴ The Russian government has equitable access to different resources that are necessary for businesses to function, which gives the government power over Gazprom and Rosneft in addition to directly owning their shares. At the same time, SOEs are subject to a lack of control

³³⁸ Kalotay (2023).

³³⁹ Aron (2013).

³⁴⁰ Simola and Solanko (2017).

³⁴¹ Rothacher (2021).

³⁴² Liljeblom, Maury and Hörhammer (2020).

³⁴³ Simola and Solanko (2017).

³⁴⁴ *Ibid.*

over the company's activities, a potential preference for governmental strategic duties over commercial ones, a high level of corruption, and bureaucratic complexity.³⁴⁵ As ownership structure influences the decision-making process and conduct of a SOE, it raises the question of whether the state ownership influences the tendency of SOEs to repatriate to Russia in response to the deoffshorization policy. Is there a conflict of interests between the state and other stakeholders (including private ones) in repatriation to Russia? As the largest extent of SOEs operate abroad through offshore jurisdictions, does Russian state involvement and ownership in SOEs positively affect the relocation of subsidiaries to Russia? Considering that after 2014, which followed the imposition of sanctions, the oil price crash, and geopolitical tensions between Russia and the Western countries, Russian corporations faced unfavourable conditions and were pressured to repatriate to Russia. As the Russian economy currently bears substantial losses due to external political and economic factors, the government is now seeking any chance to boost taxes to make up for the predicted reduction in state revenues.

The case studies are anticipated to have analogous findings as to Hypothesis 1. This will further allow me to assess whether the government plays a role in the repatriation of offshore-based subsidiaries. Other SOEs (Sovcomflot, Russian Railways, Atomenergohrom) are not related to the oil and gas industry, thus excluded from the current study.

2. Russian Private Companies

As for the private companies' selection, I selected Lukoil from the oil industry; Evraz, Rusal, TMK and NLMK from metallurgy; and VimpelCom from telecommunications.

For the oil and gas industry, the selection of Lukoil as a subject of the case study can be reasoned by the fact it is the largest private company, which is not substantially related to the Russian government. As Anders Åslund commented, the CEO of Lukoil,

³⁴⁵ Panibratov and Michailova (2019).

Vagit Alekperov, is ‘comparatively independent’ from the Russian government.³⁴⁶

Therefore, the study of Lukoil’s response to the deoffshorization process will allow me to compare against Russian SOEs, where the government plays a substantial role in the decision-making process and conduct of SOEs. Moreover, Lukoil is considered as one of the most significant Russian outbound investment businesses, leading by the size of foreign assets.³⁴⁷

As for the metallurgy industry, it consists of four leading companies: EVRAZ, TMK, NLMK and Rusal that are selected for the current study of private companies. Each of the aforementioned companies has a prominent presence in offshore jurisdictions with formal control over holdings in the Netherlands, Luxembourg, Ireland and Switzerland. However, metallurgy case studies share similarities in all pertinent characteristics aside from the extent of proximity to the government. The major shareholder of NLMK does not have publicly known relationship with the government. The selection of this company will allow me to confirm the prediction of the relationship between the government and the positive response to the deoffshorization process (Hypothesis 3).

On the other hand, the oligarchs of TMK, Evraz and Rusal are known to have a good relationship with the government. One of the three major shareholders of EVRAZ, Roman Abramovich, is reported to have an unusually tight relationship with President Putin, but he is very secretive about it.³⁴⁸ As for Rusal, the major shareholder, Oleg Deripaska, lost control over his companies as a result of sanctions, as previously outlined in Chapter. The selection is justified not only by that aspect but also, as Rothacher (2021) classified, Oleg Deripaska is among oligarchs, who considered to have relationship with the government. If these companies are found to relocate from offshore to Russian jurisdiction during the deoffshorization process, then the deoffshorization process is successful only in regard to Hypothesis 2, private companies with proximity to the government (theoretical replication).

³⁴⁶ Hyatt (2022).

³⁴⁷ Sutyryn et al. (2019); Joint Report by Vale Columbia Center and IMEMO (2013).

³⁴⁸ Fortescue and Hanson (2015).

The Russian telecommunication industry is dominated by Vimpelcom (currently VEON). The company is controlled by the Russian owner, who is not part of the president's inner circle.³⁴⁹ VimpelCom was chosen due to the fact that the role of the Russian government is limited in the activities of the telecommunication companies.³⁵⁰ Moreover, telecom companies are more resilient to the political and economic factors. The consumer demand for mobile communication services in Russia provides protection from economic downturns.³⁵¹ On the other hand, Vimpelcom was not personally targeted by the sanctions following the conflict in Ukraine in 2014 and in 2022. Hence, the inclusion of VimpelCom as a Russian telecom company will provide outstanding to other industries samples, where the sanctions do not play a crucial role in reshaping the activities of Russian companies.

Table 4.2. Companies Selection.

Company	Type	Industry	Ownership	Proximity to the government
GAZPROM	SOE	Oil and gas	Government (partial)	Close
ROSNEFT	SOE	Oil and gas		Close
LUKOIL	Private	Oil and gas	Vagit Alekperov	No
VimpelCom	Private	Telecommunications	Mikhail Fridman Petr Aven	No
RUSAL	Private	Metallurgy	Oleg Deripaska	Good
EVRAZ	Private	Metallurgy	Roman Abramovich (partial)	Good
NLMK	Private	Metallurgy	Vladimir Lisin	No
TMK	Private	Metallurgy	Dmitry Pumpyanskiy	No

The companies are observed from the first stage of deoffshorization development (2012-2014) to the 'New Reality', so-called third stage of deoffshorization (2022-currently). The first step is founded on the analysis of ownership structure and

³⁴⁹ Kluge (2021).

³⁵⁰ Kluge (2017).

³⁵¹ Panibratov (2012).

the subsequent changes throughout the deoffshorization process. Apart from the SOEs, private companies are almost exclusively controlled by the Russian business elite, which raises the question of whether their relationship with the Russian government influences the tendency of businesses to repatriate to Russia in response to the deoffshorization policy. Each selected company and its controlling shareholder present a different level of relationship with the Russian government (Table 4.2). If the pattern of findings across companies is uncovered, the case studies will offer solid evidence against the success of the deoffshorization.

The second step will involve the investigation of the structure of business groups to identify those subsidiaries located in offshore jurisdictions and the following changes during the deoffshorization process in Russia. In this regard, I expected that the absence of political and economic effects, such as sanctions, would be a crucial factor that prevents the deoffshorization regulations from being successfully applied. So, companies that are not targeted by Western sanctions would continue to develop new schemes to optimise taxation. The presence of sanctions and a hostile political environment may influence Russian companies to respond with the closure of certain subsidiaries in the European offshore jurisdictions. It is vital to outline the indirect impact of sanctions, especially on the natural-resource companies. Sanctions may have an indirect effect on export sales, restricting insurance and reinsurance of Russian cargo of foreign buyers of Russian steel products.³⁵² A regime of worldwide sanctions from 2022 has involved personal sanctions against the Russian business elite. While Russian SOEs were directly sanctioned, private owners of companies were subject to seizure and freezing of their assets held abroad.³⁵³ This will be considered in the analysis of the holdings and offshore-based subsidiaries. With two waves of sanctions (2014 and 2022), I expected the empirical findings of this study to be categorised into two chronological stages of the deoffshorization development: 2014-2021 and 2022-currently. The first stage of deoffshorization (2012-2014) presents data for the comparative analysis of pre-deoffshorization offshore structures.

³⁵² Semin et al. (2022).

³⁵³ Harrington (2022).

Additionally, I do not concentrate the empirical study on the distinctions between domestic and offshore subsidiaries. For this Thesis, I limit the selected sample to include only offshore-based subsidiaries of Russian companies, excluding the domestic subsidiaries. The evaluation will be rather based on the repatriation of foreign subsidiaries from offshore jurisdictions to Russia or non-offshore jurisdictions. The case studies are rather set to provide whether the size of total assets in the offshore jurisdictions decreased in response to the deoffshorization process.

4.3.4. Data collection and analysis

This thesis is set to study the complex deoffshorization process and evaluate its effect on the company's usage of offshore jurisdictions. Thus, determining which data represented MNE operations with offshore components is a more challenging methodological issue. A case study dismantles the notion of the method as an instrument.³⁵⁴ As a case study method handles a variety of variables, a good case study depends on several sources of evidence, requiring triangulating data coverage.³⁵⁵ Considering the complex nature of the deoffshorization, a case study would allow the use of a variety of data sources.³⁵⁶ In line with this, to systematically evaluate the deoffshorization effect on limiting the use of offshore jurisdictions, the study aims to analyse the case studies of two types of Russian companies using mixed methodology.

The current study also employs a quantitative method to discover patterns of within-case study variation in the offshore jurisdiction presence of Russian companies and important changes in the relocation of offshore-based subsidiaries. As the 'success' of deoffshorization is measured by observing the changes in the offshore presence of Russian companies over the course of deoffshorization, using three indicators, the quantitative analysis employs a pre- and post-regulation comparison. First, the offshore presence of Russian companies is measured by changes in the

³⁵⁴ Mills, Durepos and Wiebe (2010).

³⁵⁵ Ebneyamini and Moghadam (2018).

³⁵⁶ Ebneyamini and Moghadam (2018), Yin (2012a).

complexity of offshore-routed pyramidal ownership, quantified as the number of ownership intermediaries through which Russian companies are controlled. Second, offshore presence is measured through changes in the number and status of offshore subsidiaries. Third, the offshore presence is measured through the ratio of assets in the offshore-based subsidiaries to total assets before and after the introduction of the deoffshorization regulations.

Deoffshorization will be regarded as successful when all three indicators illustrate an ongoing decline in offshore presence – a material decline in the ratio of offshore assets relative to the pre-deoffshorization period, a reduction in the number of active offshore subsidiaries, and restructuring of offshore pyramidal ownership chains. As the ratio of offshore assets can fluctuate due to factors not connected to deoffshorization, additional indicators to offshore assets ratio will validate the observable decline in offshore presence and, as a result, the success of deoffshorization. Moreover, as not all companies use offshore jurisdictions for tax benefits but also for operational reasons and access to global markets, a complete liquidation of offshore subsidiaries and zero offshore assets will not be interpreted as an essential requirement for the success of deoffshorization. Deoffshorization will be considered partially successful if two of the three indicators demonstrate a change in offshore presence. Conversely, deoffshorization will be regarded as unsuccessful if only one or no indicators illustrate change, with the ratio of offshore assets to total assets, offshore ownership chain, and corporate structures remaining unchanged or increasing over the course of deoffshorization. This approach provides a better understanding of whether deoffshorization regulations have any effect on capital flow channels to offshore jurisdictions used by Russian companies. This is an essential methodological decision which enables the use of a more specific analytical tool to establish a chain of evidence.

The quantitative data come from two database sources: Bloomberg and Eikon. The pertinent data gleaned from two databases includes the list of offshore-based subsidiaries, the total assets of the parent company and offshore-based subsidiaries, and the shareholder structure. The data enables the exploration of within-variation in

the foreign presence of Russian companies and monitors the shifting dynamics before and after the introduction of the deoffshorization regulations. The research period covers 2012 – 2024 and captures the years prior to deoffshorization (2012 – 2014) and the deoffshorization period (2014 – currently).

The qualitative method will include the review of journal articles, official reports, working papers, business news and financial statements of the Russian companies to identify factors affecting the response to the deoffshorization regulations. As previously mentioned, the majority of Russian companies are not directly controlled by shareholders but rather through intermediary offshore-based companies. Not only that, but Russian companies employ a complex corporate structure with a number of subsidiaries in offshore jurisdictions. The qualitative method would allow me to detect the restructuring of these companies from offshore jurisdictions to interpret the quantitative data. Hence, in order to deal with the complex assignment of determining the true owners of Russian companies, I rely on data that is manually gathered from formal disclosure filings by public Russian enterprises. The detailed examination of business news provides updated information on Russian shareholders, including informal ownership. This will allow me to recognise links that trace and uncover hidden connections attributable to the comprehensive information provided about owners and their registration addresses.

It is important to mention the main component of the current study is the comprehensive use of data in the Russian language. This includes contemporary legislation related to the deoffshorization process, which has never been subjected to prior analysis from international scholarly sources. The main Russian legal databases' broad accessibility in English will be taken into account. To identify the structure of business groups and subsidiaries, this paper will employ a systematic search of publicly available information. The financial statements serve as the foundation for evaluating information on Russian SOEs and private companies, which may also include information on the subsidiaries of the corporation. According to Article 8 of Federal Law No. 208-FZ "On the Consolidated Financial Statements" of 27 July 2010, organisations whose securities are admitted to a quotation list and admitted to

organised trading are required to prepare consolidated financial statements. This will allow me to recognise links that trace and uncover hidden connections attributable to the comprehensive information provided about owners and their registration addresses. Upon reviewing the financial statements of publicly traded corporations, serious issues can be found.

The majority of companies do not disclose all of their subsidiaries in the offshore jurisdictions, predominantly stating the most notable subsidiaries, with some solely containing information about the parent organization.³⁵⁷ Moreover, financial statements may be presented in different ways from year to year, which makes it challenging to gather and interpret information about the business, hindering the evaluation of its financial condition.³⁵⁸ Particularly in the case of sanctions, companies are at risk of publicly available information about their operations.³⁵⁹ In 2022, due to the potential imposition of sanctions, Russian businesses were granted the right to withhold almost all information that was published in compliance with the legislation.³⁶⁰ Among those companies that did not disclose their financial statements for 2022 were not only SOEs but privately owned companies.³⁶¹ To omit that, documents will function as part of the triangulation of evidence to validate the findings obtained from other sources.³⁶²

National commercial registers offer confirmation of company registration, registry extracts, and copies of company filings online.³⁶³ One of such registers has been introduced in Russia. The Federal Tax Service maintains the Unified State Register of Legal Entities (USRLE),³⁶⁴ which lists every legal entity that has been lawfully established and is currently in existence in accordance with Russian legislation. USRLE has been developed in accordance with para 1 of Article 7 of the Federal Law of August 8, 2001, No. 129-FZ “On State Registration of Legal Entities

³⁵⁷ Grechenyuk, Grechenyuk and Polozhentseva (2015).

³⁵⁸ *Ibid.*

³⁵⁹ Vedomosti (2023a).

³⁶⁰ *Ibid.*

³⁶¹ *Ibid.*

³⁶² Tellis (1997).

³⁶³ Brett (2015).

³⁶⁴ USRLE. See <https://USRLE.nalog.ru/index.html>.

and Individual Entrepreneurs”. Hence, if a company cannot be found in the database, it doesn't exist in the Russian Federation. Cyprus also has a register of companies, which comes under the Ministry of Energy, Commerce and Industry.³⁶⁵ The register allows to keep track of basic information of every registered company in Cyprus,³⁶⁶ which can be found in the Companies Section of the Department of Registrar of Companies and Intellectual Property.³⁶⁷ Considering that Cyprus is a popular destination for Russian businessmen, the registry will substantially help to check the status of their holdings. Luxembourg provides Trade and Companies Register (RCS) electronic filing³⁶⁸ under the authority of the Minister for Justice.³⁶⁹ The current study will employ RCS for subsidiaries based in Luxembourg to see the registration date of the company and, if applicable, the liquidation date.

This study will also use the company registry of Switzerland - Central Business Names Index based on the Central Register of the Federal Commercial Registry Office - Zefix.³⁷⁰ It provides free access to basic information about a company, including general information on the company's status and registered address.³⁷¹ Zefix has been previously used in the research. Looser and Wehrmeyer (2015), Looser and Wehrmeyer (2016) employed Zefix, Swiss commercial register, to cross-check Corporate Social Responsibility (CSR) implementation among Swiss companies. Moreno, Mezzetti and Lacube (2022) used Zefix as one of the sources to link companies to technology.

To see the status of Dutch-based subsidiaries, this study will use the Dutch Business Register (KVK),³⁷² which is provided by the Dutch Chamber of Commerce and authorised by the government through the Business Register Act.³⁷³ KVK

³⁶⁵ The Website of European Justice: Business registers in EU countries.

³⁶⁶ Kougioumtsidis, Lois and Repousis (2018).

³⁶⁷ Cyprus Business Entity's Register. See <https://www.companies.gov.cy/en/21-eservices/esearch-in-business-entity-s-registry>

³⁶⁸ Luxembourg - Trade and Companies Register (RCS). See <https://www.lbr.lu/>

³⁶⁹ The Website of European Justice: Business registers in EU countries.

³⁷⁰ Switzerland – Central Business Names Index (Zefix). See <https://www.zefix.ch/en/search/entity/welcome>

³⁷¹ Brett (2015).

³⁷² Dutch Business Register (KVK). See <https://www.kvk.nl/zoeken/?source=all&q=&start=0&site=handelsregister>

³⁷³ The website of European Justice: Business registers in EU countries.

provides whether the company is active or dissolved, the registered address, and directors.³⁷⁴ Ireland's Companies Registration Office (CRO) also provides publicly available information on the status of a company, the date of incorporation, and the address.³⁷⁵ Singapore has a business registry, provided by the Singapore Government.³⁷⁶ A registered company can be found by searching UEN (Unique Entity Number), providing basic information about an entity. As for the United Arab Emirates (UAE), the Ministry of Economy provides a Unified Commercial Registration System.³⁷⁷ Considering the growing popularity of Dubai and Abu Dhabi as a favourite option for wealthy individuals to establish their family companies and personal wealth,³⁷⁸ the Unified Commercial Registration System will be used to check the status of companies registered there. It is important to highlight that each case offers a unique set of options for gathering data, thereby not every source applies to every case study.³⁷⁹

4.3.5. Limitations

This thesis is aware of its limitations. While the literature on the use of offshore jurisdictions and offshore schemes is abundant, the data surrounding offshore structures is limited. Considering the lack of transparency surrounding the offshore jurisdictions, the diversified methodological approach allows to expound the process of deoffshorization with the possibility of circumventing the lack of transparency surrounding the offshore study.

It is important to highlight that the information on deoffshorization is limited for various reasons. These include the opaque ownership structures of Russian companies and the data on their subsidiaries and assets in offshore jurisdictions.

³⁷⁴ Brett (2015).

³⁷⁵ Ireland's Companies Registration Office (CRO). See <https://www.gov.ie/en/service/search-for-company-documents-in-the-companies-registration-office/>.

³⁷⁶ Singapore's Company Register. See <https://www.uen.gov.sg/ueninternet/faces/pages/uenSrch.jspx>.

³⁷⁷ See: https://ner.economy.ae/Search_By_BN.aspx.

³⁷⁸ Bloomberg (2023).

³⁷⁹ Tellis (1997).

Since offshore jurisdictions have strong confidentiality regulations, only openly accessible data may be utilised in this thesis, which could result in an incomplete picture of all subsidiaries and their assets in offshore jurisdictions, as well as undisclosed ownership chains. Moreover, the use of such condensed and insufficient data could lead to the omission of specific details, such as subsidiary names and offshore-based asset ratios. To mitigate omitted data, I have attempted to cross-check across consolidated financial statements of Russian companies, Bloomberg and Eikon datasets, and national company registers of offshore jurisdictions where available. In particular, the study cross-checks the ownership-chain data (including the status of intermediaries and their controlling share), the status of subsidiaries in offshore jurisdictions, their jurisdiction changes, and the reported offshore assets to capture changes in offshore presence, and, where applicable, records the variation in sources. While the estimate of repatriated offshore assets to Russia should be interpreted as an indicative rather than an accurate measurement due to the data constraints, cross-checking across these various sources provides an account of the trajectory of change in the offshore presence of Russian companies.

4.4. Conclusion

This chapter establishes an approach necessary for assessing whether deoffshorization is successful in restricting the use of offshore jurisdictions. As the analysis of capital flow has certain limitations, this study shifted the empirical focus on the behavioural change of companies in response to deoffshorization regulations. The first section of this chapter surveys the body of literature on the causation between regulatory changes and behavioural changes in companies. These studies inform that behavioural change in companies takes different forms, including ownership structure and relocation of subsidiaries and holdings within business groups.

Although deoffshorization is an alternative approach to the fight against the use of offshore schemes as being the result of the historical complexities of Russia, this thesis builds the analytical framework on the insights of these studies. In particular,

the understanding of how the introduction of rules and anti-offshore policies can lead to a change in behaviour of Russian companies, essentially whether the decisions made by their shareholders and managers lead to the restructuring of offshore corporate and ownership structures. Hence, the empirical analysis is based on the case studies of behavioural change at two levels. The first level includes ownership structure and the use of pyramidal structure through offshore jurisdictions. With the implementation of the deoffshorization, do Russian businessmen restructure their control over a company through offshore shell companies? The second level includes corporate structure to see whether offshore structure changes as a result of the introduction of the deoffshorization regulations and whether more or less offshore-based subsidiaries relocate from offshore jurisdictions.

Another focus of the literature is on how the ownership type of companies plays a significant role in determining the use of offshore schemes. Scholars such as Mikhail (1999) separate public and private companies in their strategic motivations. While SOEs predominantly have political objectives, private companies concentrate on profit maximisation. Building on that, the empirical analysis focuses on two different groups of Russian companies – SOEs and private companies – to determine how each type responds to deoffshorization. Given that deoffshorization is a complex process with a multifaceted approach to regulations, the study will be carried out utilising a multiple-case study design.

The subsequent Chapters 5, 6 and 7 will conduct case studies analysis in determining whether deoffshorization had success in prompting any change in companies' use of offshore jurisdictions.

Chapter 5: State-Owned Enterprises and the Deoffshorization Process

5.1. Introduction

The analysis of State-Owned Enterprises (SOEs) is one of the starting points in evaluating the deoffshorization process in the Russian Federation. First, which enterprises are considered to be state-owned? The OECD (2015b) identifies an SOE as a corporate enterprise in which a state is either an owner of the majority of voting shares or the minority of shares and can exercise control over a company. State ownership can place political objectives on SOEs,³⁸⁰ yet such influence can significantly impact the propensity of businesses to grow internationally.³⁸¹ Shleifer and Vishny (1997, p. 768) state that the government has ‘only an indirect concern about profits’, as profits are added to the state budget, yet the political objective would prevail. The government appoints the directors and corporate boards, whose duty is to fulfil the state’s aims.³⁸² Therefore, as the government can influence the SOEs’ policy objectives, it is crucial to analyse their response to the deoffshorization process.

The analysis will focus on two main SOEs, Gazprom and Rosneft, which both involve corporate offshore structures. With the government’s involvement, Russian SOEs substantially monopolised resource industries, such as the oil and gas sector, and became the primary channel of outward FDI.³⁸³ Prior to deoffshorization, both Gazprom and Rosneft managed their foreign operations through offshore jurisdictions.

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The findings on Russian SOEs partially align with Hypothesis 1. The empirical research finds that SOEs’ proximity to the Russian government did not contribute to an immediate relocation of their offshore subsidiaries. Russian SOEs continued to

³⁸⁰ Estrin et al. (2016); Nurgozhayeva (2022); Bruton et al. (2015); Enikolopov and Stepanov (2013); OECD (2015b).

³⁸¹ Panibratov and Michailova (2019).

³⁸² Nurgozhayeva (2022).

³⁸³ Panibratov and Michailova (2019).

³⁸⁴ Kheyfets (2015).

operate in European offshore jurisdictions until 2020. The gathered evidence provided that Russian SOEs deoffshorized and repatriated their offshore-based subsidiaries at the later stages of the deoffshorization process. A notable success of the deoffshorization regulation observed is the termination of DTT between the Netherlands and Russia in 2020-2021, which led to the relocation and dissolution of SOEs' offshore-based subsidiaries and assets. A certain portion of relocated companies re-domiciled to the Russian SARs, which is another prominent deoffshorization measure. Given that the hypothesis has been partially confirmed, its application may vary depending on other factors, particularly with reference to export dependency of Russian SOEs and the development of a hostile political environment.

5.2. GAZPROM

Gazprom is considered one of the most important SOEs. As Poussenkova (2010, p. 113) comments, "What is good for Gazprom is good for Russia", illustrating how the SOE's prosperity is crucial for the state. Gazprom is typically regarded as the Russian government's most profitable asset, the performance of which benefits the interests of the state.³⁸⁵ Certainly, the company's legislative preferences have been shaped by its close ties to the government. Russia legalised the export monopoly in 2006, which endorsed the large-scale production and sharing agreements of gas exploration.³⁸⁶ In turn, this allowed Gazprom to substantially internationalise its business structure and diversify gas export routes and markets abroad, by which the Russian government maximised the market share of Gazprom.³⁸⁷ At the same time, Gazprom is one of the largest Russian taxpayers, the tax contributions of which were more than 20% of St. Petersburg's fiscal revenue in 2022.³⁸⁸

According to Gazprom's Annual Report (2020), the current largest shareholder is the Russian government, which controls Gazprom through three key institutions: the

³⁸⁵ Fernandez (2022).

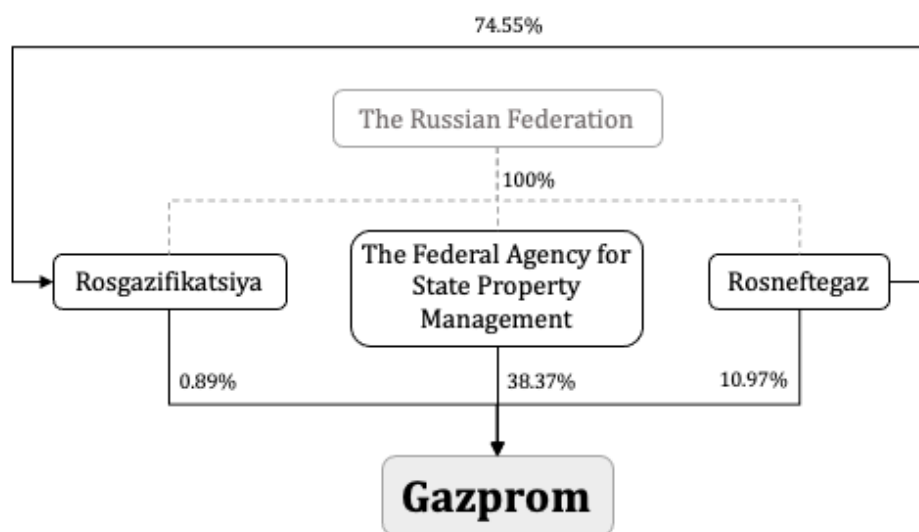
³⁸⁶ Belyi (2013).

³⁸⁷ Clune (2014).

³⁸⁸ Gazprom Group's Sustainability Report (2020).

Federal Agency for State Property Management (*Rosimushestvo*), Rosneftegaz, and Rosgazifikatsiya (Figure 5.1). The Federal Agency for State Property Management (*Rosimushchestvo*) is 100% owned by the Russian government and entirely controls Rosneftegaz.³⁸⁹ Rosgazifikatsiya is, in turn, managed by Rosneftegaz (Figure 5.1). Through these interrelated entities, the government preserves an organised authority structure over Gazprom. Furthermore, Gazprom management has ties to governmental officials, such as the closely connected to the government CEO of Gazprom, Alexey Miller.³⁹⁰ According to Makarchev and Wieprzowski (2021), SOEs are embedded into active government support and under scrutiny to appoint regime supporters.

Figure 5.1. The ownership structure of Gazprom (2020).



Source: Gazprom – Annual Report (2020).

However, to describe Gazprom as being wholly owned by the state would be inaccurate. Gazprom states that “*The Russian Federation does not have a special right to manage PJSC Gazprom’s affairs (a ‘golden share’).*”³⁹¹ While the Russian government, directly and indirectly, controls 50.23% of Gazprom’s shares, the rest, 49.77%, is owned by private shareholders.³⁹² As Henderson and Moe (2024) stated,

³⁸⁹ Gazprom – Annual Report (2020).

³⁹⁰ Wallace and Kantchev (2022).

³⁹¹ *Ibid.*

³⁹² Gazprom Group’s Sustainability Report 2020.

Gazprom has been operating as a ‘hybrid between a publicly quoted company and a state bureaucracy’.

Gazprom presents a compelling case for analysis of the company’s response to the deoffshorization initiative, as it maintained such structure involving governmental officials and private shareholders during the deoffshorization process. This case study will allow me to evaluate whether the subsidiaries and assets relocated from offshore jurisdictions to Russia, considering the conflict of interest between economic and political objectives between the state and private shareholders.³⁹³

As one of the largest gas producers, Gazprom substantially expanded abroad to foreign markets by establishing a significant number of subsidiaries controlled directly and indirectly. As Gazprom holds a monopoly on the transport and export of gas from Russia, the business structure is built on the gas-producing subsidiaries, which then trade gas to other Gazprom subsidiaries at internal lower transfer prices.³⁹⁴ Russian gas has a substantial market share in the European market, which has led to a complex web of Gazprom’s interconnected subsidiaries.³⁹⁵ For instance, Gazprom provides gas through its subsidiary *Gazexport*, which then trades gas to other Gazprom subsidiaries, joint ventures, or intermediary companies.³⁹⁶ Another subsidiary *Gazprom Marketing & Trading Limited*, registered in the UK, trades in Ireland, the UK, France, and the Netherlands.³⁹⁷ *Gazprom Germania* has a joint venture with *Wintershall Erdgas Handelhaus GmbH* to distribute gas to Germany and other EU countries.³⁹⁸ The profitable export sales and status of the dominant Russian gas company allowed Gazprom to build a complex system of subsidiaries worldwide, including in offshore jurisdictions. The idea is that in a liberalized economy, an exporter needs to establish a presence downstream to gain liaison with ultimate consumers in order to secure its market shares.³⁹⁹ By adopting a policy of purchasing

³⁹³ Bruton et al. (2015), OECD (2015b); Enilokipov and Stepanov (2013).

³⁹⁴ Grigoryev (2007).

³⁹⁵ Aune et al. (2015); Belyi (2013).

³⁹⁶ Arınç (2007).

³⁹⁷ Fernandez (2022).

³⁹⁸ Łoskot-Strachota (2009).

³⁹⁹ Locatelli (2008).

facilities in gas delivery and distribution businesses, gas suppliers can position their facilities with no need competition with other gas producers in the economy. The survey of the existing literature indicates that the majority of Gazprom's offshore companies operate as intermediaries facilitating the gas trade to other non-offshore subsidiaries. As Smith (2010, p. 5) cited Kupchinsky (2009), Gazprom built a complex system of opaque companies throughout Europe in cooperation with diverse European partners, which is connected to firms in Cyprus and finance companies in Lichtenstein. Closson and Dainoff (2015) observed that Gazprom's subsidiaries, especially investment companies, banking, and gas trading companies, are registered in offshore jurisdictions such as Cyprus, the Cayman Islands, and the British Virgin Islands.⁴⁰⁰ Hence, this section will assess whether the deoffshorization process had any positive impact on the reorganisation and relocation of Gazprom offshore-based subsidiaries.

According to Reuters Eikon, Gazprom has a total of 168 subsidiaries, with 13 of them in offshore jurisdictions. However, the cross-check between the existing data provided by the literature and news agencies stipulates that data is partial, and it is highly likely that Gazprom employed a more complex offshore structure. The data indicates that total assets of Gazprom held in the offshore jurisdictions noticeably increased following the course of the deoffshorization process, as prior to the deoffshorization Gazprom had 4% of assets in OFCs in 2012, contrasting to 13% of assets in 2014 (Panel B, Figure 5.2). Although the US imposed sanctions against Gazprom in 2014,⁴⁰¹ the EU did not specifically target Gazprom due to its deep mutual interdependence. Yet, the overall sanctions against Russia indirectly affected Gazprom by disrupting Gazprom's activities in the European market.⁴⁰² This marked the beginning of most relocation measures. According to Panibratov and Gaur (2022), Gazprom and Wintershall planned an asset transfer at the end of 2014 to give Gazprom full power over significant German gas marketing firms, which consequently failed. In February 2015, Gazprom decided to move the London office of *Gazprom*

⁴⁰⁰ Closson and Dainoff (2015).

⁴⁰¹ Financial Times (2014).

⁴⁰² Reuters (2014).

Marketing & Trading Ltd to St. Petersburg, Russia.⁴⁰³ Following this, most Gazprom subsidiaries relocated their key European offices to Russia.⁴⁰⁴

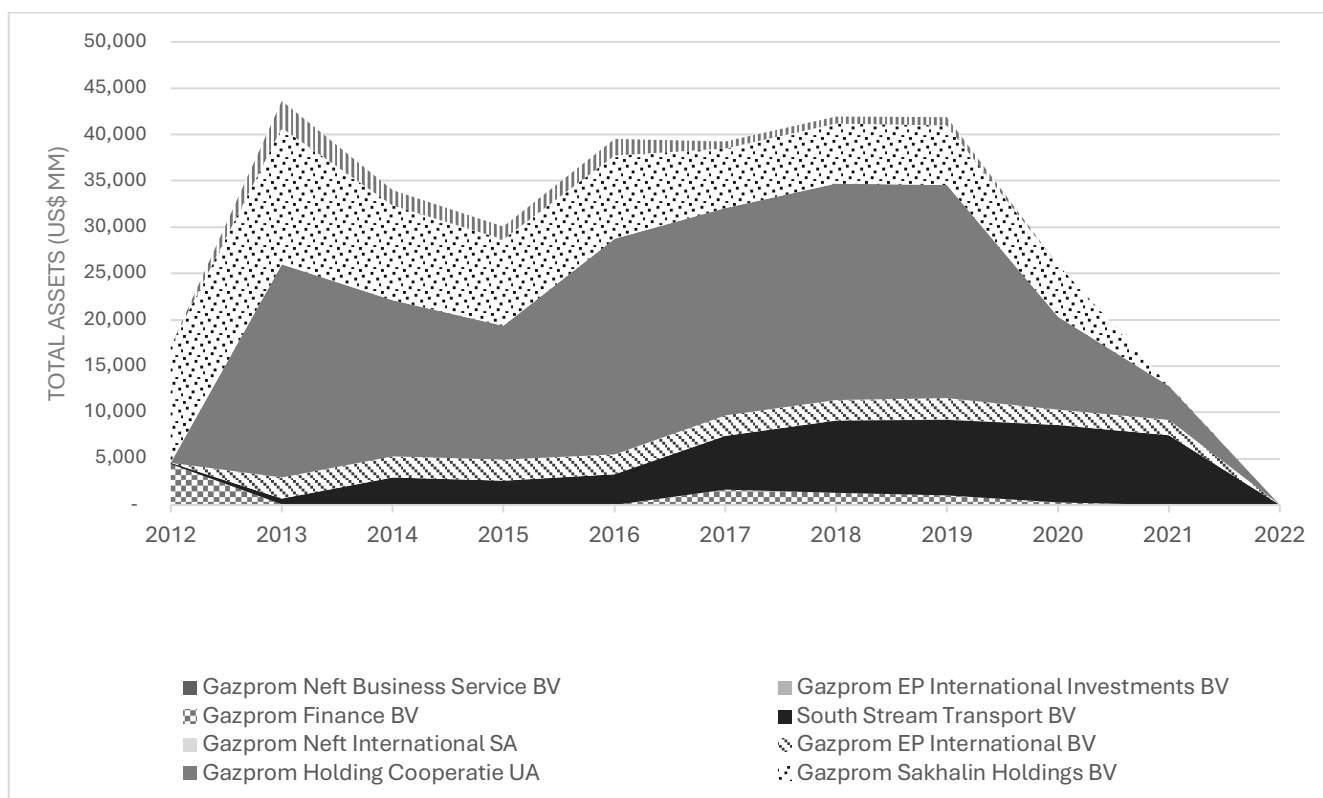
Despite that, the wider effect of geopolitical tensions and the first wave of imposed sanctions in 2014 did not substantially affect the repatriation of assets held offshore to Russia. The proportion of total assets held by offshore Gazprom subsidiaries remained consistent at 13% to 14% of Gazprom's total assets. Considering the substantial involvement of the state in Gazprom's operations, it would be expected that Gazprom has an obligation to follow the deoffshorization policy. However, the proportion of total assets held by offshore-based subsidiaries had only started reducing from 12% in 2019 to 0% by 2022. The substantial decline in total assets of Gazprom offshore-based subsidiaries can be explained by the series of amendments to DTTs from 2020, which are one of the prominent deoffshorization measures. As Chapter 3 outlined, with the development of the deoffshorization in the Russian Federation, DTTs with Cyprus, Malta, and Luxembourg have already been amended, and DTT with the Netherland has been terminated.

⁴⁰³ Panibratov and Gaur (2022).

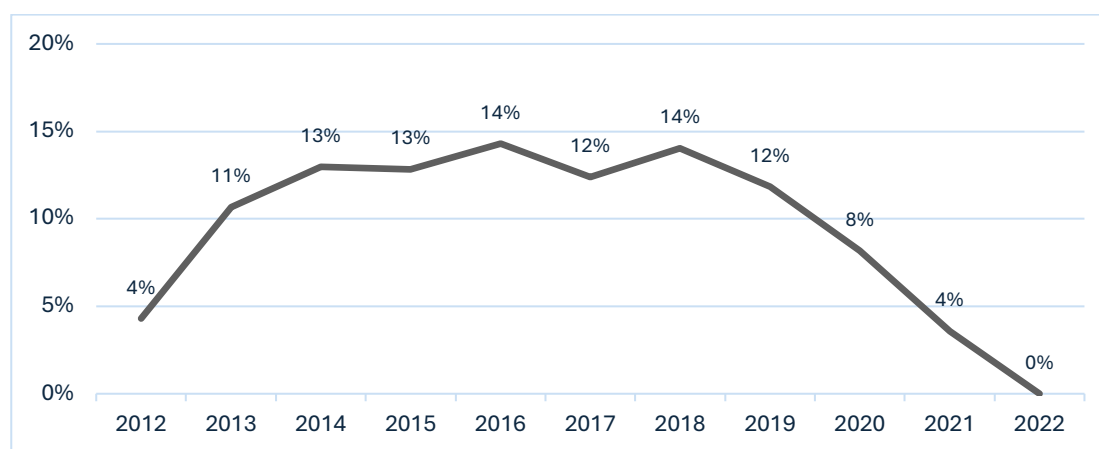
⁴⁰⁴ The Moscow Times (2015), Lowe (2018).

Figure 5.2. Components of total assets of the offshore-based Gazprom subsidiaries.

Panel A



Panel B



Note: Panel A: total assets of Gazprom subsidiaries (in the Netherlands and Luxembourg), 2012-2022. The data from 2023 is excluded as it has not been disclosed. Panel B: the percentage of total assets of the manually observed sample to total assets of Gazprom, 2012-2022. Source: Bloomberg and Eikon dataset.

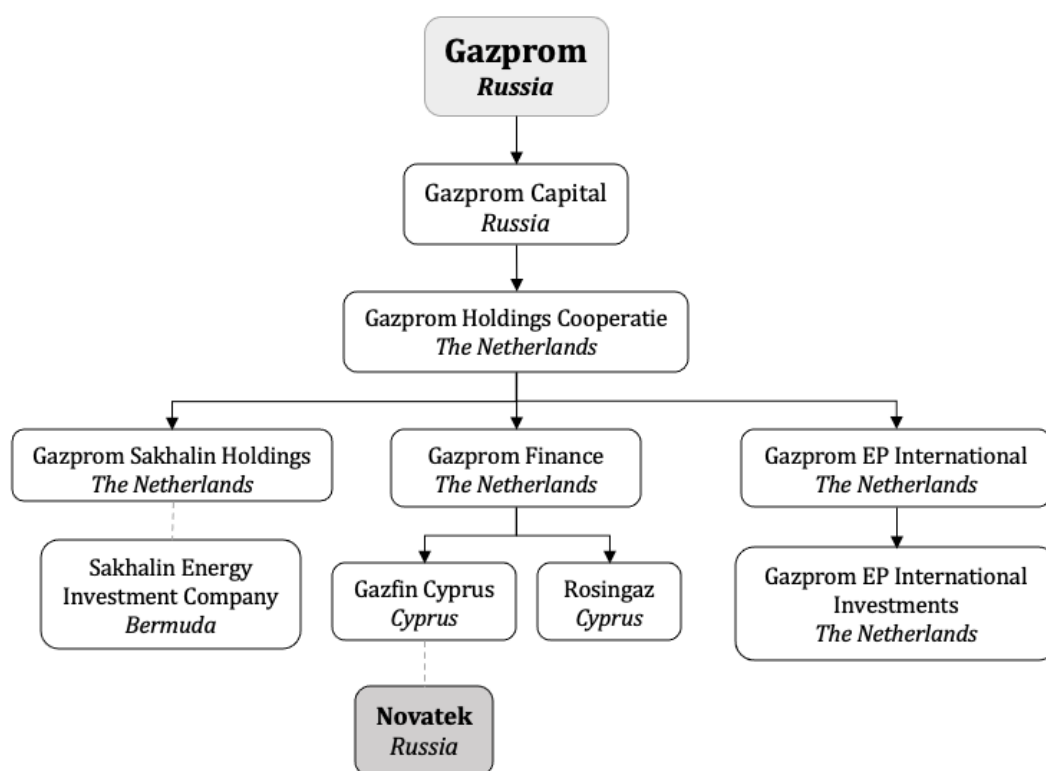
Panel A, Figure 5.2 provides the comprehensive overview of Gazprom subsidiaries registered in the Netherlands, a favourable jurisdiction for holding structures of MNCs that provides a wide-ranging system of low-tax rate bilateral treaties. Interestingly, the Netherlands does not provide a low tax rate; the corporate income tax rate is 25.8% if the taxable amount is EUR 395,000,⁴⁰⁵ which is higher than the Russian tax rate (20%). However, the Netherlands provides special corporate tools and structures that facilitate effective tax planning, especially for holding companies. These benefits make it attractive for Russian businesses.⁴⁰⁶ Hence, the developed financial system and the large concentration of foreign businesses in the Netherlands allow Gazprom to operate in jurisdictions outside of Russia, not necessarily for tax benefits purposes, but commercial ones. However, with the termination of the DTT between the Netherlands and Russia, Gazprom underwent major restructuring of its offshore subsidiaries.

Figure 5.3 illustrates the structure through which Gazprom controlled subsidiaries in the offshore jurisdictions prior to the termination of the DTT between the Netherlands and Russia in 2021. The subsidiaries mentioned in Figure 5.3 - *Gazprom Holdings Cooperatie UA*, *Gazprom Sakhalin Holdings BV*, *Gazprom Finance BV*, *Gazprom EP International BV*, and *Gazprom EP International Investments BV* - were all registered in the Netherlands and controlled by one major subsidiary – *Gazprom Capital* (Russia). These Dutch subsidiaries further controlled offshore-based companies in Cyprus and Bermuda (Figure 5.3).

⁴⁰⁵ Government of the Netherlands. See: <https://www.government.nl/topics/taxation-and-businesses/corporation-tax>

⁴⁰⁶ Sherimov (2015).

Figure 5.3. The partial structure of Gazprom offshore-based subsidiaries (2019-2020).



Source: the consolidated financial reports of Gazprom (2019, 2020).

The detailed analysis of consolidated financial statements of Russian-based *Gazprom Capital* indicates that the company was acquiring the subsidiaries and its assets following the DTT termination between the Netherlands and Russia in 2021. This clarifies the decline of total assets of the offshore-based subsidiaries and indicates the successful application of the deoffshorization measure, as the termination of the DTT led to the relocation of offshore-based assets from Dutch subsidiaries to Russian-based *Gazprom Capital*. Firstly, Gazprom Capital obtained *Gazprom EP International BV* from *Gazprom Holding Cooperatie UA*, both based in the Netherlands.⁴⁰⁷ As such, Gazprom Holding Cooperatie was established in the Netherlands to manage liquidity and facilitate the distribution of funds from the Netherlands to Russia.⁴⁰⁸ With the introduction of CFC rules in 2014, the subsidiary was categorised as CFC, meaning that the company has to pay Russian taxes from

⁴⁰⁷ Interfax (2021a).

⁴⁰⁸ Kommersant (2013).

retained earnings. The company did not immediately relocate to Russia following the introduction of CFC rules, yet with the DTT termination, the subsidiary was replaced with Russian-based *Gazprom Capital*. As a result, the assets of *Gazprom Holding Cooperatie UA* (the Netherlands) were reduced from 2020 to 2021 (Panel A, Figure 5.2).

Gazprom Finance BV (the Netherlands) previously fully controlled the companies – *Gazfin Cyprus Ltd* (Cyprus) and *Rosingaz Ltd* (Cyprus). In 2021, *Gazprom Capital* (Russia) acquired Cyprus-based subsidiaries from *Gazprom Finance BV* (the Netherlands).⁴⁰⁹ *Gazfin Cyprus Ltd* (Cyprus) was an important subsidiary as it owned 10% shares of another prominent Russian private gas company - Novatek.⁴¹⁰ The previous structure allowed Gazprom's dividends from Novatek to remain in Cyprus and the Netherlands rather than going directly to Russia (Figure 5.3). As part of the deoffshorization process, *Gazprom Capital* (Russia) restructured to control Novatek shares directly,⁴¹¹ contributing to channelling dividends back to Russia. According to the Cyprus Company Register, *Gazfin Ltd* was consequently dissolved in February 2023.⁴¹² As for another Cyprus-based subsidiary, *Rosingaz Ltd*, the company was also dissolved in February 2023 and registered in the Russian SARs, another deoffshorization measure.⁴¹³ With no subsidiaries, *Gazprom Finance BV* (the Netherlands) is formally active, yet Panel A, Figure 5.2 shows that this subsidiary had zero assets from 2020.

As for *Gazprom Sakhalin Holdings BV*, it is formally active,⁴¹⁴ yet has no assets from 2021 (Panel A, Figure 5.2). Considering that the Netherlands does not have regulations on the cross-border relocation of registered entities,⁴¹⁵ in 2021, a new company, *Gazprom Sakhalin Holdings LLC*, registered in Russia⁴¹⁶ and acquired the subsidiary *Sakhalin Energy Investment Company Ltd* (Bermuda) from Dutch-based

⁴⁰⁹ Gazprom Capital – Consolidated Financial Statement (2020).

⁴¹⁰ Novatek – Sustainability Report (2014).

⁴¹¹ RBC News (2020a).

⁴¹² See: <https://efiling.drcor.mcit.gov.cy/>

⁴¹³ RBC News (2022a).

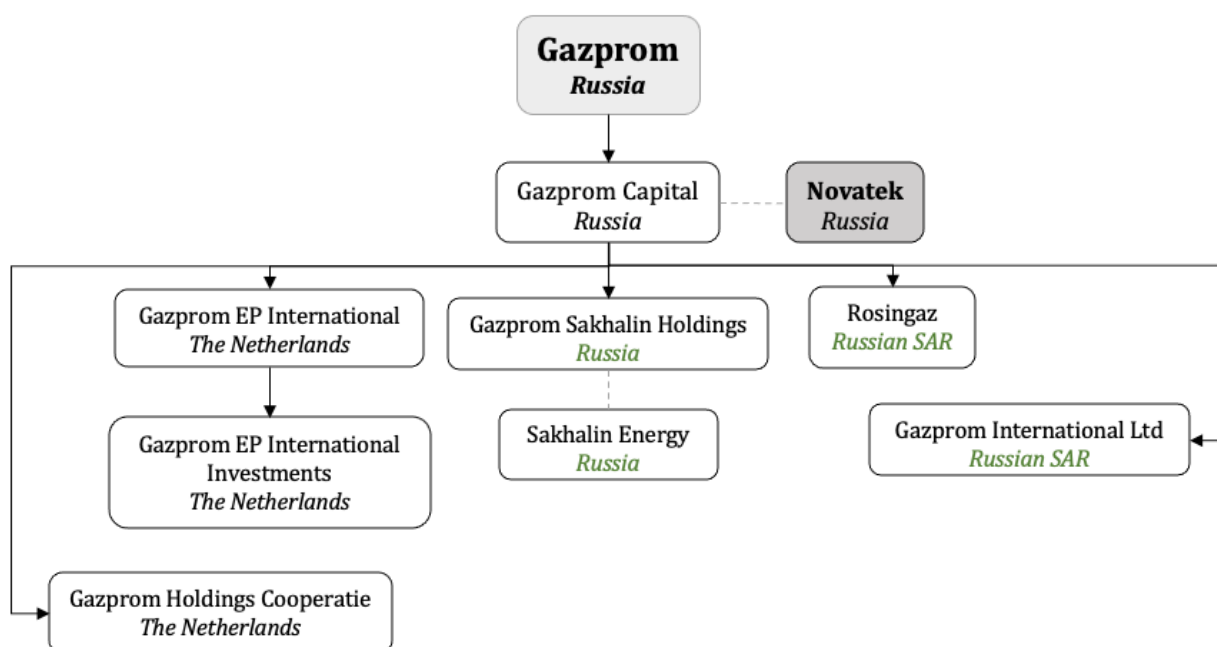
⁴¹⁴ See <https://www.kvk.nl/zoeken/>

⁴¹⁵ KPMG (2016).

⁴¹⁶ See <https://USRLE.nalog.ru/index.html>

Gazprom Sakhalin Holdings BV.⁴¹⁷ In 2022, Bermuda-based *Sakhalin Energy Investment Company Ltd* also transferred assets and liabilities to a newly registered subsidiary, Russian *Sakhalin Energy* (Figure 5.4).⁴¹⁸ As a result of ‘deoffshorized’ restructuring, Gazprom’s total tax payments in 2021 amounted to 3.31 trillion rubles, that is, which is an increase by one and a half times.⁴¹⁹

Figure 5.4. Partially ‘deoffshorized’ structure of Gazprom offshore-based subsidiaries (2021-2022).



Made by the author. Source: RBC News (2022a).

In addition to the deoffshorization initiative, the increased sanctions in 2022 prompted further relocation of the offshore-based subsidiaries to Russia. While the EU did not sanction Gazprom,⁴²⁰ such a decision was made due to the current political environment. For instance, in 2022, *Gazprom International Ltd* relocated from Cyprus to Russian Special Administrative Regions (SARs), the so-called Russian alternative to offshore jurisdictions (Figure 5.4).⁴²¹

⁴¹⁷ Gazprom Capital – Consolidated Financial Statement (2022).

⁴¹⁸ *Ibid.*

⁴¹⁹ RBC News (2022b).

⁴²⁰ Fernandez (2022).

⁴²¹ RBC News (2022a).

Another example is *Nord Stream 2 AG*, which was a company registered in Switzerland to build and operate the Nord Stream 2 pipeline.⁴²² While the project was launched in 2015, the pipeline intended to connect Russia and Germany through the Baltic Sea.⁴²³ Just before the sanctions of 2022, Germany's regulators refused to grant an operating license, and the whole project was frozen.⁴²⁴ Given the political environment, it was unlikely that Gazprom would obtain the permission. Consequently, this resulted in the announcement of the bankruptcy of the company and its subsequent shutdown.⁴²⁵

Furthermore, in April 2022, Gazprom Germania was dropped by Gazprom and, in June, nationalised by the German gas regulator.⁴²⁶ This led to the closure of Gazprom Germania's subsidiaries, including its three subsidiaries registered in Switzerland and one subsidiary in Singapore.⁴²⁷ Hence, at the moment, Gazprom has no business transactions in the European market,⁴²⁸ the European offshore subsidiaries mostly liquidated, yet some continue to exist on paper with no operatable money.

Previously, Gazprom has been securing export pipelines to Europe by building subsidiaries and joint ventures, where offshore subsidiaries functioned as intermediaries. In contrast to Russian private enterprises, which transfer their assets to offshore jurisdictions to protect them from the Russian government, Gazprom instead had a complex web of offshore-based subsidiaries to not only enjoy tax benefits but also to facilitate the export sales and have access to the global market. The government allows Gazprom's operations through offshore jurisdictions, as it benefits from gas exports to Europe. Gazprom is one of the profitable assets; it is the largest Russian taxpayer. Due to the application of CFC rules, Gazprom holdings continued to pay taxes from retained earnings. Before the sanctions of 2022, the

⁴²² El Yaakoubi and Khan (2022).

⁴²³ Russell (2021).

⁴²⁴ Soldatkin, Astakhova and Steitz (2023).

⁴²⁵ El Yaakoubi and Khan (2022).

⁴²⁶ Wischgoll and Dogrudogan (2022).

⁴²⁷ Interfax (2022a).

⁴²⁸ Reuters (2025).

deoffshorization process was not at the same level of importance as the revenue maximisation of Gazprom, given the importance of Gazprom to the Russian government. Hence, during the deoffshorization process, the use of offshore jurisdictions was tolerated by the Russian government. However, the DTT amendments with the major offshore jurisdictions (including termination with the Netherlands) highlighted the need for restructuring, further facilitated by the unfavourable business environment that followed the wave of sanctions of 2022. The examination of the current corporate structure of Gazprom illustrates the component that led to the offshore subsidiaries' closure is founded on both the politico-economic factors and regulation changes.

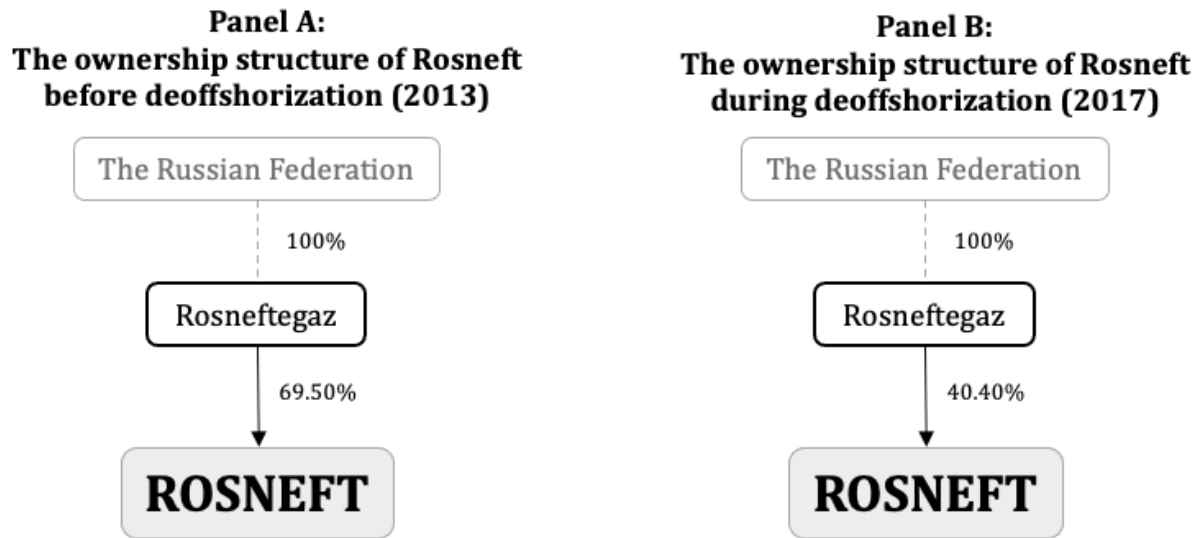
5.3. ROSNEFT

Rosneft is another of the largest Russian energy corporations with a strong connection to the government.⁴²⁹ While the government owns the majority of the shares and has the right to impact the conduct of the enterprise, the CEO of Rosneft, Igor Sechin, is closely connected to Putin and has been named as “one of the most powerful members of the Russian political elite”.⁴³⁰ Therefore, it can be acknowledged that the governmental policy aims play a significant role in Rosneft's operations. A closer look at the shareholder structure of Rosneft will provide an interesting example of how the external environment affects the corporate governance of the SOEs in parallel to the deoffshorization process.

⁴²⁹ Joint Report by Vale Columbia Center and IMEMO (2013).

⁴³⁰ Jack (2023).

Figure 5.5. The Ownership Structure of Rosneft and the Russian state influence.



Made by the author. Sources: Rosneft – Consolidated Financial Statements (2014);
Rosneft – Press Release (2016).

Prior to the deoffshorization process, the Russian government controlled 69.50% of Rosneft shares.⁴³¹ However, the first wave of sanctions 2014 and the collapse of oil prices negatively reflected on Rosneft and, specifically, the revenues of the state. Due to the Russian government's strong integration into Rosneft's decision-making process, the government decided to perform partial privatisation to reduce the budget deficit.⁴³² As a result, in 2017, government-controlled *Rosneftegaz* reduced its stake to 50.01% (Panel B, Figure 5.5).⁴³³ Similarly to Gazprom, this case study will allow me to conduct an assessment of the SOE's response to the deoffshorization process, taking into account the competing interests of the state and private shareholders.

When the Russian government initiated the deoffshorization process in 2014 and introduced CFC rules, Rosneft proposed to recall its subsidiaries from other jurisdictions.⁴³⁴ Rosneft highlighted that they fully support the deoffshorization policy,

⁴³¹ Rosneft – Consolidated Financial Statements (2014).

⁴³² Mitrova (2016).

⁴³³ Rosneft – Press Release (2016).

⁴³⁴ RBC News (2014).

believing that it will not target genuine investment activities of Russian companies.⁴³⁵ To emphasise that, Rosneft sent a proposal to improve certain provisions to increase the rights of Russian companies operating for pure business activities abroad.⁴³⁶

Figure 5.6. Presence of Rosneft subsidiaries in offshore jurisdictions.

Offshore Jurisdiction	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Switzerland										
Singapore										
Luxemburg										
Cyprus										
Ireland										

Made by the author based on the data from the Annual Reports of Rosneft.

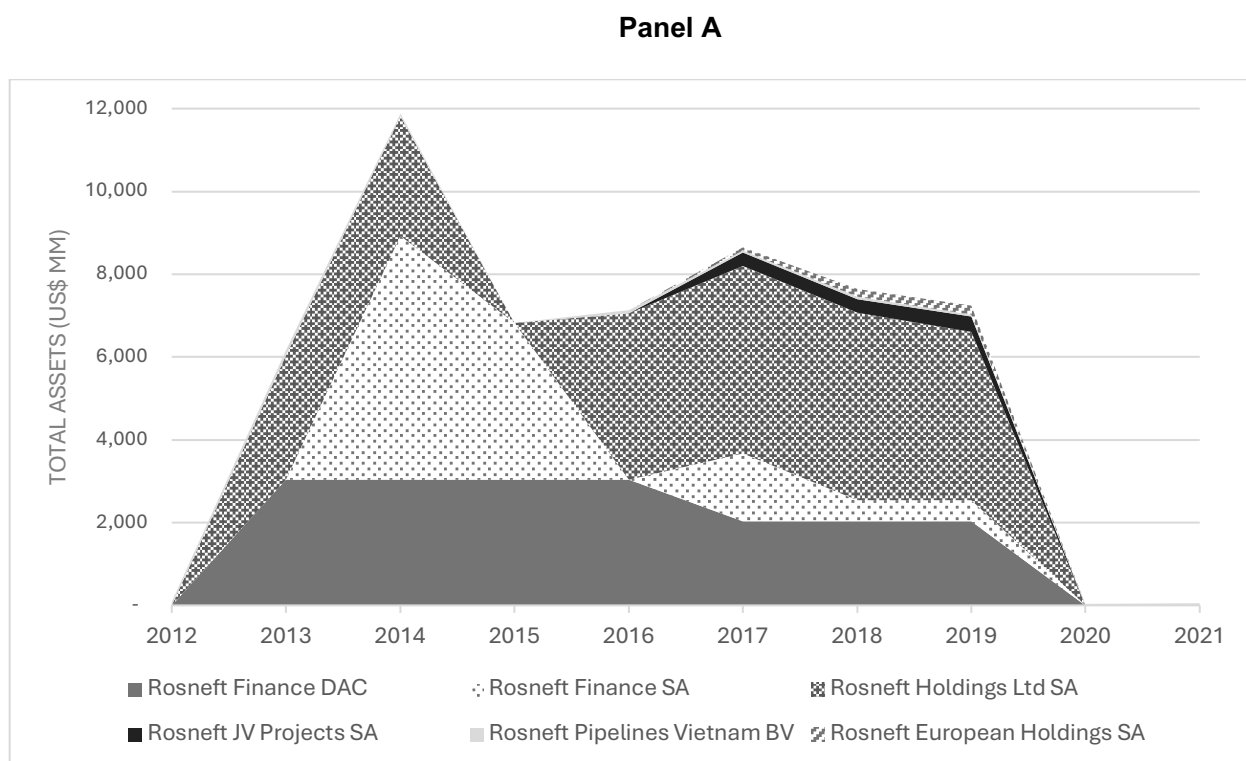
Despite Rosneft's 'official' support for deoffshorization and significant involvement of the Russian state, Rosneft had several subsidiaries in the offshore jurisdictions, such as Singapore, Luxemburg and Cyprus. Based on the shared information of Rosneft on its key subsidiaries, Figure 5.6 illustrates how the presence of Rosneft subsidiaries in offshore jurisdiction has been changing from 2012 to 2021. We can see that during the deoffshorization process, Rosneft introduced a new offshore-based subsidiary in Singapore, indicating no considerable response to the deoffshorization process.

According to Eikon, Rosneft has 13 offshore-based subsidiaries out of 311. In comparison to Gazprom, Rosneft is less offshorized (the highest percent of total offshore assets was fixed in 2014 – 8%). The data suggests that total assets of Rosneft held in the offshore jurisdictions distinctively reduced following the introduction of the deoffshorization reform from 8% in 2014 to 0% in 2021 (Panel B, Figure 5.7).

⁴³⁵ RIA News (2014).

⁴³⁶ *Ibid.*

Figure 5.7. Components of total assets of the offshore-based Rosneft subsidiaries.



Note: Panel A: total assets of Rosneft subsidiaries (in Ireland, the Netherlands and Luxembourg), 2012-2021. The data from 2022 and 2023 are excluded as they have not been disclosed. Panel B: the percentage of total assets of the manually observed sample to total assets of Rosneft, 2012-2021. Source: Bloomberg and Eikon data.

The politico-economic factors, such as the reduced revenues to the budget, collapse of oil prices, and negative impact of sanctions, impacted Rosneft's response to the deoffshorization process. In the aftermath of the escalating political disputes over Crimea and Eastern Ukraine in 2014, the US imposed sanctions against Igor Sechin, the chairman of Rosneft, while the enterprise has not been added to the list.⁴³⁷ On the other hand, the EU imposed sanctions against Rosneft,⁴³⁸ which were supposed to prevent Rosneft from obtaining foreign financing and collaborative initiatives with Western companies. As a result, Rosneft was under significant pressure to either repatriate its subsidiaries to Russia in response to the Western sanctions or to find alternatives to stay in the global market. In this sense, the politico-economic factors, to some extent, played a helpful role in the closure of Rosneft's subsidiary in Switzerland rather than the deoffshorization regulations. *Rosneft Trading S.A.* was based in Switzerland and operated until the imposed sanctions in 2020.⁴³⁹ It cannot be denied that the sanctions are by far the most significant factor that affected the dissolution of offshore-based subsidiaries rather deoffshorization process. Considering that data indicates no assets currently remain in the offshore jurisdictions (Figure 5.7), not the proximity to the government yet the politico-economic elements led to the closure of the offshore-based subsidiaries.

However, specific deoffshorization regulations played a role in the relocation of certain subsidiaries from offshore jurisdictions to Russia. In July 2021, Rosneft registered its subsidiary *Colmati Trading Limited* from Cyprus to the Russian SAR - Russky Island,⁴⁴⁰ which is the first major step of Rosneft in following the course of deoffshorization. Comparable to the traditional argument on the offshore sector, the initiation of Russian SARs was one of the deoffshorization elements in providing an alternative platform for Russian businesses to be reallocated to internal offshore zones in Russia. The DTT amendment with Cyprus led to the increased tax rate of dividends and interests that are transferred from Russia to Cyprus, which directed the

⁴³⁷ The Guardian (2014).

⁴³⁸ CNBC (2016).

⁴³⁹ Rosneft: Annual Reports. See: https://www.rosneft.com/investors/Reports_and_presentations/

⁴⁴⁰ Vedomosti (2021).

relocation to the Russian offshore zone. In this case, the deoffshorization policy was partially effective in the repatriation of one of Rosneft's subsidiaries to Russia. Russian alternative to offshore jurisdictions provides only partial consolation for businesses and are not the in-demand destination for Russian businesses. The registration of Rosneft's subsidiary in Singapore in 2018 confirms this issue (Figure 5.6). However, similarly to Gazprom, Rosneft used offshore channels not only for tax purposes but also for commercial ones. The examination of the current corporate structure of Rosneft shows that the major component that led to the repatriation of subsidiaries and assets from the offshore subsidiaries is founded on both politico-economic factors and regulation changes.

5.4. Conclusion

This chapter provides a comprehensive analysis of Russian SOEs' responses to the deoffshorization process. Contrary to initial expectations, hypothesis 1 was not fully supported by empirical evidence.

The initial phase of the deoffshorization regulations (from 2014 to 2021) did not prompt an immediate relocation of subsidiaries and assets from offshore jurisdictions to Russia. Although the Russian government exercises considerable influence over SOEs' strategic decision-making, the Russian SOEs maintained their presence in European offshore jurisdictions. Such results suggest further complexities, particularly the role of the export dependency of Russian SOEs. Gazprom and Rosneft are leading Russian SOEs in terms of the higher contributions to government profits, which have impacted their degree of internationalisation through offshore jurisdictions. The offshore subsidiaries serve as intermediary points for Russian SOEs that connect Russia to global markets. The export dependency of Russian SOEs has led to the dominance of Russian state objectives centred on export revenue and budget maximisation, which seem to be prevailing over the aims of deoffshorization.

The setting changed with the implementation of stricter deoffshorization regulations in 2020, the results of which broadly support the hypothesis. The

relocation of subsidiaries and assets was observed after the amendments to DTT with Luxembourg and the termination of DTT with the Netherlands in 2021. A certain portion of relocated companies re-domiciled to the Russian SARs, which is another prominent deoffshorization measure.

Further relocation from offshore jurisdiction was noticed with the deteriorating geopolitical environment and the imposition of severe sanctions in 2022. This deoffshorization stage of the 'New Reality' substantially constrained access to financial markets and established obstacles to cross-border activity for Russian SOEs. With the increased sanctions in 2022, notable changes in the repatriation patterns were noted, particularly Russian SOEs de-offshored most subsidiaries in the European offshore jurisdictions. Notably, this stage presented Gazprom and Rosneft with no assets remaining in the offshore jurisdictions. Considering the limitations of data relatable to offshore jurisdictions, if there is any presence that remains, it has been much reduced.

Thus, the results point to different factors than originally hypothesised. It is not just the proximity to the government that increases the repatriation of offshore assets, but also external political and economic factors. Through the consideration of the political and economic factors that underpin or hinder the effect of the deoffshorization reforms, one can attain a more thorough understanding of the potential and obstacles to more innovative solutions to the effective fight against the use of offshore schemes. At the same time, we cannot ignore the applicability of certain deoffshorization regulations, such as the DTT amendments (including termination with the Netherlands) and the introduction of Russian SARs.

The subsequent chapters will conduct an in-depth analysis of private Russian companies and their strategic responses to the deoffshorization process.

Chapter 6: Private companies and the deoffshorization process

6.1. Introduction

This chapter will examine the responses of privately held Russian companies to the deoffshorization process in the Russian Federation. In this chapter, I will evaluate the leading private Russian MNEs by the size of foreign assets, specifically Lukoil, NLMK and VEON. I will focus on two main components. First, the analysis will include the changes in ownership structure, particularly whether oligarchs restructure their control over a company through offshore shell companies in response to deoffshorization. Second, the analysis will be based on whether the Russian companies relocate their offshore-based subsidiaries and assets after the implementation of the deoffshorization policies and regulations.

Despite the ongoing deoffshorization process and the regulations oriented on the prevention of possible tax abuses, I find that Russian privately held companies continue to actively contribute to capital outflow from Russia to offshore jurisdictions, taking advantage of any possible loopholes to escape the regulations. As the selected companies have no proximity to the Russian government, these results strongly align with Hypothesis 3. The main profit of Russian MNEs is generated in Russia,⁴⁴¹ yet the following analysis demonstrates that the corporate structure is designed to accumulate capital and dividends in the offshore companies.

6.2. NLMK (Novolipetsk Steel)

NLMK is a vertically integrated steel company engaged in the mining segment.⁴⁴² The controlling owner of NLMK is Russian oligarch Vladimir Lisin, who is

⁴⁴¹ Most of Russian companies have central production enterprises located in Russia, including their operational activities.

⁴⁴² NLMK Annual Report (2021).

ranked among Russia's wealthiest businessmen.⁴⁴³ Before deoffshorization, Vladimir Lisin controlled his stake through the Cyprus-based company *Fletcher Group Holdings Limited* (Figure 6.1).⁴⁴⁴ Dividends payable were therefore distributed to the offshore company in Cyprus rather than directly to the oligarch Lisin residing in Russia.

The pre-deoffshorization structure allowed the oligarch Lisin to enjoy comfortable tax conditions with no dividend tax, maintaining capital outflow from Russia to Cyprus. However, with the implementation of the deoffshorization process, the introduction of CFC rules in 2014 provided that Russian taxpayers are required to declare their controlled foreign companies and pay taxes on income in Russia. As *Fletcher Group Holdings* is a foreign company controlled by a Russian resident, Vladimir Lisin, the company is categorised as CFC. As a result, the company became subject to the requirement of paying Russian taxes from retained earnings. Notably, the application of CFC rules to the largest shareholder of NLMK contributed to the substantial tax collection. In 2020, Vladimir Lisin was the largest taxpayer of CFC, paying over 1 billion rubles to the budget.⁴⁴⁵

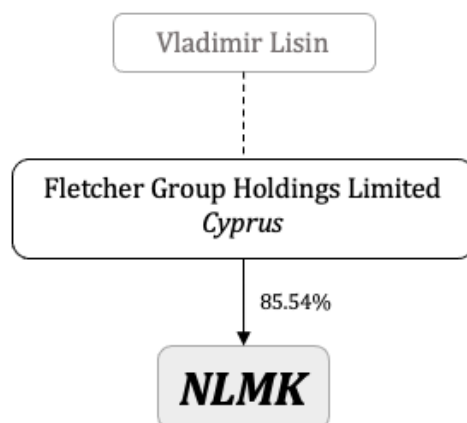
However, it is important to note that the CFC rules rather aim to minimise the appeal of offshore jurisdictions as the destination of capital outflow from Russia. While the main deoffshorization regulation was effective in the collection of untaxed revenues of the oligarch Lisin, his offshore company did not relocate to Russia from Cyprus. *Fletcher Group Holdings* continues accumulating dividends and capital in Cyprus while subjecting an increased tax burden, illustrating the failure of deoffshorization in the repatriation of such capital.

⁴⁴³ Politico (2022); Moiseev et al. (2018).

⁴⁴⁴ Reuters (2016a).

⁴⁴⁵ Vedomosti (2021).

Figure 6.1. Pre-deoffshorization Ownership Structure of NLMK (2014), excluding other shareholders.



Made by the author. Source: Reuters (2016).

Another critical element of the deoffshorization measures interconnected to CFC rules is capital amnesty, which presented the possibility for oligarch Lisin to transfer a safe capital to Russia, which was ineffective in the repatriation to Russia. For instance, Chapter 3 outlined that in 2018–2019, capital amnesty allowed the liquidation of the CFC and the transfer of all assets to Russia without paying taxes. The ownership structure through the offshore company remained due to the benefits provided by Cyprus. As *Fletcher Group Holdings* is taxed in Cyprus at a 12.5% rate, the increased tax burden of CFC is preferable to relocating the company to Russia; only the difference between the Russian 15% and the Cypriot 12.5% is subject to an additional payment in Russia. The payable tax amount is minimal, while dividends receivable from a Cyprus company are tax-free.

The appeal of Cyprus as an offshore destination for capital changed with the amendment of the DTT between Cyprus and Russia. On 25 March 2020, Russian President Vladimir Putin specified that all capital in the form of interest and dividends going out of Russia to offshore dominions should be taxed with an adequate tax rate of at least 15%, instructing to adjust DTTs with some countries. The suggested deoffshorization change was primarily focused on companies registered in Cyprus and several similar transit offshore jurisdictions, through which significant resources of

Russian origin pass.⁴⁴⁶ In 2021, the amended DTT between Cyprus and Russia was presented with the new terms,⁴⁴⁷ in favour of the deoffshorization process. The previous tax treaty provided a reduction in tax on dividend payments to a maximum of 5% and 0% on interest on loans, yet the amendments led to a 15% withholding tax on interest and dividends from Russia. However, as of 2021, Vladimir Lisin continued to own 79.25% of NLMK shares through Cyprus-based *Fletcher Group Holdings Limited*.⁴⁴⁸ The Cyprus Business Entity Register states that *Fletcher Group Holdings Limited* is still active.⁴⁴⁹ Hence, neither CFC rules nor capital amnesty nor amendments to the DTT succeeded in the repatriation of *Fletcher Group Holdings Limited* from Cyprus to Russia. However, the amendments to the DTT certainly provided the basis for the Russian government to earn from these flows and replenish budget revenues.

The pyramidal ownership structure of oligarch Lisin substantially changed only with the exacerbated political environment and severity of sanctions in 2022. In May 2023, it was announced that Lisin transferred his shares from Cyprus to Abu Dhabi, UAE.⁴⁵⁰ According to Bloomberg (2023), Lisin registered special purpose vehicles (SPVs) *Serenity II Holdings* and *Nebula II Holdings* in the Abu Dhabi Global Market (ADGM) free zone, which is an autonomous jurisdiction with an English legal system.⁴⁵¹ In ADGM, SPVs are regarded as separate entities from the parent company and are safeguarded if the primary business fails. ADGM's SPVs are becoming the favourite option for wealthy individuals to establish their family companies and personal wealth,⁴⁵² as SPVs provide a reliable and flexible way to hold and invest in assets.⁴⁵³ The relocation of offshore-based holding to Russia is assumed to be more apparent considering the external geopolitical environment and sanctions

⁴⁴⁶ Banki.ru (2020).

⁴⁴⁷ EY (2020).

⁴⁴⁸ NLMK - Annual Report (2021).

⁴⁴⁹ See <https://efiling.drcor.mcit.gov.cy/>

⁴⁵⁰ Vedomosti (2023b).

⁴⁵¹ Blanke (2018).

⁴⁵² Bloomberg (2023).

⁴⁵³ ADGM Regulations for SPVs and Foundation (2022).

of 2022, which, in the case of Lisin and NLMK, do not apply.⁴⁵⁴ Moreover, Vladimir Lisin has no unfriendly relationship with the Russian government.⁴⁵⁵ These factors lead to the conclusion that Russian businessmen use offshore jurisdictions to protect assets and control capital from the government, with the deoffshorization regulations not urging Russian businesses to return. Hence, deoffshorization failed in the relocation of Lisin's holdings to Russia, yet it provided the basis for partial tax collection.

Since sanctions do not specifically target Vladimir Lisin or NLMK,⁴⁵⁶ the company is unrestricted in its exports. Thus, this section will evaluate whether the deoffshorization process has positively impacted the reorganisation and relocation of NLMK's offshore-based subsidiaries, omitting the influence of sanctions on the cross-border activities of businesses. According to the Eikon dataset, NLMK has a total of 66 subsidiaries, 4 of which are in offshore jurisdictions. The data suggests that only 2 offshore subsidiaries dissolved during the deoffshorization process (*Novexco* and *Steel Invest & Finance*). The revenue of *Novexco (Cyprus) Ltd* was fixed only in 2013 (814.55 mln dollars), with no further details on subsequent revenue and assets. According to the Cyprus Business Entity Register, NLMK voluntarily liquidated the assets of *Novexco (Cyprus) Ltd* in December 2022.⁴⁵⁷ Such liquidation can be attributed to the deteriorating political environment in 2022. Another subsidiary, *Steel Invest & Finance SA* (Luxembourg), was dissolved in December 2021.⁴⁵⁸ This is linked to the amendment of the DTT between Russia and Luxembourg in 2020, which became applicable from 1 January 2022. This subsidiary had the lowest amount of total assets compared to other subsidiaries, which had diminished until its dissolution.

Pre-deoffshorization data is significantly limited, yet it indicates that in 2013, the total assets of NLMK held in OFCs was equal to 9%. Then, total assets sharply declined to 3% in 2015 due to the broader effect of geopolitical tensions and the first

⁴⁵⁴ Politico (2022).

⁴⁵⁵ Forbes (2018a).

⁴⁵⁶ Politico (2022).

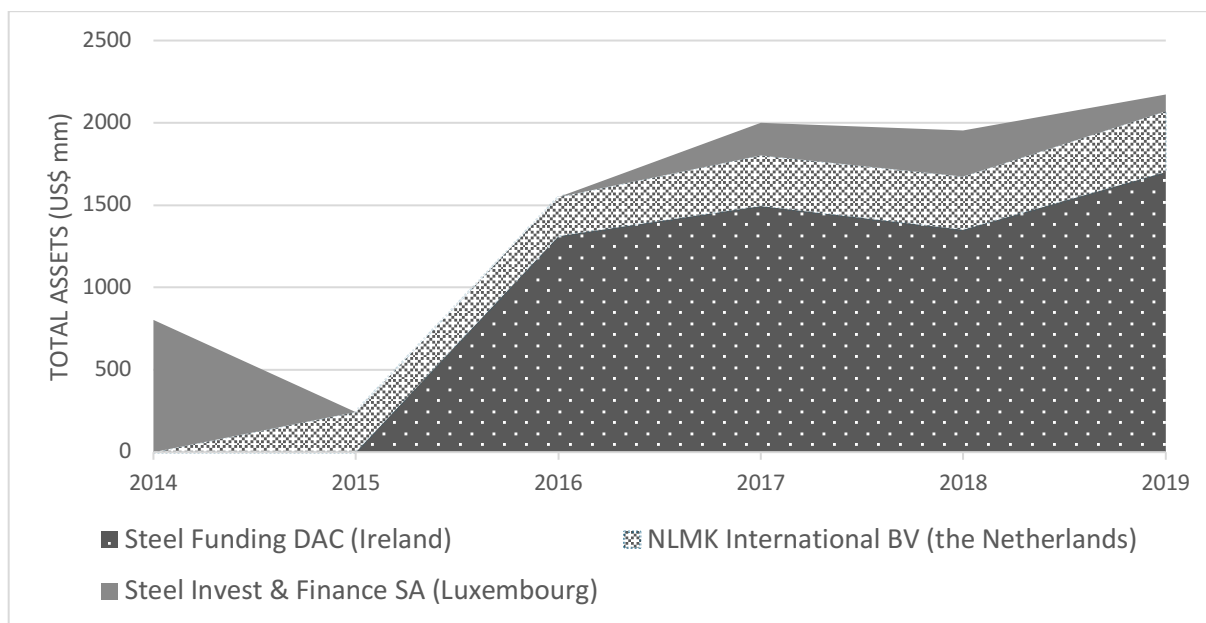
⁴⁵⁷ See <https://efiling.drcor.mcit.gov.cy/>

⁴⁵⁸ See <https://www.lbr.lu/>

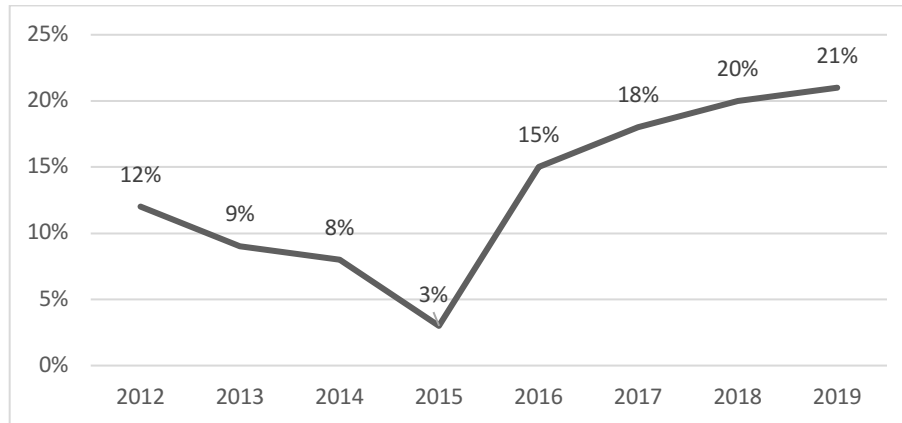
wave of sanctions in 2014 (Panel B, Figure 6.2). Following the implementation of the deoffshorization regulations, the amount of identifiable total assets of the offshore subsidiaries rose from 3% (in 2015) to 21% (in 2019) of NLMK's total assets (Panel B, Figure 6.2). Therefore, the commencement of the deoffshorization process demonstrates that NLMK's assets in offshore jurisdictions have doubled in size. Although Bloomberg and Eikon datasets provide data on the total assets and revenue of 3 subsidiaries in the offshore jurisdictions (Panel A, Figure 6.2), the increasing fraction of NLMK's total assets (21%) that remains in OFCs indicates a predominantly limited effect of the deoffshorization process on NLMK. As a result, while the metallurgical plants of NLMK are located in Russia, offshore-based subsidiaries accumulate all income without transferring anything to the Russia-based parent company and pay lower tax rates in OFCs, in contrast to the Russian 20% rate.

Figure 6.2. Components of total assets of the offshore-based NLMK subsidiaries.

Panel A



Panel B



Note: Panel A: total assets of NLMK subsidiaries (in Luxembourg, the Netherlands and Ireland), 2014-2019. The data from 2019 is excluded as it has not been disclosed. Panel B: the percentage of total assets of the manually observed sample to total assets of NLMK, 2012-2019. Source: Bloomberg and Eikon data.

Measuring the total assets against revenue, only *Steel Funding DAC* and *NLMK International BV* have detectable revenue. Yet, following a closer review, we can see that NLMK holds the share of assets in offshore jurisdictions, with the revenue from its offshore-based subsidiaries being insignificant compared to the total assets held (Figure 6.3). I find that NLMK uses debt as a channel for profit shifting to reduce its corporate tax base via offshore-based subsidiaries, which was predominantly used after the introduction of the deoffshorization regulations. Given that the interest paid is deductible at a high rate, NLMK uses debt provided by offshore-based subsidiaries to fund subsidiaries and the parent company situated in high-tax jurisdictions.

Panel A of Figure 6.3 illustrates one of such subsidiaries - *Steel Funding DA* (Ireland), which provides financing loans to NLMK. According to its financial statement, the primary source of income is the interest on loans from NLMK.⁴⁵⁹ Such

⁴⁵⁹ Steel Funding – Financial Statement (2019).

distribution of net income to offshore subsidiaries is, at times, established for tax reasons, leading to capital outflow from the home country. This structure reduces the parent company's net income, as the earned income of the latter is shifted as interest payment to *Steel Funding DAC*. For instance, in 2019, the net income on loans and receivables from NLMK was 71 million USD, while the total assets of *Steel Funding DAC* were 1 billion USD.⁴⁶⁰ The CFC rules apply to the subsidiary, yet its introduction in 2014 did not restrict the profit shifting. Currently, *Steel Funding* is active, as confirmed by Ireland's Companies Registration Office (CRO). The loan participation notes issued for financial loans to NLMK are due May - June 2026, meaning that *Steel Funding DAC* will continue to operate in Ireland.⁴⁶¹

In comparison to *Steel Funding* (Ireland), *NLMK International BV* (the Netherlands) has a substantially lower amount of total assets (Panel B, Figure 6.3). The subsidiary does not primarily issue debt to the parent company but to other subsidiaries. For instance, in 2017, *NLMK International BV* converted the debt of the subsidiary, *NLMK DanSteel* (Denmark), to share capital, becoming the 100% owner of the subsidiary.⁴⁶²

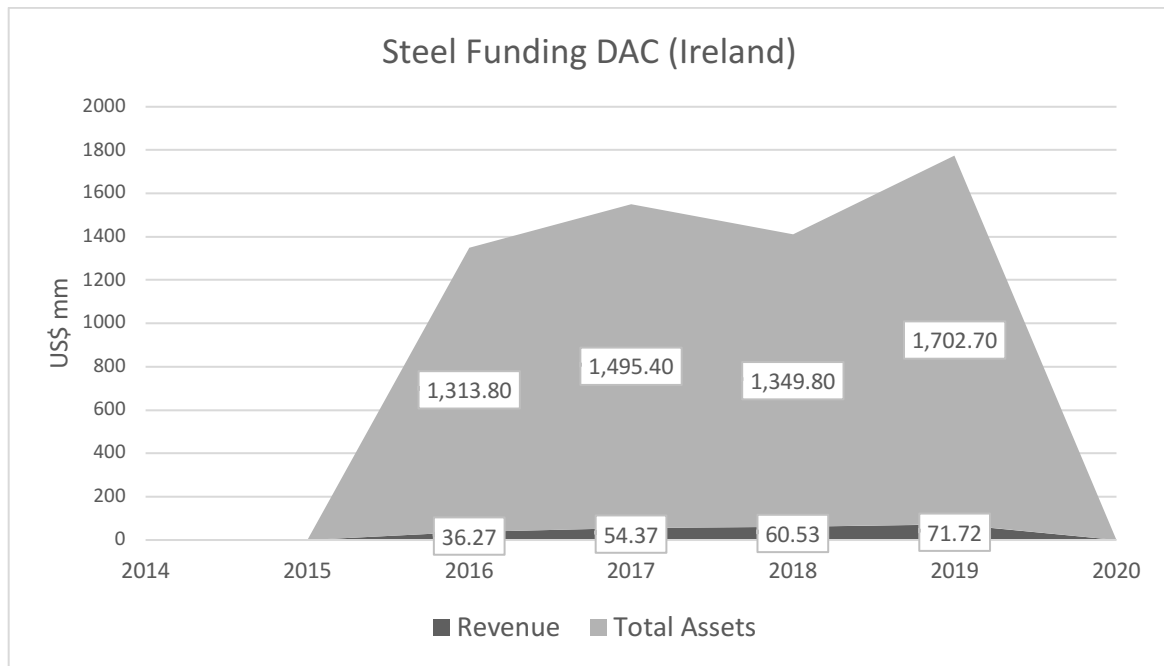
⁴⁶⁰ Ibid.

⁴⁶¹ NLMK – Press Release (2022).

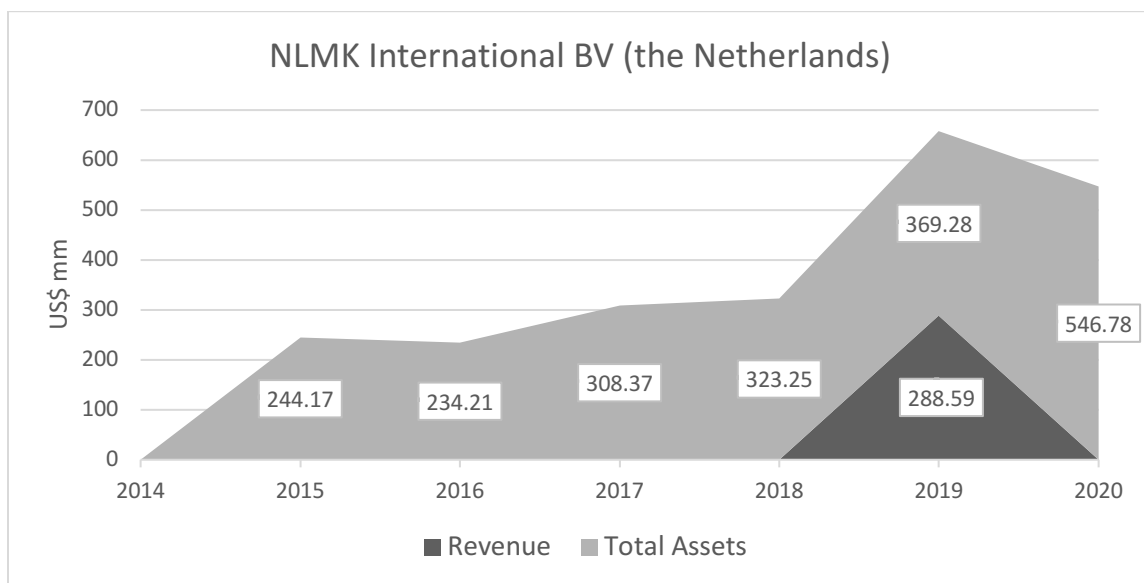
⁴⁶² NLMK DanSteel A/S – Financial Statement (2017); NLMK DanSteel A/S – Financial Statement (2019).

Figure 6.3. Total Assets vs Revenue of the offshore NLMK subsidiaries.

Panel A



Panel B



Source: Eikon and Bloomberg dataset.

One more subsidiary to consider is *NLMK Trading SA* (Switzerland), which has a revolving credit facility received from the ultimate holding company of NLMK – *Fletcher Group Holdings Ltd* (Cyprus). Bloomberg and Eikon do not list any assets or revenue information on this subsidiary yet highlight that the subsidiary closed two revolving credit facilities received from *Fletcher Group Holdings Ltd* during the deoffshorization process. The first loan was received in 2017 for general corporate purposes, while the second loan was to cover a previous loan, which was closed in February 2021. The revolving credit facility provides the subsidiary the provision of borrowings for basic company needs, purchase financing, and operational financial requirements. The Swiss Business Registry maintains that the subsidiary is still active and operative.⁴⁶³

The limited data on NLMK's offshore-based accounts suggests that the company may still have undeclared capital in CFCs. Although the CFC law came into force in January 2015, Russian tax residents must declare foreign companies and pay taxes on income. However, Russian companies easily hide from the Federal Tax Service and do not reveal information about CFCs in offshore jurisdictions. Nevertheless, the limited subsidiary-level data allows me to conclude that NLMK accumulates assets predominantly in OFCs. NLMK subsidiaries in offshore jurisdictions are not just formally active but continue to operate in the complex structure of tax minimisation, entailing comparatively more debt in jurisdictions with higher tax rates. Dividends are distributed not to the major shareholder of NLMK - oligarch Lisin but to the offshore-based company *Fletcher Group Holdings Ltd*, which are then circulated to NLMK offshore subsidiaries returning to Russia as loans. The interest from these loans subsequently travels overseas, saving NLMK income tax with assets remaining in the offshore jurisdictions. While NLMK continues to export steel outside Russia through these offshore-based subsidiaries, the use of intra-company debt to reduce the tax base by NLMK illustrates that the deoffshorization process did not prompt any response from the company. Instead of adhering to the deoffshorization regulations, NLMK employs legal tax minimisation schemes to

⁴⁶³ See <https://www.zefix.ch/>

transfer capital offshore. This ultimately underscores the failure of deoffshorization in restricting channels for capital flows to offshore jurisdictions, as it had no impact on the repatriation of offshore assets and subsidiaries.

6.3. VIMPELCOM (currently VEON)

VEON, formerly known as VimpelCom, is a mobile telecom company of Russian origin. Kuznetsov (2021, p. 704) commented that VEON is regarded as a Russian ‘migrant MNE’ due to its formal registration and headquarters being in the Netherlands. While VEON predominantly operated within the Russian market and several CIS countries, most of its operational activities took place abroad. VEON has been controlled by Russian oligarch Mikhail Fridman, along with several billionaires from the former President Boris Yeltsin's era, through the LetterOne holding.⁴⁶⁴ Mikhail Fridman is one of the few Russian oligarchs who accumulated wealth during President Boris Yeltsin's tenure in the 1990s and sustained his business under President Vladimir Putin.⁴⁶⁵ Although he is not particularly connected to the current Russian leadership, he is known for adeptly navigating Russian political institutions and markets.⁴⁶⁶

In 2013, Mikhail Fridman and Petr Aven founded *LetterOne* (through which they control VEON) to maintain a portion of the funds from selling the Russian oil corporation *TNK-BP* to Russian SOE Rosneft.⁴⁶⁷ Previously, *Alfa-Group*, a company associated with Mikhail Fridman, controlled the shares of Vimpelcom that were later transferred to *LetterOne* (Luxembourg).⁴⁶⁸ Therefore, Vimpelcom was exposed to offshorization before the start of the deoffshorization process.

The analysis of the ownership structure of VEON provides that prior to the initiation of the deoffshorization process, the Russian VEON holding was controlled

⁴⁶⁴ Kuznetsov (2021).

⁴⁶⁵ Kluge (2017); The Moscow Times (2012).

⁴⁶⁶ Kluge (2021).

⁴⁶⁷ Financial Times (2023).

⁴⁶⁸ Jones Day (2014).

through a three-tier offshore-based structure (Figure 6.4), currently remaining offshore. At the beginning of the deoffshorization process in 2014, *LetterOne* controlled 47.9%, and Norwegian company Telenor controlled 43% shares of Vimpelcom (the remaining 9.1% shares were free float).⁴⁶⁹ The Annual Report (2014) provided that *OJSC VimpelCom*, the Russian subsidiary, was a directly-owned subsidiary of *VimpelCom Holdings* (the Netherlands), which was an owned subsidiary of *VimpelCom Amsterdam* (the Netherlands).⁴⁷⁰ The parent company, *VimpelCom Ltd* (Bermuda), is the shareholder of *VimpelCom Amsterdam*. Although *VimpelCom Ltd* is headquartered in Amsterdam, the Netherlands, the Annual Report (2021) states that it is a Bermuda-incorporated exempt company and governed by Bermuda law.⁴⁷¹ The complex corporate structure of Veon is built in a way that the deoffshorization regulations do not apply. Firstly, the Russian CFC rules do not apply to any subsidiaries, as formally, the parent company is registered in Bermuda and headquartered in the Netherlands. By such means, the parent company has been enjoying tax benefits, i.e. Bermuda imposes no taxes (including dividends), while having limited tax liability in the Netherlands. Other holding companies, such as *Vimpelcom Amsterdam* and *Vimpelcom Holdings*, are registered in the Netherlands and provide special corporate tools with effective tax planning. Figure 6.4 illustrates that such a complex structure contributes to capital flow from Russia, as the income and payable dividends received from Russian-based *OJSC Vimpelcom* ultimately remain in the offshore jurisdictions. Secondly, Mikhail Fridman organised his controlling share in Veon through a Luxembourg-based company, which controls Veon. *LetterOne Holding SA* (Luxembourg) would be considered a CFC only if Mikhail Fridman and Petr Aven, as Russian residents, collectively controlled more than 50% of shares or if individual participation in a CFC exceeded 25%. However, the information on the controlled shares is not disclosed, which eliminates the application of CFC rules on untaxed revenues by the Russian Federal Tax Authority. It is unsurprising that Mikhail Fridman, an oligarch who emerged during previous president

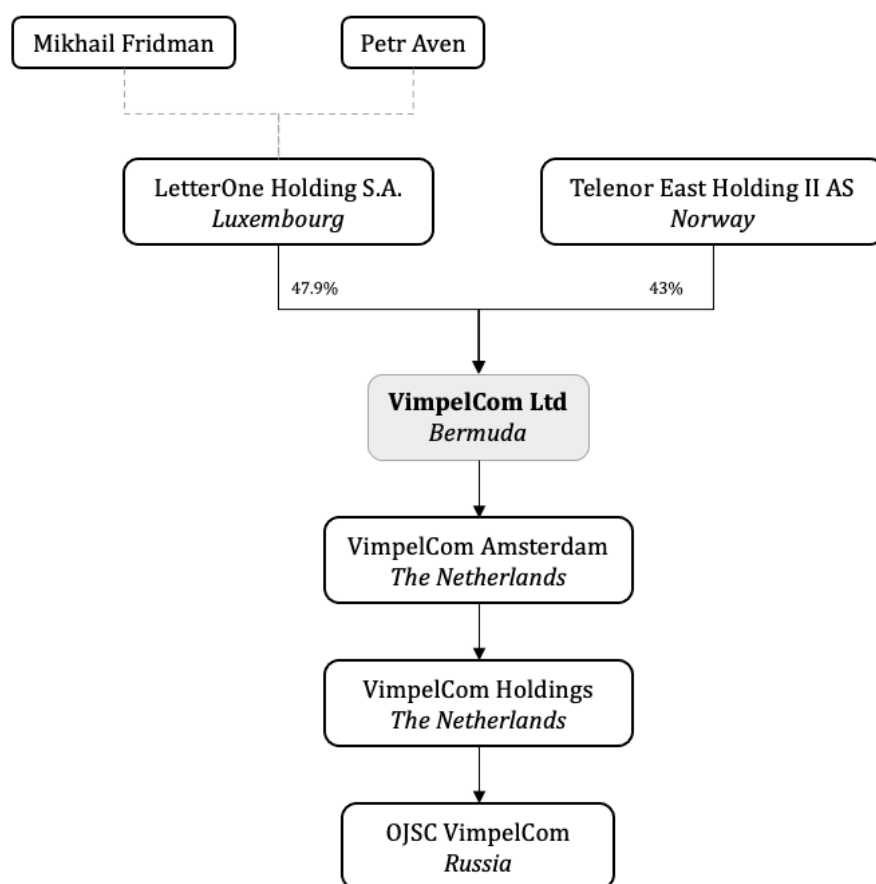
⁴⁶⁹ RBC News (2015).

⁴⁷⁰ VEON Annual Report (2014).

⁴⁷¹ VEON Annual Report (2022), Bermuda Registrar of Companies. See: <https://www.registrarofcompanies.gov.bm/>

Yeltsin and with no proximity to the current Russian government, did not relocate Vimpelcom and its holdings to Russia. While Luxembourg imposes an overall corporate income tax rate of 24.94%,⁴⁷² which is higher than the Russian 20% corporate income tax, Luxembourg provides a strong financial and legal system that gives flexibility for capital management.⁴⁷³ Therefore, Luxembourg is more convenient for managing collective investments,⁴⁷⁴ as it offers a favourable investment climate and a high concentration of financial structures, which stands out for businesses in comparison to the Russian economy.

Figure 6.4. The Pre-Deoffshorization Structure of VimpelCom, currently VEON (2013-2014).



Made by the author. Source: VEON Annual Report (2014).

⁴⁷² EY (2024).

⁴⁷³ Sherimov (2015).

⁴⁷⁴ Belous (2010).

The complex offshore-based structure of Veon, which maintained the capital outflow from Russia, remained ‘offshorized’ during the deoffshorization process. Another deoffshorization regulation, the termination of the DTT between Russia and the Netherlands in 2021, did not contribute to the relocation of Dutch holdings to Russia. As outlined in Chapter 3, the consequences of the termination resulted in the application of Russian tax rates, including withholding taxes on dividends, interest and royalties. As a result, the companies are subject to the double taxation. It is clear that the termination of the DTT was oriented on the subsequent tax collection of the revenue that was otherwise payable to the Netherlands. However, no relocation of offshore-based holdings to Russia took place, exposing the failure of the deoffshorization regulations.

In 2022, LetterOne continued to control 47.85% shares of VEON through Luxembourg, where Mikhail Fridman owned 37.86% and Petr Aven – 12.13% of *LetterOne*, and the rest of the shares were free float.⁴⁷⁵ The curious case happened after the new wave of sanctions targeted Russian companies in 2022, which led to Mikhail Fridman and Petr Aven losing their position as shareholders in *LetterOne Holding* (Figure 6.5).⁴⁷⁶ According to LetterOne’s official statement, “They [...] no longer have any involvement with or influence over the business or its investments. [...] Their assets in the business are effectively frozen, they have no rights as shareholders and – if sanctions are lifted – the board is under no obligation to return these rights.”⁴⁷⁷ As *LetterOne* was not a controlling shareholder (less than 50% of shares), sanctions against Fridman and Aven did not have an impact on the company, and the company has escaped the penalties levied on them personally.⁴⁷⁸ Asset freezes and constrained access to financial markets presented a dilemma for Russian enterprises. First, Russian companies have an option to deoffshorize their corporate and ownership structures and return their assets to Russia to avoid the consequences of an asset freeze. This option considerably supplements the deoffshorization

⁴⁷⁵ Interfax (2022b).

⁴⁷⁶ Reuters (2022b).

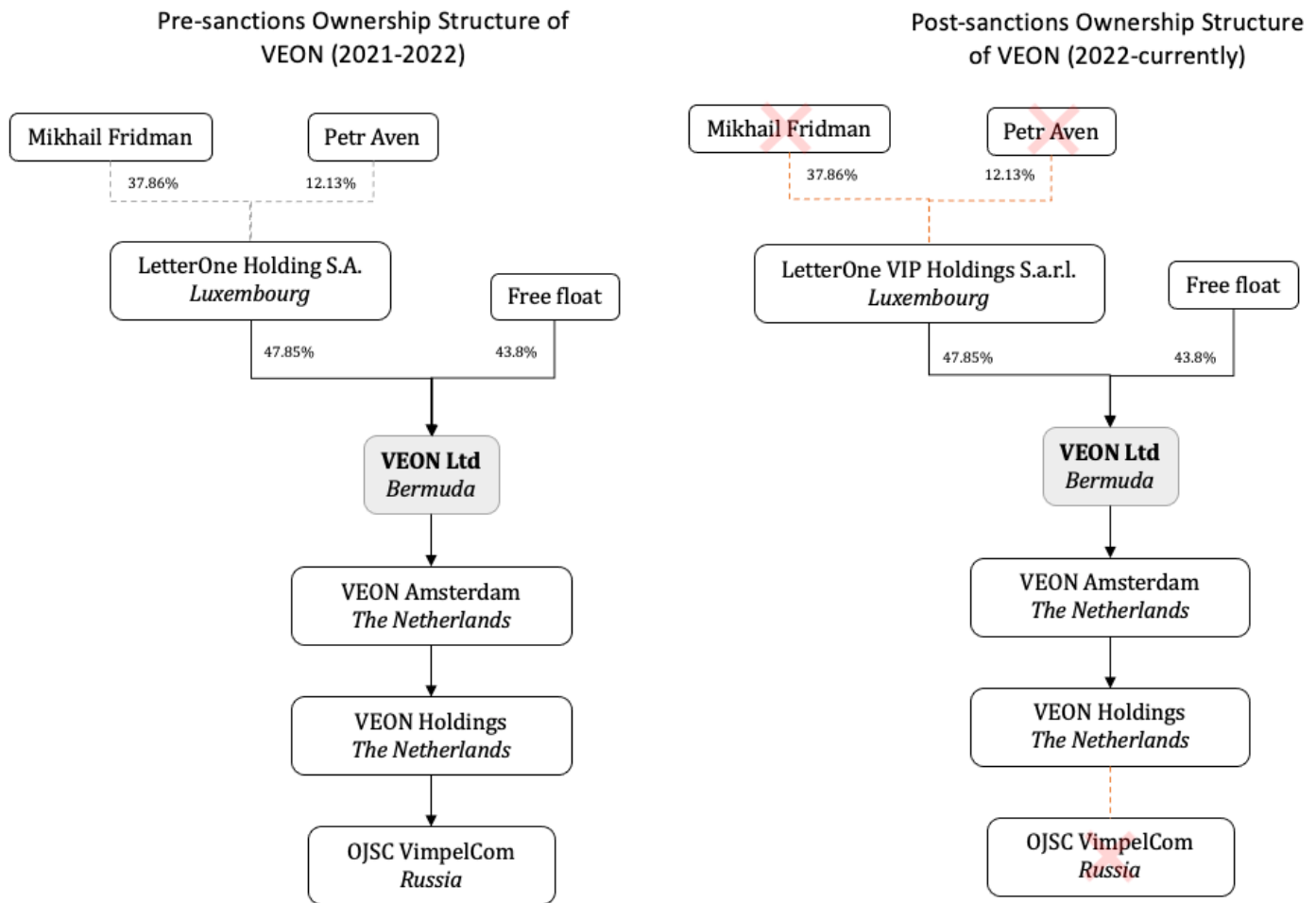
⁴⁷⁷ LetterOne - Statement by Mervyn Davies, Chairman and Jonathan Muir, Chief Executive LetterOne. See: <https://www.letterone.com/news-and-insights/>

⁴⁷⁸ Interfax (2022b).

process, increasing its success. The second option is for Russian companies to maintain their offshore presence despite the rising unpredictability and restricted access to global markets. The case of Veon emphasises that Russian private companies with no proximity to the government prefer the latter option. A strategic option to fully deoffshorize their VEON's structure was not appealing for the corporation since operational activities and most of the assets resided in the European market (particularly offshore jurisdictions). Hence, the company forced Russian indirect shareholders Mikhail Fridman and Petr Aven to be detached from Veon.

The external geopolitical environment and the following sanctions should have facilitated the relocation of offshore holdings to Russia and led to the de-offshorization of Russian holdings. As Russian businesses transfer their assets to offshore jurisdictions to protect and secure them from the Russian government, the effect of sanctions and geopolitical tensions underline the vulnerable position of Russian businesses abroad.

Figure 6.5. Pre-sanctions (2021-2022) and post-sanctions (2022-currently) structure of VEON.



Made by the author. Source: Interfax (2022b).

Further changes led to VEON's sale of the Russian subsidiary (Figure 6.5). While VEON was predominantly active in the Russian market, the effect of sanctions and geopolitical tensions led to VEON's withdrawal from the Russian market.⁴⁷⁹ It offers an excellent illustration of a company that took a different and opposite route from deoffshorization and decided to withdraw completely from the Russian market and cut Russian ties. In November 2022, VEON announced the sale of Russian operations to the management team of Russian VEON subsidiary PJSC VimpelCom

⁴⁷⁹ Kommerstant (2022).

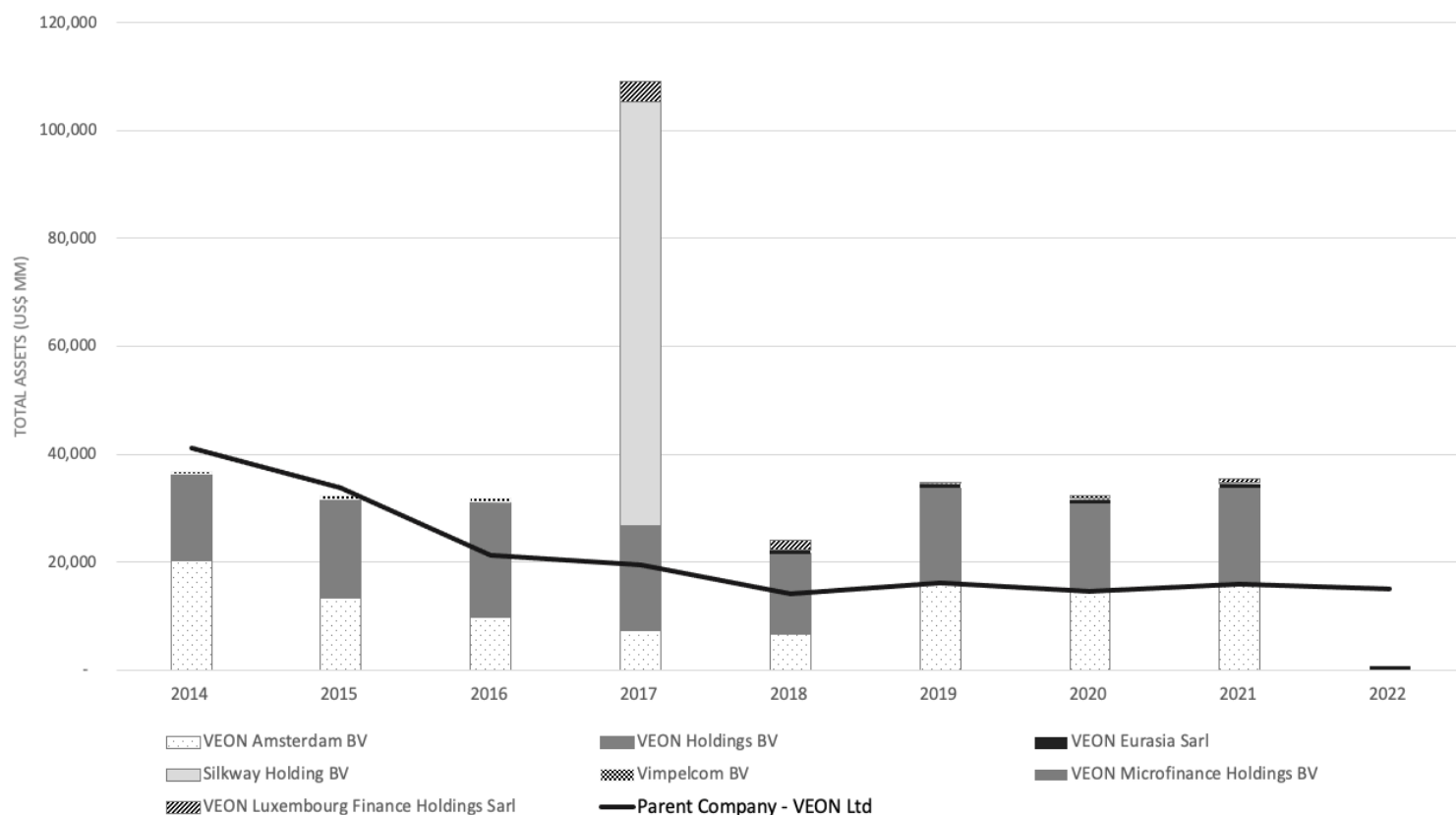
in their Press Release.⁴⁸⁰ This case contrasts Russian SOEs, where previously, the first wave of sanctions in 2014 positively facilitated the deoffshorization process and promoted further relocation and closure of offshore-based subsidiaries.

As VEON has completely withdrawn from the Russian market and remains in the Netherlands (including holdings controlling VEON), this section shifts to a subsidiary-level analysis. VEON provided no data on offshore subsidiaries prior to the deoffshorization process. However, since 2014, VEON has had 46 offshore-based subsidiaries. The cross-check with the company registries of offshore jurisdictions provided that only 11 out of 46 subsidiaries were liquidated. If we attribute the sample of active and deactivated offshore-based subsidiaries to the size of total assets, then Veon transfers the substantial share of taxable profits out of Russia and CIS. In particular, Veon is the most offshorized Russian company among other Russian MNEs involved in the current study.

Bloomberg and Eikon datasets include information on 7 subsidiaries in the offshore jurisdictions that disclosed their assets, primarily in the Netherlands and Luxembourg. Normally, the consolidated financial statements of the parent company include the data of not only the parent company but also the subsidiaries. However, upon measuring the percentage of total assets of offshore-based subsidiaries to total assets of *Veon Ltd* (parent company), the divergence of total assets occurred. Prior to the deoffshorization process, Veon had 90% of its assets in the offshore jurisdictions in 2012 and 80% in 2013. However, in 2016, the proportion of total assets held by offshore-based subsidiaries was 50% more than total assets disclosed by the parent company in the consolidated financial statement. In 2017, total assets in the offshore subsidiaries were 5 times higher than the total assets of the whole Veon (Figure 6.6).

⁴⁸⁰ VEON Press Release (2022).

Figure 6.6. Total assets of the offshore-based Veon subsidiaries to total assets of the whole Veon.



Note: total assets of Veon subsidiaries in the offshore jurisdictions to total assets of Veon Ltd, 2014-2021. Source: Bloomberg and Eikon data.

The substantial increase in offshore total assets in 2017 is attributed to the injected equity for the sum of 78 billion USD to *Silkway Holding BV* (the Netherlands) to settle a corruption case. The subsidiary maintained nearly 80 million USD of total assets through the deoffshorization process; however, the total assets rapidly increased to 78 billion USD in 2017. According to Reuters (2016), Vimpelcom and its subsidiary, *Silkway Holding BV*, were charged due to maintaining false documentation⁴⁸¹ and bribing officials for over 100 million USD in order to obtain entry to the Uzbek telecom market, which resulted in the company making enormous profits in Uzbekistan.⁴⁸² While Vimpelcom had to pay \$795 million in global settlement, it is

⁴⁸¹ Reuters (2016b).

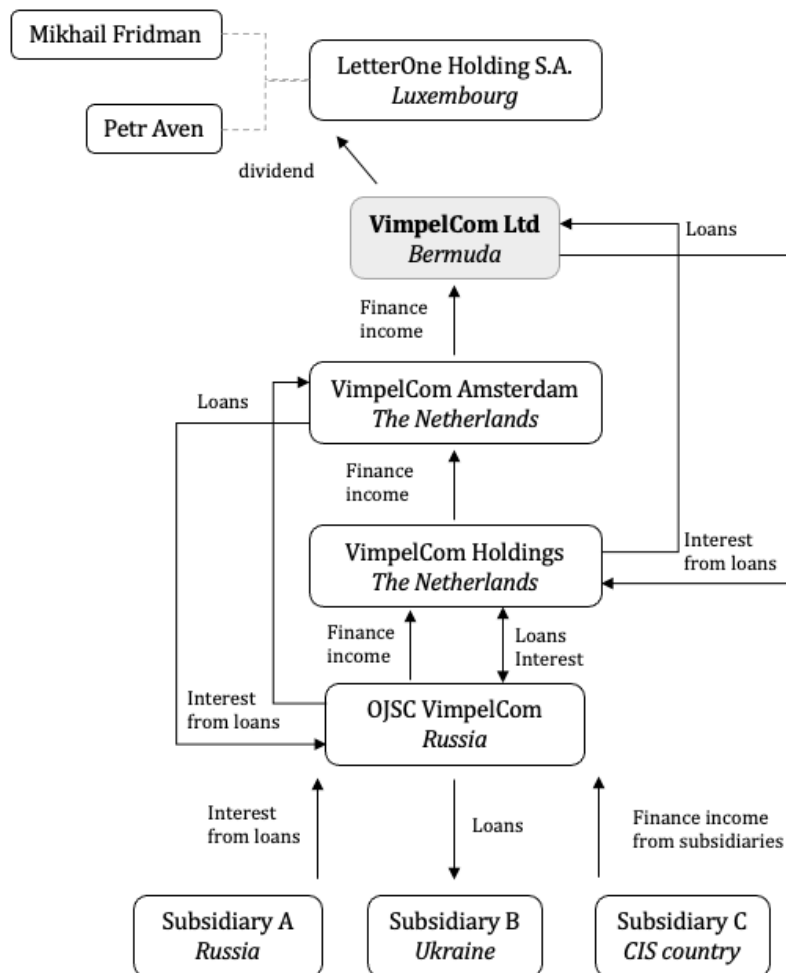
⁴⁸² U.S. Securities and Exchange Commissions – Press Release (2016).

unclear how the total assets of *Silkway Holding BV* reduced from 78 billion in 2017 to 78 million in 2018. Considering the mismatch of the total assets in the offshore jurisdictions against the whole of Veon, the bribery scheme by Veon illustrates that there is a larger picture of the undisclosed assets hidden offshore. Nevertheless, we can see that the total assets of the offshore subsidiaries were primarily constant, despite the ongoing deoffshorization process.

Moreover, no information on the revenues of subsidiaries is disclosed. The example of *Silkway Holding BV* provides that the subsidiaries receive common equity from shareholders to remain in offshore jurisdictions. Another example is *VEON Luxembourg Finance Holdings Sarl*, which received common equity for \$511 million in 2020, explaining the drastic shift of total assets from \$23 million in 2019 to \$520 million in 2020. No revenues from business activity are provided.

The subsidiary-level analysis provides that Veon primarily engages in intra-company debt financing, which is mainly established to transfer capital (Figure 6.7). For instance, the Eikon dataset provides that *VEON Holdings BV* granted loans to Russian-based *Vimpelcom PJSC* in November 2014. This reduced the net income of the latter, as it is shifted as interest payment to Dutch-based Veon Holdings BV. However, a closer analysis illustrates that each subsidiary of Veon is engaged in debt shifting, such as loans granted to Russian-based Vimpelcom from subsidiaries and interest receivables that are twice as much as loans received from Russian subsidiary Vimpelcom.

Figure 6.7. Veon: Intra-company debt profit shifting during the deoffshorization process (2014-2022).



Made by the author. Source: Bloomberg and Eikon dataset.

Figure 6.7 shows that Veon's structure is based not primarily on tax differences in the debt-shifting channel but on the transfer of revenue from Russian and CIS subsidiaries to offshore jurisdictions. The geographical areas of Veon's assets appear to be determined by OFCs rather than the location of customers. This explains that the offshore subsidiaries do not disclose their revenues from business activities yet have an extensive share of assets. Certainly, it indicates the reason why Veon is one of the leading Russian MNEs by the size of foreign assets while mainly operating in Russia and CIS countries.

In fact, these repercussions cause a number of challenges to the deoffshorization process, including those pertaining to debt-shifting practices. Veon illustrates an example of a Russian company that is engaged in debt shifting as an effective instrument through which businesses contribute to the capital outflow from Russia, which goes against the main goal of deoffshorization. As Veon continuously shifted capital to offshore jurisdictions before and during the deoffshorization process, we can state that deoffshorization had no impact on VEON. The deoffshorization regulations hardly had any effect on Veon in repatriating to Russia; rather, the company continues its registration in the Netherlands (operating from a Bermuda incorporated company).

6.4. LUKOIL

Another case to consider is Lukoil, Russia's second-largest oil corporation.⁴⁸³ Lukoil is the most geographically diverse Russian oil company.⁴⁸⁴ The corporation started expanding its foreign investments in the middle of the 1990s. Its initial initiatives were centred on expanding its resource base in nations including Azerbaijan, Kazakhstan, and Egypt. It conducts oil exploration and extraction operations throughout Europe, Asia, Africa, and Latin America.⁴⁸⁵ For instance, Lukoil owns stakes in oilfield refineries in Azerbaijan, Kazakhstan, and Uzbekistan, gas stations, and refineries in Europe and the U.S.⁴⁸⁶

The annual reports do not provide information on Lukoil's pre-deoffshorization ownership structure. However, the news agencies have addressed this lack by offering valuable information. In 2014, Vagit Alekperov (who established Lukoil in the 1990s)⁴⁸⁷ controlled 20.9% of Lukoil shares. Specifically, he directly and indirectly owned shares through various companies.⁴⁸⁸ However, no information on the

⁴⁸³ Riley (2022).

⁴⁸⁴ Joint Report by Vale Columbia Center and IMEMO (2013).

⁴⁸⁵ *Ibid.*

⁴⁸⁶ Hanson (2010); Panibratov and Michailova (2019).

⁴⁸⁷ The Moscow Times (2005).

⁴⁸⁸ Forbes (2014); Interfax (2014a).

registration jurisdiction was found. Lukoil stated that Alekperov, through *Lihou Group Limited*, purchased Lukoil ADR in London, UK (place of the transaction).⁴⁸⁹ Lukoil's other largest shareholders were Leonid Fedun (9.6%), IFD Capital (about 8%), and its subsidiary Lukoil Investment Cyprus (9.2%).⁴⁹⁰

Throughout the deoffshorization process, Vagit Alekperov purchased the shares of Lukoil through offshore companies. On 30 August 2018, PJSC Lukoil announced the start of a repurchase of the company's shares, including in the form of depositary receipts.⁴⁹¹ According to Financial Times (2018), Alekperov provided a standard form for notification of major holdings of Lukoil, which were *Morcell Limited* (Cyprus), *Simcol Holdings Ltd* (BVI), *Grindale Investments Limited* (Cyprus) and *Sporine Limited* (Cyprus).⁴⁹² Following the completion of the common stock redemption, Alekperov directly or indirectly owned or was a beneficiary (including through family trusts and mutual funds) of a collective of 26.06% of the Lukoil shares.⁴⁹³ The prominence of such fragmentation of controlled shares lies in the application of CFC rules, which do not indicate its classification of foreign subsidiaries of controlled foreign companies. According to the Russian Corporate Disclosure Centre (2018), *Lancaster Trustees Limited* (Guernsey) is the trustee of the *Verona Trust* (jurisdiction not specified). In turn, *Verona Trust* controls 100% of the shares of *Vela Fund Ltd* (British Virgin Islands), which owns *Morcell Limited* (Cyprus) and *Sporine Limited* (Cyprus).⁴⁹⁴ In 2022, Alekperov acquired 67,604 thousand shares of Lukoil through *Sporine Limited* and 200 thousand shares through *Morcell Limited*.⁴⁹⁵ The latter wholly owned *Grindale Limited* (Cyprus), which controlled *Hepworth Technologies (CY) Limited* (Cyprus), *Dogelux Securities Limited* (Cyprus) and *Simcol Holdings Ltd* (BVI).⁴⁹⁶ Together, these three companies controlled 100% of *Grindale*

⁴⁸⁹ Lukoil (2013).

⁴⁹⁰ Forbes (2014).

⁴⁹¹ Foy (2018).

⁴⁹² Financial Times (2018).

⁴⁹³ Tass (2018).

⁴⁹⁴ Russian Corporate Disclosure Centre (2018).

⁴⁹⁵ Interfax (2020).

⁴⁹⁶ Russian Corporate Disclosure Centre (2018).

Investments Limited (Cyprus).⁴⁹⁷ According to Vedomosti (2016b), *Grindale Investments Limited* purchased 50 thousand shares of Lukoil in 2016.⁴⁹⁸ In 2015, Alekperov acquired 10 thousand shares through *Grindale Investments Limited*.⁴⁹⁹

Figure 6.8 illustrates the complexity of the legal structure through which Alekperov controls his shares in Lukoil. While the CFC rules aimed not only to return assets to Russia through the taxation of the Russian taxpayer who indeed controls the company but also to increase the transparency of the businesses in offshore jurisdictions, easing the recognition of the untaxed revenues of foreign companies, we can see that this case responded with a more complex legal structure to continue the use of offshore jurisdictions. Chapter 3 outlines that the deoffshorization regulation considers that a Russian taxpayer controls a CFC if it impacts the decision-making of the profit distribution. Furthermore, this applies if participation in a CFC does not exceed 25% or 10% if the total share of participation of Russian residents in this company exceeds 50%.⁵⁰⁰ As oligarch Alekperov directly controls *Lancaster Trustees Limited* (Guernsey), only this company is categorised as CFC, meaning that it has to pay Russian taxes from retained earnings. While Guernsey has a zero tax rate,⁵⁰¹ the collection of untaxed revenues of *Lancaster Trustees Limited* is minimal due to the complexity of the whole legal structure. If *Lancaster Trustees Limited* was the only company through which oligarch Alekperov held his controlling shares in Lukoil, the received dividends and thus taxable amount of CFC company would be substantially higher. However, while CFC rules are effective in the collection of untaxed revenues of *Lancaster Trustees Limited*, its subsidiaries are not categorised as CFCs and, hence, are not taxed by Russian legislation. Similarly to the previous case studies of NLMK and VEON, the ownership structure of Lukoil contributes to further capital outflow from Russia, as the payable dividends remain in the offshore jurisdictions.

⁴⁹⁷ *Ibid.*

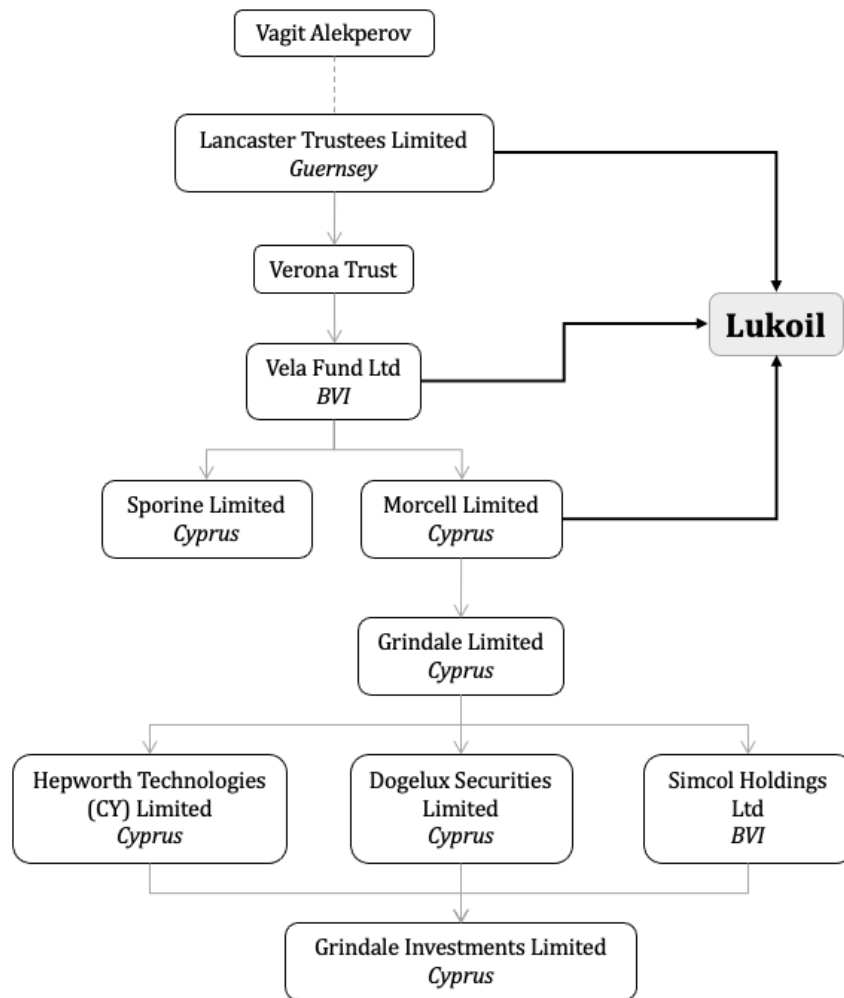
⁴⁹⁸ Vedomosti (2016b).

⁴⁹⁹ Lukoil – Annual Report (2015).

⁵⁰⁰ Deloitte (2017).

⁵⁰¹ PwC – Guernsey, Corporate. See: <https://taxsummaries.pwc.com/guernsey/corporate/income-determination>

Figure 6.8. Vagit Alekperov and 'Offshorized' Structure controlling Lukoil (in 2018).



Made by the author. Source: Russian Corporate Disclosure Centre (2018).

Thus, the current case study showed that the deoffshorization regulations failed, as the Russian businessmen did not positively respond to the deoffshorization process. Oligarch Alekperov responded to the CFC rules with a complex legal structure, eliminating the application of CFC rules on untaxed revenues. It cannot be denied that CFC rules are too broad in classification, leaving space for permissible loopholes. Certainly, Cyprus and BVI are attractive jurisdictions for Russian businessmen. Cyprus provides 12.5% corporate tax with tax-free dividends,⁵⁰² and

⁵⁰² Repousis, Lous and Kougioumstsidis (2019).

BVI has a zero tax rate.⁵⁰³ Considering that Russia has 20% of corporate income tax and 13-15% of personal income tax, it is a substantial benefit that attracts Russian companies.⁵⁰⁴ Although BVI does not have a double tax treaty with Russia,⁵⁰⁵ Russian taxpayers were using the “Cyprus sandwich”,⁵⁰⁶ the channel where money was first going through Cyprus that provided the benefits of the DTT. Subsequently, capital moved to BVI that provides financial services and secrecy. In this case, Cyprus-based companies (*Grindale Investments Limited*, *Morcell Limited* and *Sporine Limited*) that control Lukoil’s shares pay 12.5% of corporate tax, round tripping money to BVI (*Vela Fund Ltd*), paying no taxes. As such, ‘transit’ companies registered in Cyprus and BVI pay lower or no taxes, then move the capital to the ultimate parent company - Guernsey. The amendment of the DTT between Russia and Cyprus in 2021 as the deoffshorization regulation did not restrict the taxpayer use of Cyprus. The DTT amendment provided a solid base for the Russian economy to reduce capital flow, yet the current case illustrated the failure of such regulation. Alekperov’s offshore companies that control shares in Lukoil accumulate all income without transferring anything to Russia and pay limited or no taxes in offshore jurisdictions.

Following 2022 conflict in the Ukraine, the sanctions targeting Alekperov pressured him to ‘distance from the oil company’ in order to restrict the effect of sanctions on the company.⁵⁰⁷ In 2022, he left his position as the President of Lukoil and the board of directors.⁵⁰⁸ Neither the deoffshorization process nor the sanctions affected the repatriation of his companies controlling Lukoil’s shares from offshore jurisdictions to Russia. It is crucial to outline that, according to Anders Åslund, Vagit Alekperov is “comparatively independent” from the Russian government.⁵⁰⁹ It is evident in contrast to the state-owned Rosneft. The objective of LUKOIL is to become a global corporation, which is more challenging for Rosneft and other SOEs.⁵¹⁰ Before

⁵⁰³ Sherimov (2015).

⁵⁰⁴ Alekseyev et al (2021).

⁵⁰⁵ Paramonova and Smirnov (2020).

⁵⁰⁶ Mugarura (2018).

⁵⁰⁷ Interfax (2022c).

⁵⁰⁸ *Ibid.*

⁵⁰⁹ Hyatt (2022).

⁵¹⁰ Åslund (2012); Frankel and Torbati (2022).

establishing Lukoil in 1991, Alekperov worked as the deputy minister of oil and gas in the previous Soviet administration.⁵¹¹ Following the Yukos case, Lukoil was the first Russian company to get a sizable tax claim for its operations in Kazakhstan's offshore zone. But without contesting the charge in court, Lukoil swiftly paid it.⁵¹² As Chapter 2 outlined, the relationship of oligarchs with the government is one of the reasons that Russian capital moves offshore. Considering the relationship between Alekperov and the Russian government, it is unsurprising that he did not transfer his offshore companies that control Lukoil's shares to Russia. This reluctance is similar to another Russian oligarch, Mikhail Fridman of VEON. Based on these factors, we conclude that Russian businessmen that use offshore jurisdictions to shield their capital and assets from government control, have no response to the deoffshorization regulations. While Russian businesses transfer their assets to offshore jurisdictions to protect and secure them from the Russian government, the effect of sanctions and geopolitical tensions underlined the vulnerable position of the oligarchs abroad. Russian businessmen must either to return their assets to Russia or reduce stakes in their assets abroad due to the rising unpredictability and restricted access to global markets, which would considerably supplement the deoffshorization process. However, sanctions and geopolitical environment and subsequent sanctions in 2022 did not urge Alekperov to repatriate his companies to Russia but rather detaching himself from Lukoil.

As for the corporate structure, the case of Lukoil is more intriguing than that of other corporations. As one of the leading Russian MNEs in terms of foreign assets, Lukoil owns a network of petrol stations and trading firms in European nations. Lukoil has been subject to 'relatively mild' U.S. sanctions in 2014⁵¹³ and avoided becoming the target of EU sanctions.⁵¹⁴ According to Jack (2023), Lukoil has strong ties to European policymakers, which led to LUKOIL being primarily unaffected. Therefore, the analysis of a subsidiary-level dataset for Lukoil will allow to understand the impact of the deoffshorization process on the company, omitting the effect of sanctions on

⁵¹¹ Tognini, G. (2022).

⁵¹² The Moscow Times (2005).

⁵¹³ Frankel and Torbati (2022).

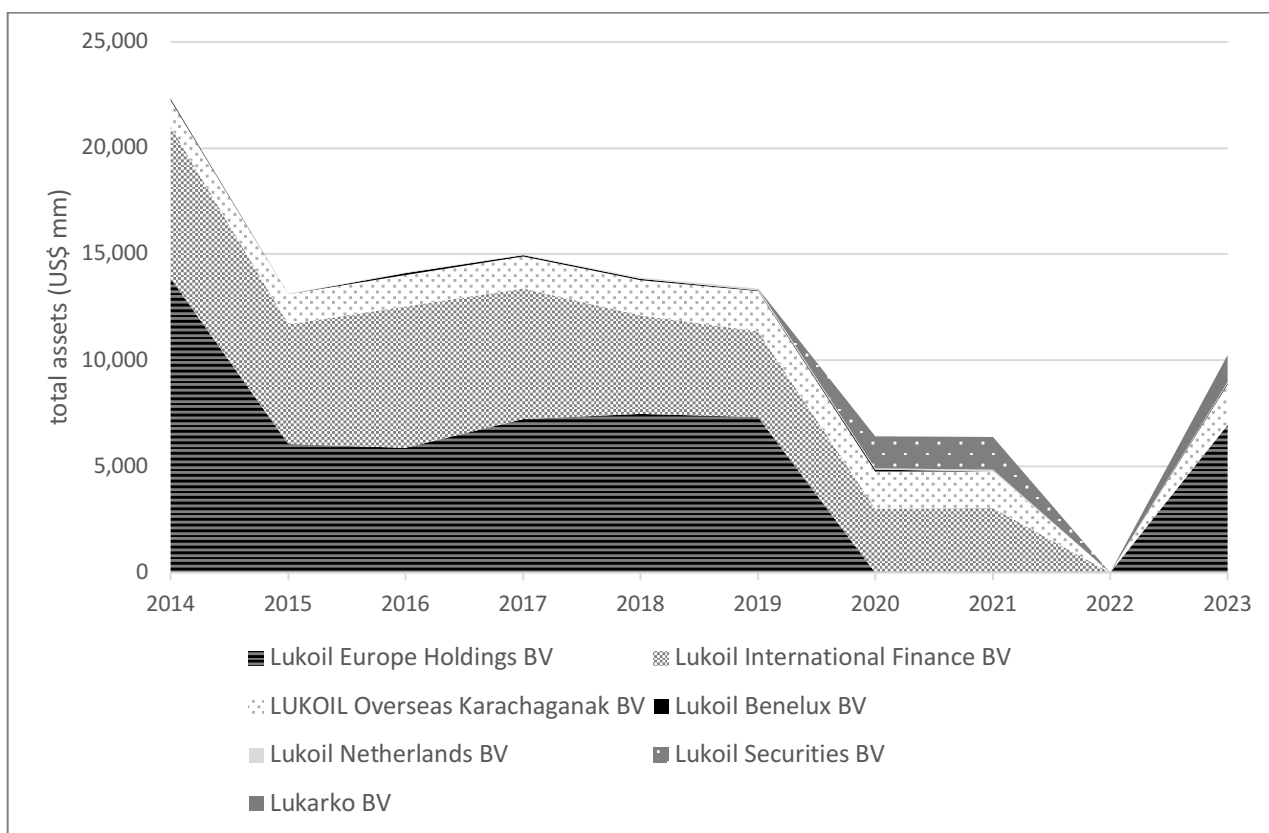
⁵¹⁴ Jack (2023).

cross-border activities of Lukoil. Bloomberg and Eikon dataset provide different number of Lukoil offshore-based subsidiaries, yet the dataset suggests that the majority of Lukoil's subsidiaries are formally active. Hence, I turn to the observation of the assets held by these subsidiaries to confirm whether they continue to actually operate and accumulate the capital in the offshore jurisdictions.

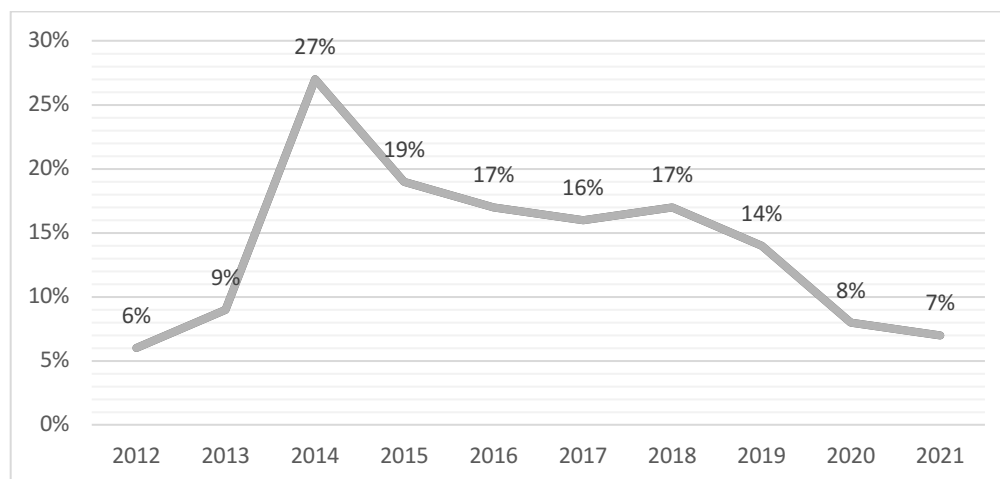
Out of all offshore-based Lukoil subsidiaries, only seven disclose their assets (Figure 6.9). Pre-deoffshorization data is substantially limited yet indicates that total assets of Lukoil held in OFCs was equal to 6% (in 2012) and 9% (in 2013), which then sharply increased to 27% in 2014. The commencement of the deoffshorization process had an adverse effect on Lukoil subsidiaries, as the amount of identifiable total assets of the offshore subsidiaries has been substantially higher than the pre-deoffshorization assets (Panel B, Figure 6.9). Although Bloomberg and Eikon datasets provide the data on total assets of seven subsidiaries in the offshore jurisdictions, together they constitute 27% of Lukoil's total assets (in 2014). The proportion of total assets held by the offshore-based Lukoil subsidiaries had reduced from 27% at the beginning of the deoffshorization process in 2014 to 7% in 2021 (Panel A, Figure 6.9), yet remained higher than before the commencement of deoffshorization. A sharp decline in the total assets in 2020 – 2021 can be explained by the termination of the DTT between Russia and the Netherlands, as all of these subsidiaries are based in the Netherlands. As for the data for 2022, due to the risk of being the target of sanctions, Lukoil did not disclose its revenue information. While the observed decline of the total assets held in the offshore jurisdictions during the deoffshorization process (2014-2023) suggests the partial effect of the deoffshorization process, a fraction of the total assets of Lukoil remains in OFCs. Moreover, the undisclosed data of other offshore-based subsidiaries suggests a larger share of potential total assets held in the offshore jurisdictions.

Figure 6.9. Components of total assets of the offshore-based Lukoil subsidiaries.

Panel A



Panel B



Note: Panel A: total assets of Lukoil subsidiaries in the Netherlands, 2014-2023. The 2022 data is excluded as it has not been disclosed. Panel B: the percentage of total assets of the manually observed sample to total assets of Lukoil, 2012-2021. Source: Bloomberg and Eikon data.

The detailed subsidiary-level analysis shows that Lukoil has largely engaged in selling securities rather than intra-company debt financing during the deoffshorization process (Table 6.1). Unlike dividends, income in the form of capital gains received from the sale of securities is usually subject to more flexible taxation, which can be deferred to the future. Lukoil uses several subsidiaries in Ireland and the Netherlands to place bonds in order to raise money for the parent company. Bonds are not subject to withholding tax, which allow MNEs to take advantage of tax-deductible channel of raising business funds.⁵¹⁵

Table 6.1. List of Lukoil's bonds placed during 2014-2023.

Subsidiary	Bonds due year
Lukoil International Finance BV the Netherlands	due April 2023 due Nov 2026
Lukoil Capital DAC Ireland	due April 2027 due October 2031
Lukoil Securities BV The Netherlands	due May 2030

Source: Lukoil – list of bonds⁵¹⁶

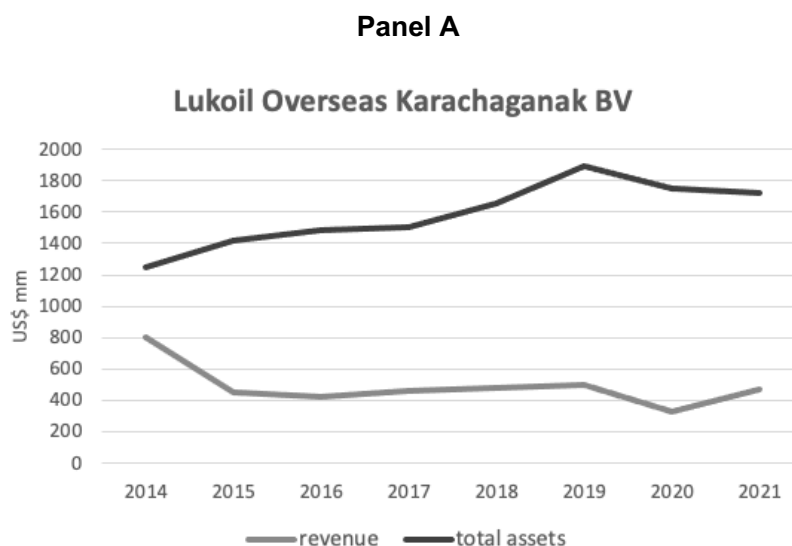
In a similar way to Veon and NLMK, Lukoil used intra-company debt shifting to reduce the corporate tax base via offshore-based subsidiaries during the deoffshorization process. For instance, the Eikon dataset provides that in 2017, *Lukoil Asia Pacific Pte Ltd* (Singapore) closed a 109 million USD loan from the parent company. In this case, offshore benefits do not necessarily apply, yet involve the transfer of capital. However, the extent of debt shifting within Lukoil is substantially lower than that of Veon and NLMK. Given the variety of offshore tools that Russian MNEs employ to avoid the deoffshorization process, Lukoil's subsidiaries in the offshore jurisdictions operate not only for offshore benefits but also for stable legislation and access to the global market. Following the review of total assets against revenue, we can see that Lukoil subsidiaries receive a share of revenues from

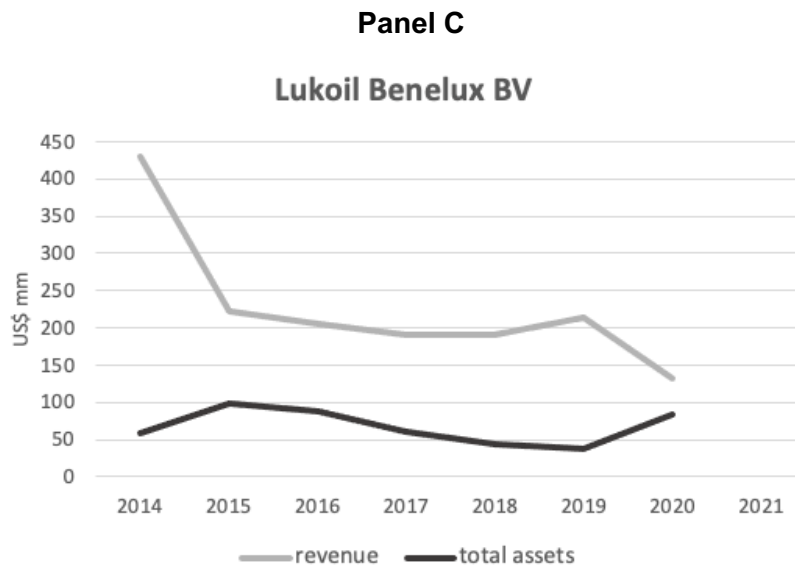
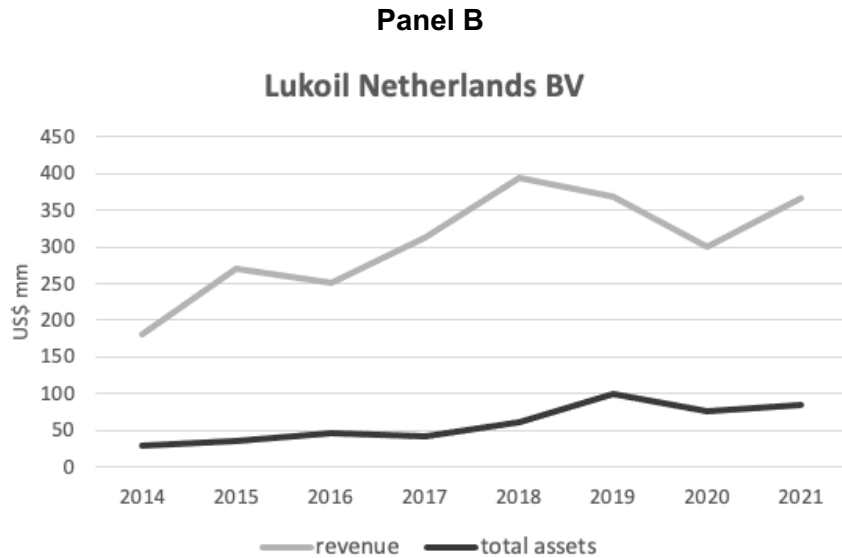
⁵¹⁵ Hampton (1996).

⁵¹⁶ Lukoil – Bonds. See: <https://www.lukoil.com/InvestorAndShareholderCenter/Securities/Bonds>

oil and gas operations (Figure 6.10). As the asset turnover ratio is higher, *Lukoil Netherlands BV* (the Netherlands) and *Lukoil Benelux BV* (the Netherlands) are efficient at making profitable use of its resources, distinguishing Lukoil from other Russian MNEs of the current study. The substantial interference of the government is one of the main internal factors that initially contributed to offshorization of LUKOIL. Åslund (2012) alleged that with the established dominance of Russian SOEs in the oil and gas industry, Lukoil went global to reduce the possibility of being nationalised. The involvement of the Russian government reflected on the offshorization of LUKOIL, which increased the appeal of offshore jurisdictions for their strong property rights and access to global markets. In turn, the global presence of LUKOIL provided an opportunity to obtain higher prices and strengthen its position.

Figure 6.10. Total assets vs revenue of the offshore Lukoil subsidiaries.





Source: Bloomberg and Eikon data.

While following the start of the deoffshorization process, Lukoil did not relocate or liquidate offshore-based subsidiaries; the exacerbated political environment in 2022 changed the situation.⁵¹⁷ Although Lukoil is not subject to substantial sanctions, unlike Rosneft, its subsidiaries in the Western markets are afflicted by companies avoiding doing business over the fear of Lukoil's Russian origin. For instance, *LUKOIL Pan*

⁵¹⁷ *Ibid.*

Americas, the energy trading arm of Lukoil in the United States, lost at least three energy traders as a result of international sanctions. This subsequently made it difficult for Lukoil to conduct business in the United States.⁵¹⁸

Another example is *LITASCO SA*, a Swiss-based trading arm. Many European businesses and banks have shunned working with *LITASCO* out of concern over possible sanction violations and reputational damage. As a result, *LITASCO* found it challenging to work in Switzerland and in 2022, *LITASCO SA* relocated a portion of its operations from Switzerland to Dubai.⁵¹⁹ Such allocation provided handling all *LITASCO*'s Russian sales as well as its current Middle Eastern business in Dubai, which has not imposed limitations on Russian commerce and finance.⁵²⁰ The initial introduction of CFC rules aimed to relocate foreign companies to Russia rather than other offshore jurisdictions to limit the capital outflow from Russia. The cost of the issue is enormous, as the deoffshorization rules do not impede the capital outflow. The Eikon dataset provides that the revenue of the subsidiary was equal to 78.5 billion USD dollars in 2020, occurring in the lost capital to the Russian government. Another subsidiary, which did not relocate to Russia but to another offshore jurisdiction, is *Lukoil Overseas Holding*. As the subsidiary is categorised as CFC, in response to the initiation of the deoffshorization process, Lukoil moved its subsidiary from the British Virgin Islands to Austria in 2013.⁵²¹ However, CFC rules target direct subsidiaries of Russian companies, not taking into consideration the foreign (including offshore) structures owned by subsidiaries. Hence, by transferring *Lukoil Overseas Holding* to Austria, the deoffshorization rules did not impact the offshore subsidiaries held by the *Lukoil Overseas Holding*.

Therefore, the deoffshorization policy does not particularly frighten businesses; rather, in its practice, new schemes are being developed to optimise taxation. However, the case of Lukoil illustrated that subsidiaries located in jurisdictions that did not impose sanctions against Russia are less likely to be liquidated than those in

⁵¹⁸ Kumar, Kassai and Tobben (2022).

⁵¹⁹ Payne, Aizhu and Edwards (2022).

⁵²⁰ Sampson (2022).

⁵²¹ Forbes (2013).

those that imposed. In the long run, it will be challenging for Lukoil to maintain its European subsidiaries and assets.

6.5. Conclusion

This chapter provides a thorough analysis of the responses of private Russian companies, particularly those with no proximity to the government, in relation to the deoffshorization process. The findings demonstrate that the deoffshorization process failed to urge the repatriation of Russian businesses. Instead, private companies continue to strategically employ offshore schemes and take advantage of any possible loopholes to enhance their capital accumulation in offshore jurisdictions after the implementation of the deoffshorization policies.

The corporate structure of selected private companies illustrates that the offshore-based subsidiaries are used to accumulate income without transferring any capital to the parent company in Russia. The selected companies predominantly used intra-company debt shifting to reduce the corporate tax base via offshore-based subsidiaries during the deoffshorization process. The interest from these loans subsequently travelled overseas, saving Russian companies' income tax, with assets remaining in the offshore jurisdictions. This illustrates how the deoffshorization process failed to limit offshore strategies employed by Russian private companies. Such a response of Russian companies to the deoffshorization process can be attributed to several key factors. First, the selected companies were not targeted by the sanctions of 2014, which allowed them to maintain their cross-border activity. Unencumbered by the impact of these sanctions, Russian private companies continued to enjoy offshore benefits and access to global markets. In contrast, the deoffshorization regulations implemented within the Russian jurisdiction do not provide the same advantages. The significant interference of the state in business matters essentially discourages the repatriation of private companies with no proximity to the government. Furthermore, the political tensions and the subsequent sanctions in 2014 aggravated the Russian business environment, positioning offshore jurisdictions as a

‘safe haven’ for favourable capital movement conditions. Notably, even in 2022, Russian companies exhibited limited response to the deoffshorization process. Rather, oligarchs opted to detach themselves from their companies. A particularly notable case is VimpelCom (currently VEON), which has completely withdrawn from the Russian market and cut its associations with Russia instead of repatriating to Russia.

In terms of ownership structure, the deoffshorization regulations are ineffective as Russian oligarchs implemented a more complex pyramidal structure through offshore jurisdictions. In response to the introduction of CFC rules, Lukoil and Vimpelcom adopted multiple-tier structures. This decision effectively illustrated how unsuccessful CFC rules are, as they do not account for the collection of untaxed revenues from subsidiaries. As a result, the payable dividends remain in the offshore jurisdictions, contributing to further capital outflow from Russia to offshore jurisdictions. In the case of NLMK, the oligarch transitioned his structure from Cyprus to Abu Dhabi following the amendment of the DTT between Cyprus and Russia in 2022. As such, the lack of proximity to the government did not prompt oligarchs to liquidate their shell companies through which they control their corporate shares. It is also important to note that none of the oligarchs used capital amnesty.

The findings clearly validate Hypothesis 3, reinforcing that Russian companies with no relationship with the Russian government are unwilling to limit the use of offshore jurisdictions. A reasonable interpretation of these findings is that with no relationship with the government, Russian businessmen continue to use offshore jurisdictions for the protection of assets and control of capital from the government. Thus, the deoffshorization regulations failed to incentivise repatriation to Russia for those Russian companies with no proximity to the government.

The following chapter will evaluate Russian private companies and their strategic decision to relocate to Special Administrative Regions (SARs) in Russia, which are known as ‘Russian offshores’. It will provide insights into SARs as a component of the deoffshorization process and assess their success as alternatives to foreign offshore jurisdictions.

Chapter 7: Private Companies and Russian Special Administrative Regions

7.1. Introduction

This chapter will evaluate the success of the Russian Special Administrative Regions (SARs) as a deoffshorization measure for repatriating Russian companies. Given the risks of sanctions, the deoffshorization process necessitated the creation of advantageous conditions that would promote the repatriation of offshore enterprises of Russian origin. Chapter 3 outlined that, similarly to offshore jurisdictions, Russian SARs provide certain tax benefits, no foreign currency controls, and no financial reporting requirements. This study distinguishes three main methods that businesses re-domicile to the Russian SARs: re-domiciliation of holdings that control the ownership shares, re-domiciliation of the parent entity, and re-domiciliation of subsidiaries.

To assess how Russian SARs work in practice, I will review three case studies of private companies that relocated to the Russian SARs. In particular, the analysis will focus on Rusal, TMK and Evraz, which have good relationships with the Russian government. By examining the relocation of these private companies to Russian SARs, this chapter will test hypothesis 2. The premise of this hypothesis is based on the assumption that companies with proximity to the government are more willing to limit their use of offshore jurisdictions and repatriate their assets to Russia.

The findings of this chapter are that the Russian SARs employ stricter requirements for benefit provision than conventional offshore jurisdictions, which undoubtedly impact businesses' willingness to relocate to the Russian SARs. This willingness to relocate substantially depends on the good relationship between business elite and the Russian government, which is compatible with the proposed hypothesis.

7.2. RUSAL

Rusal is the only aluminium producer in Russia, which reflects the high degree of industrial concentration.⁵²² In 2010, Rusal produced 10% of the world's aluminium generated,⁵²³ and in 2013, Rusal was placed 7th among Russian companies by the size of foreign assets.⁵²⁴

The pre-deoffshorization ownership structure of Rusal was substantially offshorized. First, the parent company En+ Group and Rusal were registered in the offshore jurisdiction, namely Jersey.⁵²⁵ Second, Rusal was controlled by several Russian oligarchs through pyramidal offshore structures (Figure 7.1). The major shareholder, Oleg Deripaska, controlled his Rusal shares through a three-tier offshore structure prior to the deoffshorization process. Jersey-based *En+ Group* owned 48.13% of Rusal shares, which was controlled through *B-Finance Ltd* (BVI) and *Basic Element Ltd* (Jersey).⁵²⁶ The ultimate parent company of Deripaska was *Fidelitas International Investments Corp.* (BVI).⁵²⁷ Another Rusal shareholder were Victor Vekselberg and Len Blavatnik who controlled their share through offshore-based *SUAL Partners Ltd* (Bahamas)⁵²⁸ and Mikhail Prokhorov who controlled 17.02% of Rusal shares through Cyprus-based *Onexim Holdings Ltd*.⁵²⁹ Thus, almost the whole pre-deoffshorization ownership structure of Rusal was controlled through offshore-based companies, which distributed dividends. This ownership structure allowed several Russian oligarchs to enjoy comfortable tax conditions with no dividend rate, maintaining capital outflow from Russia.

⁵²² Joint Report by Vale Columbia Center and IMEMO (2013).

⁵²³ Panibratov (2012).

⁵²⁴ Kuznetsov (2016).

⁵²⁵ Rusal – Consolidated Financial Report (2014).

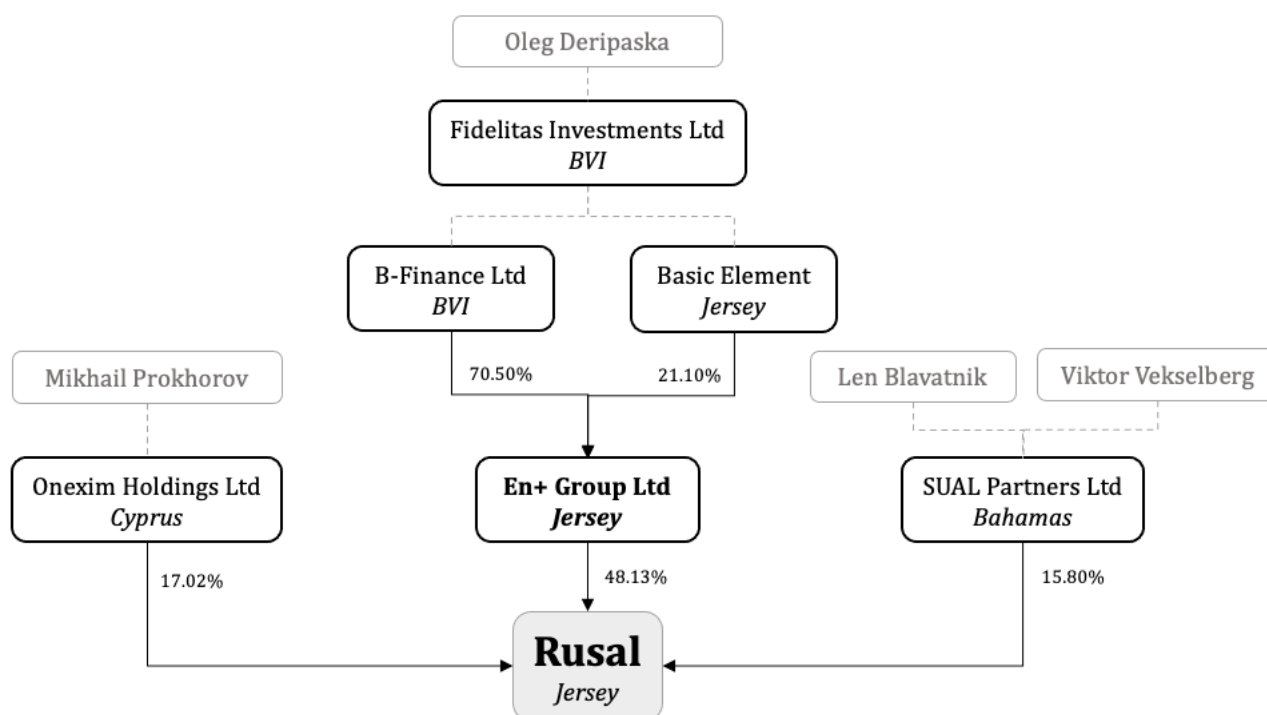
⁵²⁶ En+ Group Limited – Consolidated Financial Statements (2014, 2015, 2016); U.S. Department of the Treasury (2018).

⁵²⁷ Rusal – Consolidated Financial Statements (2013).

⁵²⁸ Offshore Leaks Database.

⁵²⁹ Interfax (2009); Rusal – Consolidated Financial Report (2014).

Figure 7.1. Pre-deoffshorization ownership structure of Rusal (2013-2014).



Made by the author. Source: Rusal – Consolidated Financial Report (2014).

Following the presidential announcement to deoffshorize the Russian economy, Rusal announced that the company had prepared a plan to gradually relocate its operations to the Russian jurisdiction.⁵³⁰ However, no relocation to Russia took place until 2018-2019. Oleg Deripaska maintained a three-tier offshore structure that minimised the exposure to the CFC rules. As was outlined previously, CFC rules do not specify the classification of foreign subsidiaries of controlled foreign companies. As Deripaska directly controlled *Fidelitas International Investments Corp.* (BVI), only this company is categorized as CFC, meaning that it has to pay Russian taxes from retained earnings. As Jersey and BVI have zero corporate income tax,⁵³¹ the collection of untaxed revenues of *Fidelitas* was minimal due to the complexity of the whole legal structure. Dividends from proceeds from its subsidiaries and from UC Rusal remained as capital in the offshore jurisdictions. Panel A, Figure 7.2 illustrates

⁵³⁰ RBC News (2013b).

⁵³¹ The Website of Government of Jersey. See: <https://www.gov.je/LifeEvents/MovingToJersey/>; British Virgin Islands – Financial Services Commission. See: <https://www.bvifsc.vg/faq/>

that Deripaska controlled En+ through an additional Cyprus-based company *Eastern Carriers Trading Element* until 2018.⁵³² This highlights no substantial impact of the deoffshorization regulations (CFC rules and capital amnesty) on the relocation of offshore-based holdings.

The situation substantially changed with the imposition of new round of the U.S. sanctions in 2018, which targeted Rusal and its parent company , En+ Group. Following months of negotiations with the U.S. Treasury Department, Deripaska agreed to decrease his ownership in En+ from 70 percent to 44.95 percent. This agreement lifted the sanctions against Rusal and En+.⁵³³

In this case, not deoffshorization regulation, but sanctions facilitated the shareholders' decision to fully relocate both the parent company En+ Group and Rusal to Russia. In 2019, En+ relocated to Kaliningrad, the Russian SAR. With the recent establishment of SARs, the company became its 10th resident.⁵³⁴ Following that, Deripaska registered his seven other companies in the Kaliningrad region. These companies are *Fenestraria Consultants*, *Ceratosamia Consultants*, *Rasperia Trading*, *Prime Emerald Trading*, *Samolus Investments*, *Trans Sector Holdings Limited*, and *Langdale Holdings*.⁵³⁵ These series of relocation reinforced the fact that money in Russia cannot be frozen by sanctions or other external events. Cyprus-based *Eastern Carriers Trading Limited*, which controlled 2.4% of En+ shares, was later dissolved and registered in Kaliningrad.⁵³⁶ Previously, Russian companies went offshore to protect businesses and assets from the Russian government, yet the deoffshorization process presented a reverse setting, where Russian businesses returned to Russia to protect assets from Western sanctions.

In 2020, Rusal relocated from Jersey to Kaliningrad, Russian SAR, indicating that Russian jurisdiction provides more comfortable conditions for business.⁵³⁷ The

⁵³² Russia Business Today (2018).

⁵³³ Devitt and Mohammed (2019).

⁵³⁴ Reuters (2018a), Reuters (2018b); RBC News (2019d).

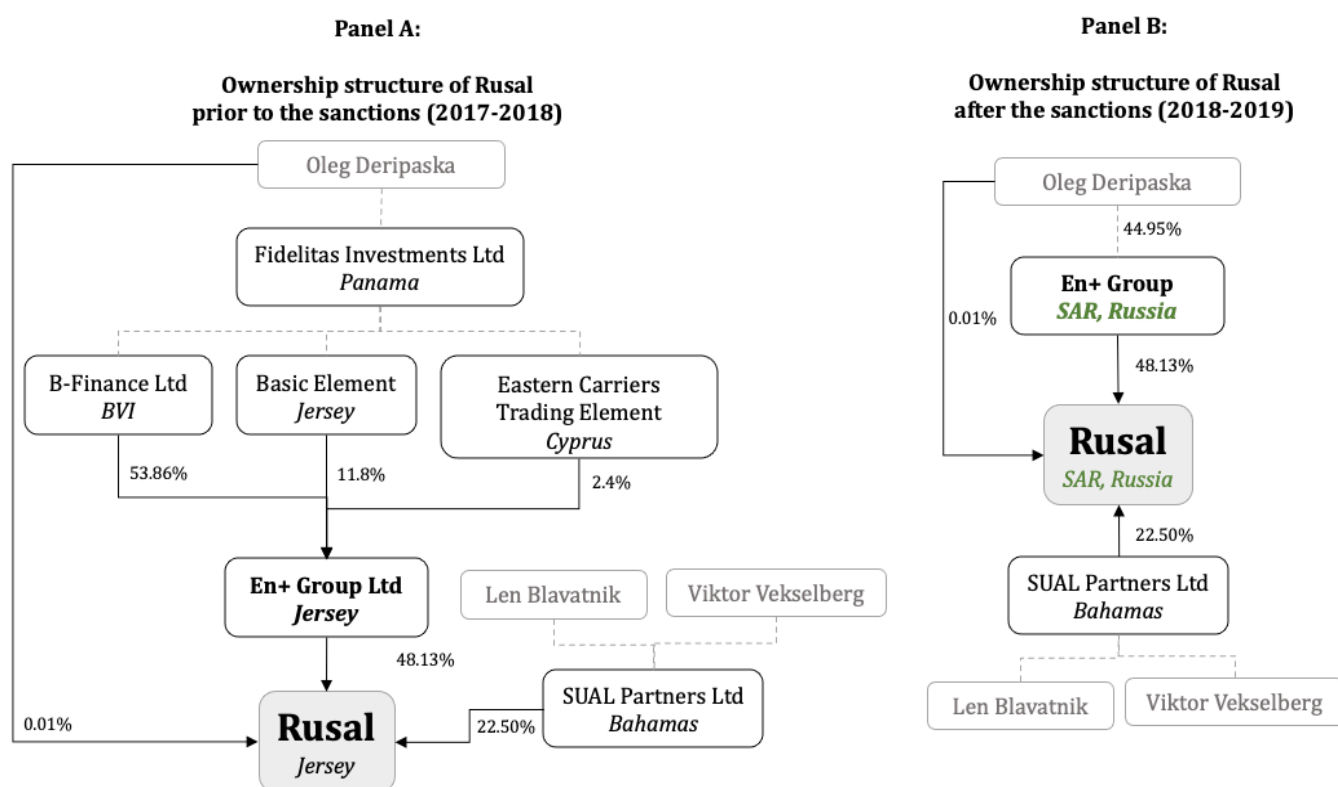
⁵³⁵ MKRU Kaliningrad (2019).

⁵³⁶ RBC News (2020b).

⁵³⁷ RBC News (2020c); Vedomosti (2018a).

shareholders remained as En+ (56.88%),⁵³⁸ SUAL Partners (25.52%) and 17.60% of free float.⁵³⁹ Although one of its shareholders, SUAL Partners Ltd, continued to be registered in the Bahamas,⁵⁴⁰ this case confirms that external political and economic factors can positively affect the success of the deoffshorization process and facilitate the repatriation of Russian business (Panel B, Figure 7.2). The option to fully repatriate their business was more appealing after the sanctions, as Oleg Deripaska is a ‘tolerated’ oligarch who has consistently supported the Russian government.⁵⁴¹ This explains why Rusal and En+ were the first largest Russian companies that re-domiciliated to the Russian SAR after its introduction in 2018.

Figure 7.2. Ownership Structure of Rusal - prior and after the sanction (2018).



Made by the author. Sources: RBC News (2020c); Vedomosti (2018a); RUSAL: Shareholder Structure.

⁵³⁸ Devitt and Mohammed (2019).

⁵³⁹ RUSAL: Shareholder Structure. Available at: <https://www.rusal.ru/investors/equity-capital/>

⁵⁴⁰ Offshore Leaks Database. Available at: <https://offshoreleaks.icij.org/nodes/20145118>

⁵⁴¹ Rothacher (2021); Aleksashenko (2018).

As Rusal and En+ changed their registration from offshore jurisdictions to Russian, the companies received the status of an ‘international company’ with the opportunity to make currency transactions and settlements without restrictions. Furthermore, the Russian SAR provides the feasibility of concealing information about the beneficiaries and directors from USRLE, the Russian company registry.⁵⁴² Such a strategy parallels tax havens, which provide strong confidentiality.⁵⁴³ However, the relocation to SAR has several implications as to the benefits that the company enjoyed. Kaliningrad applies a reduced rate on dividends of 5% on income received and 10% on income paid, an increase compared to Jersey’s exemption on dividends and zero corporate tax for foreign residents.⁵⁴⁴ There is no appreciable decrease in the tax burden, and SAR tax benefits do not correlate to the offshore jurisdiction (Table 7.1). Furthermore, once re-domiciled to the Russian SAR, a company is restricted from outward re-domiciliation⁵⁴⁵, which contrasts offshore jurisdictions. Russia does not intend to draw foreign businesses for the purpose of tax avoidance. From this perspective, Rusal and En+ have relatively limited interest in the Russian SAR, conceivably with the sole exception of dividend tax benefits. Traditionally, companies have considered remaining in offshore jurisdictions in order to enjoy tax benefits, preserve ownership secrecy, and make international legal proceedings easier. Currently, the international judicial system does not offer protection from potential sanctions, and information about a company’s ownership structure is becoming progressively more transparent. It is reasonable that Rusal and En+ were inclined to obscure in a domestic jurisdiction, given that the company was at risk of new constraints.

⁵⁴² Art. 6 of the Federal Law of August 3, 2018 N 290-FZ “On international companies and international funds”.

⁵⁴³ Schjelderup (2016).

⁵⁴⁴ *Ibid*; Excluding financial service companies (10%) and utility companies (20%).

⁵⁴⁵ Art. 11 of the Federal Law of August 3, 2018 N 290-FZ “On international companies and international funds”.

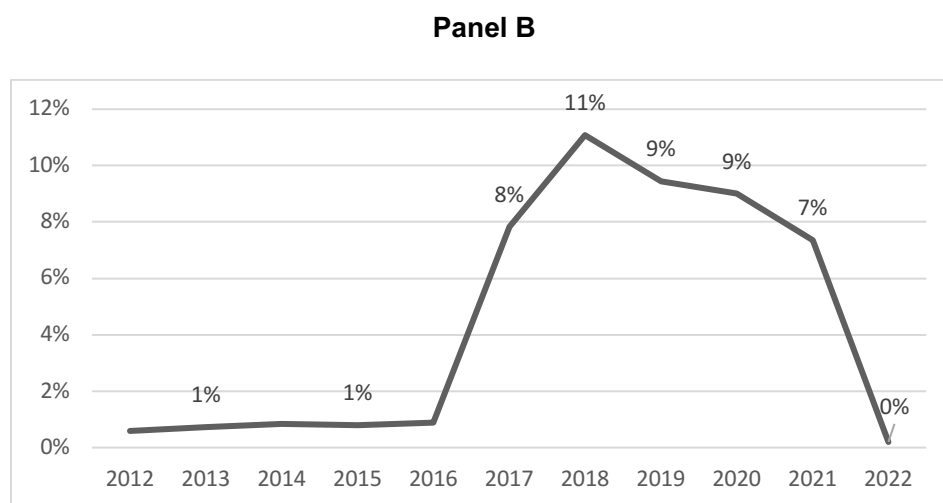
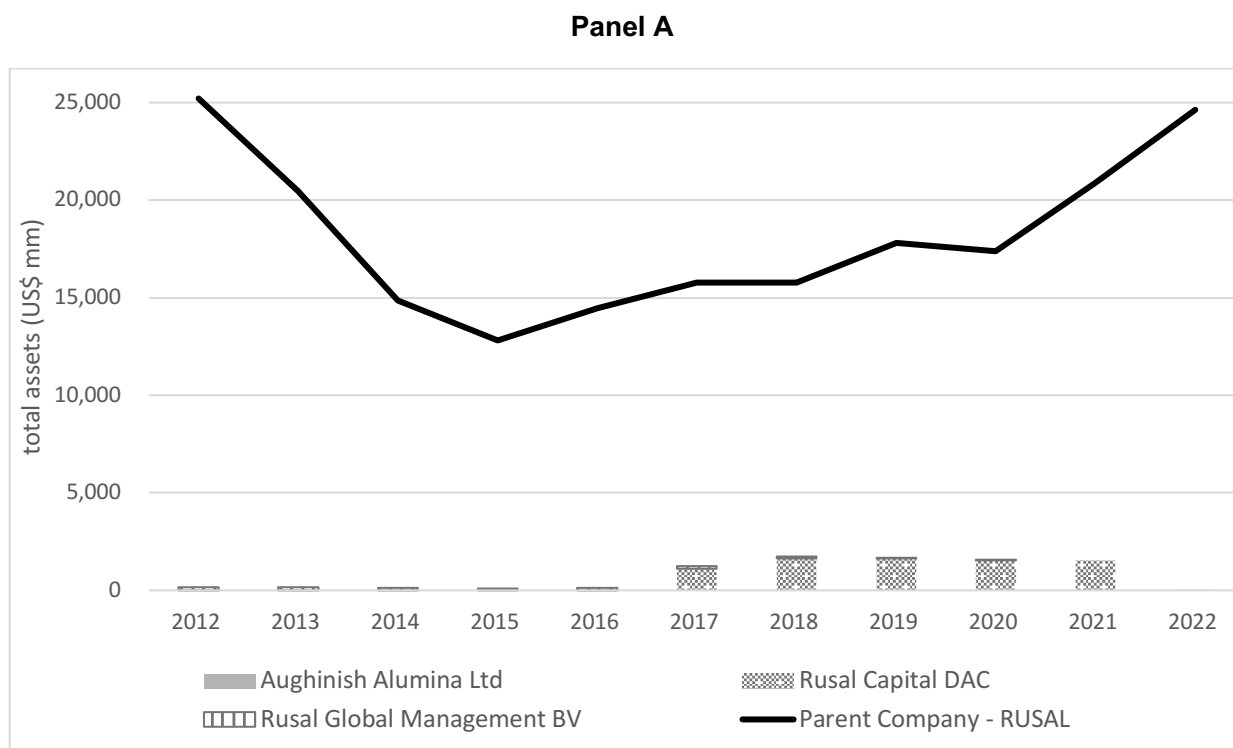
Table 7.1. Comparison of tax rates exercised by Rusal.

	Jersey	SAR	Russia
Tax rates on received dividends	0%	5%	20% (interest, royalties) 13% (dividends)
Withholding tax rate on dividends	0%	10%	20% (interest, royalties) 13% (dividends)

As Rusal's ownership structure was reorganised to Russia, this section will assess whether the deoffshorization process had any positive effect on the relocation of its offshore-based subsidiaries. First, it will evaluate whether Rusal continues to actively contribute to capital outflow from Russia to offshore jurisdictions through its subsidiaries. Then, it will outline whether the deoffshorization process facilitated the relocation of Rusal's offshore-based subsidiaries to the Russian SAR.

According to the Eikon dataset, Rusal had 18 offshore-based subsidiaries out of a total of 77 subsidiaries, suggesting that the majority of Rusal subsidiaries are formally active. Out of all offshore-based subsidiaries, only 3 disclose their assets (Panel A, Figure 7.3). Although the data is substantially limited, it indicates that the share of assets held in OFCs is predominantly low compared to the total assets of the whole Rusal. Throughout the deoffshorization process, Rusal had less than 11% of assets in the offshore jurisdiction (Panel B, Figure 7.3).

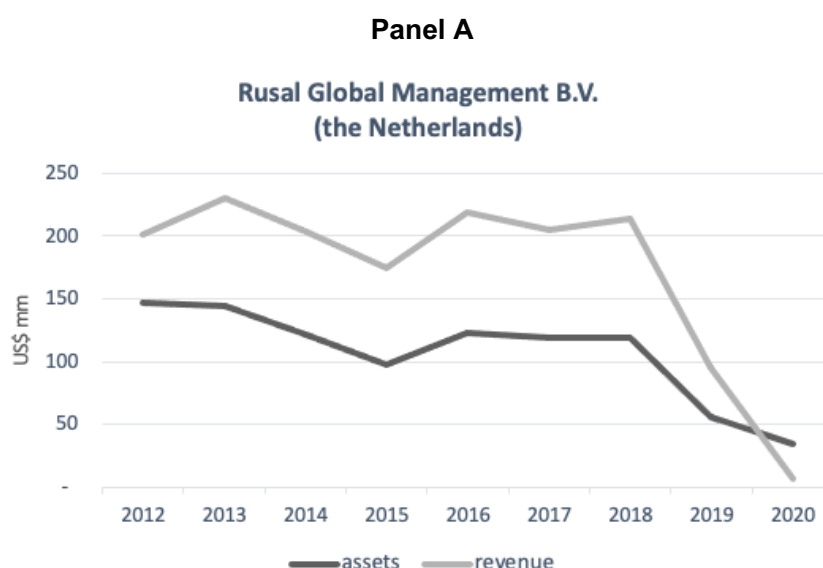
Figure 7.3. Total assets of the offshore-based Rusal subsidiaries to total assets of whole Rusal.



Note: Panel A: total assets of Rusal subsidiaries in the offshore jurisdictions to total assets of the whole Rusal, 2012-2022. Panel B: the percentage of total assets of the manually observed sample to total assets of Rusal, 2012-2022. Source: Bloomberg and Eikon data.

The detailed analysis of Rusal’s offshore subsidiaries suggests that Rusal uses offshore jurisdiction to develop their business effectively, not necessarily for tax benefits. Following the review of total assets against revenue, we can see that Rusal subsidiaries receive a share of revenues from providing aluminium (Figure 7.4). As the asset turnover ratio is higher, *Aughinish Alumina Ltd* (Ireland) and *Rusal Global Management BV* (the Netherlands) are efficient at profitably using their resources. For instance, *Aughinish Alumina Ltd* (Ireland) is the biggest alumina refinery in Europe.⁵⁴⁶ As Panel B, Figure 7.4 illustrates, the company has been experiencing financial loss following 2020 and is likely to shut down the business due to the sanctions of 2022.⁵⁴⁷ As for *Rusal Capital D.A.C.* (Panel C, Figure 7.4), the subsidiary is used to place bonds to raise money for the parent company.⁵⁴⁸ Bonds are not subject to withholding tax, which allows MNEs to take advantage of tax-deductible channels for raising business funds.⁵⁴⁹ Currently, the subsidiary is formally active yet has no active bonds.⁵⁵⁰

Figure 7.4. Total assets vs Revenue of the offshore Rusal subsidiaries.



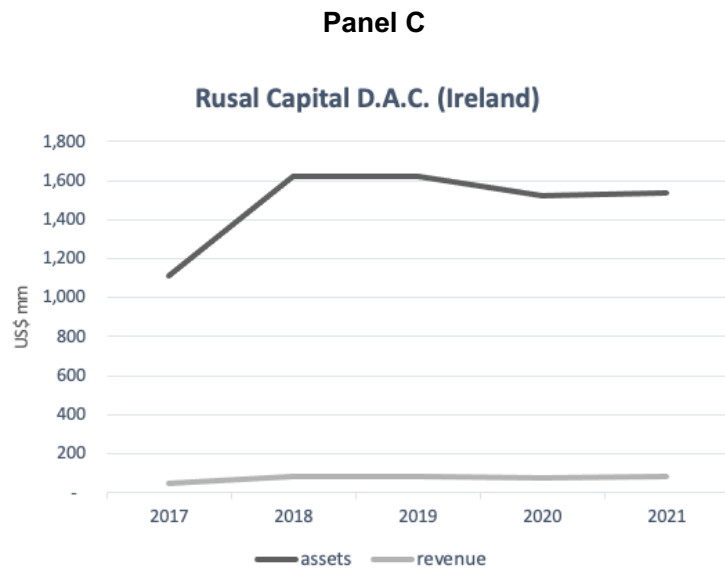
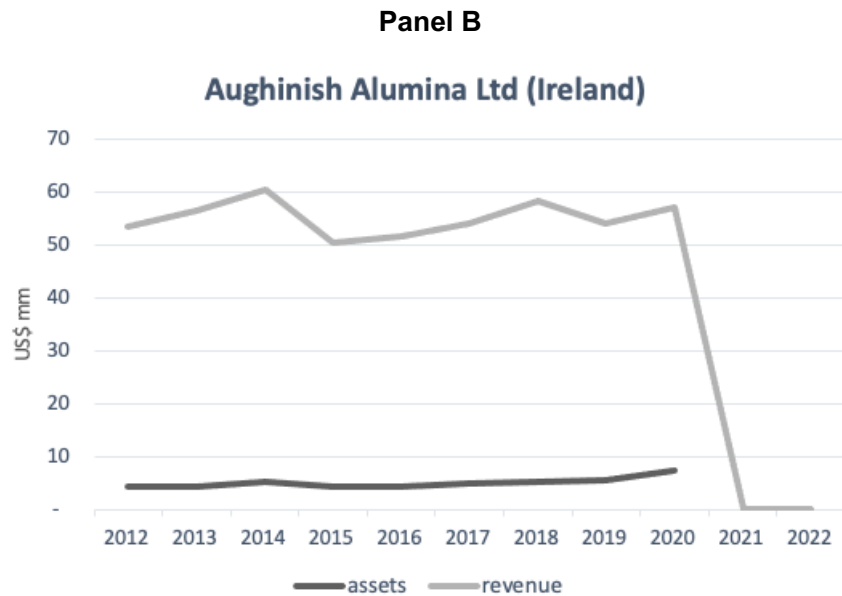
⁵⁴⁶ Aluminium for Future Generations – Refining: Case Studies. Available at: <https://bauxite.world-aluminium.org/refining/case-studies/aughinish/>

⁵⁴⁷ Irish Independent (2023).

⁵⁴⁸ Vossos (2022).

⁵⁴⁹ Hampton (1996).

⁵⁵⁰ As per Eikon dataset.



Source: Bloomberg and Eikon data.

In December 2019, a few Rusal subsidiaries relocated to the Russian SAR, which highlights the positive effect of the deoffshorization process.⁵⁵¹ *Aktivium B.V.* is an indirect Rusal subsidiary that holds 27.8% shares of another notable Russian

⁵⁵¹ See <https://USRLE.nalog.ru/index.html>

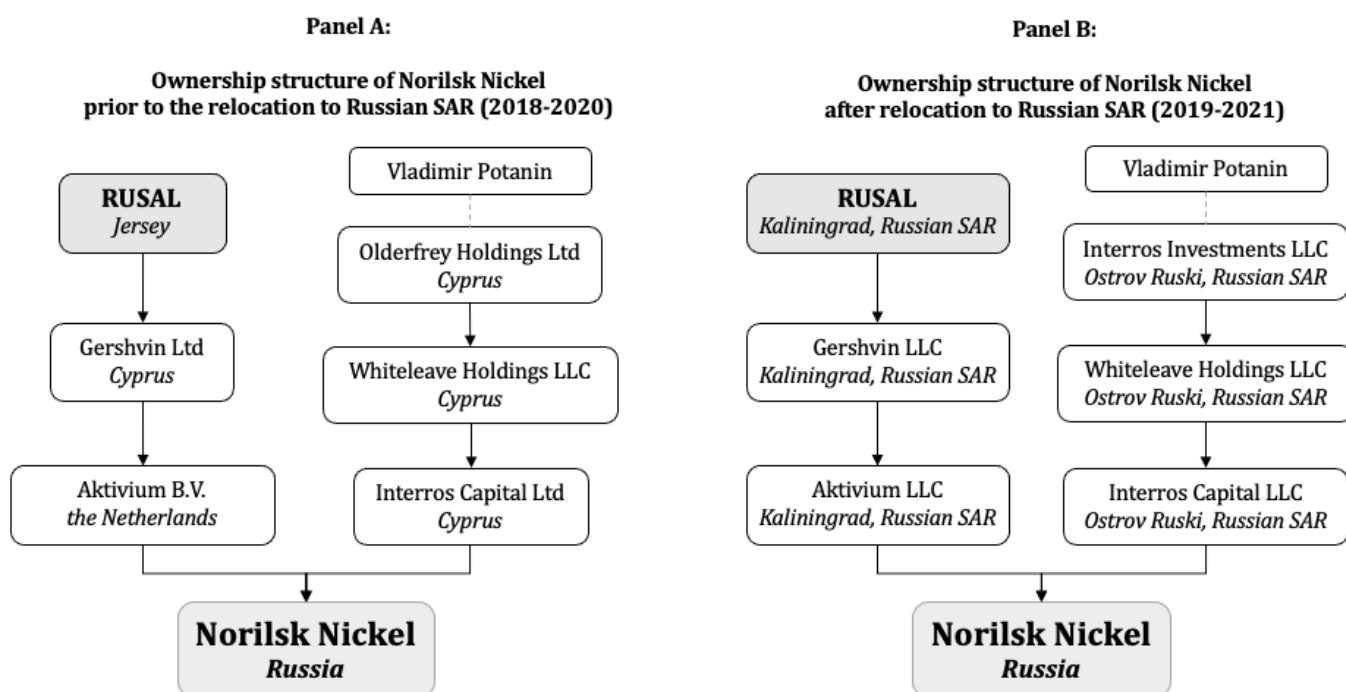
metallurgy company, Norilsk Nickel – the largest producer of nickel and palladium.⁵⁵² Previously located in the Netherlands, *Aktivium B.V.* relocated to Kaliningrad and changed its name to *International LLC Aktivium*. The detailed analysis of the subsidiary showed that Rusal controls *Aktivium B.V.* through a direct subsidiary, *Gershvin Investments Ltd*,⁵⁵³ which also relocated to the Russian SAR from Cyprus (Figure 7.5). Such a case of re-domiciliation to the Russian SAR reinforced the fact that the Russian SAR is more appealing to an offshore-based company that does not conduct active economic activity but only distributes dividends received in favour of other legal entities. However, while Cyprus allows the re-domiciliation process, the Netherlands does not have regulations on the cross-border relocation of registered offices.⁵⁵⁴ Accordingly, the only way *Aktivium B.V.* relocated from the Netherlands was to dissolve the Dutch company and set up a new company in the Russian SARs. Such a method is lengthy and inclined to impose double taxation until a new company is set up. This limitation reduces the attractiveness of the Russian SARs as the complex re-domiciliation process requires a substantial sum of investment to Russia.

⁵⁵² Interfax (2021b); Panibratov (2012).

⁵⁵³ Norilsk Nickel – Share Capital (2019).

⁵⁵⁴ KPMG (2016).

Figure 7.5. Ownership Structure of Norilsk Nickel - prior and after the sanctions.



Made by the author. Sources: Norilsk Nickel – Share Capital (2019); Interfax (2021b).

In this case, the adverse effect of sanctions had a domino effect on the relocation of Norilsk Nickel ownership holdings, which is illustrated in Figure 7.5. Following the relocation of Rusal subsidiaries that control shares of Norilsk Nickel, Russian oligarch Vladimir Potanin likewise re-domiciliated his holdings to another Russian SAR – ostrov Ruski. Previously, he controlled his 31.5% of shares through a three-tier Cyprus-based structure, similar to Oleg Deripaska (Panel A, Figure 7.5).⁵⁵⁵ Re-domiciliation to the Russian SAR was carried out with a third wave of capital amnesty (June 2019 – February 2020), another deoffshorization mechanism. As such, capital amnesty guaranteed that each relocated company (Figure 7.5) would face no criminal consequences for any tax violations they committed before January 1, 2019.⁵⁵⁶ Considering that these companies do not provide any information on their assets, capital amnesty further facilitated the de-offshorization of these relocated companies.

⁵⁵⁵ Interfax (2023a).

⁵⁵⁶ State Duma of the Federal Assembly of the Russian Federation (2019).

Rusal illustrates a notable example of how successful the introduction of Russian SARs as an anti-sanction measure. Russian SARs provided an appealing alternative to offshore jurisdictions, especially for sanctioned companies. Moreover, Rusal is an interesting example of how the deoffshorization process substantially benefitted from the effect of the politico-economic factors, particularly sanctions. In contrast to the case studies analysed in Chapter 6, Rusal's major shareholder maintains a closer relationship with the Russian government. We cannot deny that this relationship with the government is fragile, as seen from Rusal's previously offshored corporate and ownership structure. With no opportunity to restructure business under sanctions, Rusal's relocation to Russia as part of the deoffshorization process was more apparent with its dependency on aluminium resources and plants in Russia.

7.3. TMK (Trubnaya Metallurgicheskaya Kompaniya)

TMK is the largest Russian pipe producer and provider of steel piping for different sectors of the economy.⁵⁵⁷ In 2013, TMK ranked 9th among Russian companies by the size of foreign assets.⁵⁵⁸ Like other private companies in Russia, TMK is controlled by one key shareholder, Dmitry Pumpyansky. Prior to the deoffshorization process, Dmitry Pumpyansky controlled 71.68% of TMK shares through *TMK Steel Ltd*, *Tirelli Holdings* and *Bravecorp Ltd*, all Cyprus-based companies (Panel A, Figure 7.6).⁵⁵⁹ Thus, payable dividends were allocated to these offshore-based companies rather than the actual oligarch Pumpyansky, maintaining capital flow from Russia to Cyprus.

With the beginning of the deoffshorization process, no substantial changes to the ownership structure of TMK was found. The implementation of CFC rules in 2014 obliged Russian taxpayers to register their foreign entities and pay income taxes in Russia. As *TMK Steel Ltd*, *Tirelli Holdings*, and *Bravecorp Ltd* were registered in Cyprus, each company was categorised as CFC, obliging them to pay Russian taxes from retained earnings. No relocation to Russia took place, as Pumpyansky continued

⁵⁵⁷ TMK – Key Data. See: https://www.tmk-group.com/key_data

⁵⁵⁸ Kuznetsov (2016).

⁵⁵⁹ TMK – Annual Report (2013); TMK – list of affiliates (2013); Kommersant (2006).

to control his TMK shares through three offshore companies after the commencement of the deoffshorization process.⁵⁶⁰

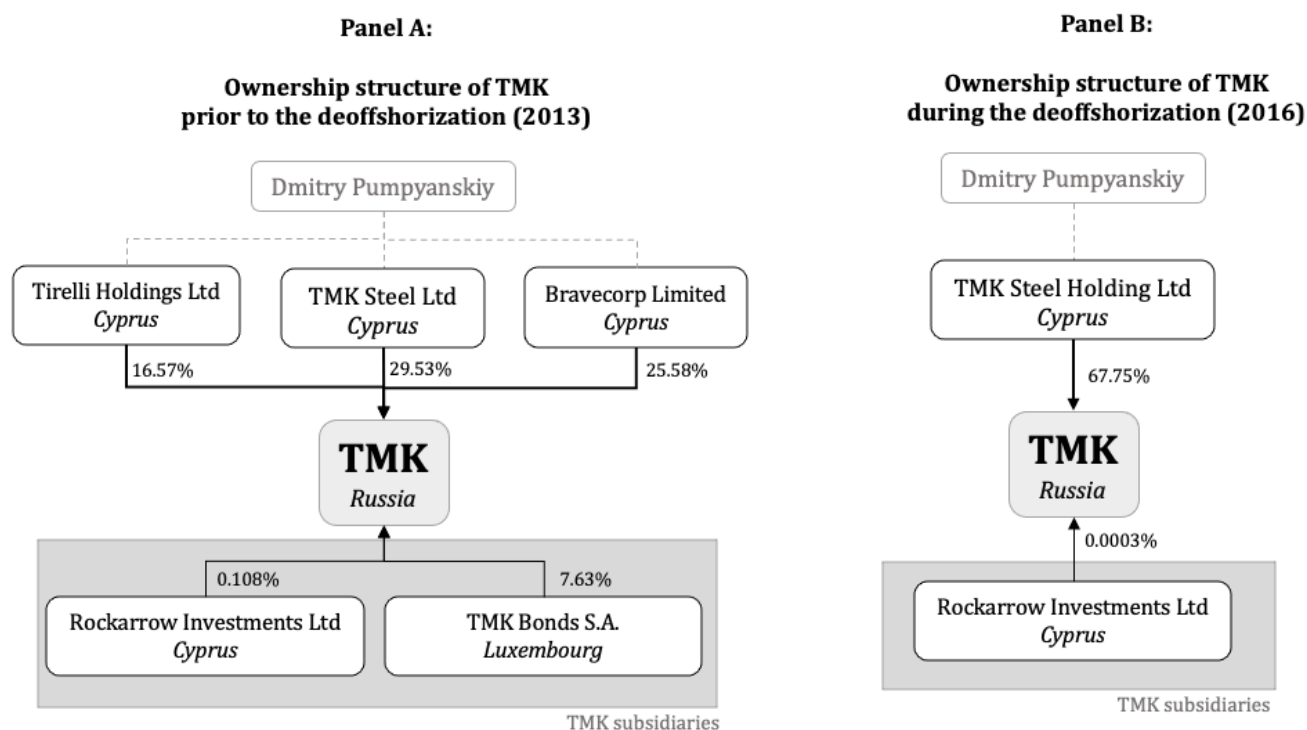
However, the deoffshorization process partially affected de-offshoring the ownership structure (Panel B, Figure 7.6). For instance, one of the positive effects of the deoffshorization process was the dissolution of *TMK Bonds S.A.* (Luxembourg) in 2016, which previously held TMK shares.⁵⁶¹ In 2016, Pumpyansky began to control his shares solely through *TMK Steel Holding Ltd*, with *Tirelli Holdings* and *Bravecorp Ltd* discontinuing their holding of TMK shares.⁵⁶² The prominence of reorganisation lies in the application of CFC rules. As each company was classified as CFC, each company had to pay Russian taxes from retained earnings. As a result, CFC rules had partial success as the deoffshorization regulation, yet such reorganisation maintained the capital outflow from Russia until 2022 as the payable dividends remained in Cyprus. Considering the amended DTT between Russia and Cyprus in 2021, the company has been subject to an increased 15% withholding tax on interest and dividends from Russia, yet the deoffshorization regulation did not directly contribute to the relocation of *TMK Steel Holding Ltd* from Cyprus to Russia.

⁵⁶⁰ TMK – Consolidated Financial Statement (2014).

⁵⁶¹ See <https://www.lbr.lu/mjrcs/jsp/>

⁵⁶² TMK – list of affiliates (2016).

Figure 7.6. Ownership structure of TMK: prior and during the deoffshorization process.



Made by the author. Source: TMK – list of affiliates (2016).

The substantial changes took place with the new round of increased sanctions in March 2022, which targeted Dmitry Pumpyanskiy and his family.⁵⁶³ As a result, Pumpyanskiy withdrew as a beneficiary of *TMK Steel Ltd*, and his controlled 90% of shares were transferred to the TMK management team.⁵⁶⁴ Although the sanctions do not directly target the company, its risks pressured the relocation of *TMK Steel Ltd* from Cyprus to the Russian SAR (ostrov Ruski) in July 2023 (Figure 7.7).⁵⁶⁵ The company received the status of an ‘international company’, in Russian ‘*mezhdunarodnaya kompaniya*’ (MK),⁵⁶⁶ which provides taxation at preferential rates.

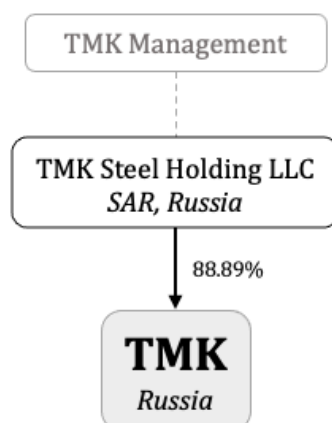
⁵⁶³ Forbes (2023).

⁵⁶⁴ Interfax (2023b).

⁵⁶⁵ *Ibid.*

⁵⁶⁶ RBC News (2023c).

Figure 7.7. Current de-offshorized ownership structure of TMK (from 2023).



Made by the author. Source: Interfax (2023b).

Like Kaliningrad, Ostrov Ruski applies a reduced rate on dividends of 5% on income received and 10% on income paid, an increase compared to Cyprus's exemption on dividends. There is no appreciable decrease in the tax burden, and SAR tax benefits do not correlate to the offshore jurisdiction. However, as the major and sole shareholder of TMK, *TMK Steel Ltd* had limited choices: either to remain in Cyprus at the risk of being targeted by the sanctions or to relocate to Russia. In this case, SAR employs a more positioned level of taxation than the standard Russian tax rates (Table 7.2), enabling foreign businesses with Russian involvement to salvage their operations and move them to more comfortable conditions. The special status of SAR prohibits tax audits in the Russian Federation concerning tax periods prior to relocation, no foreign exchange controls, and provides a chance to implement the principles of international corporate law.

Therefore, the sanctions reinforced the success of Russian SAR as an alternative approach to the use of offshore jurisdictions, contributing to reduced capital outflow. Not only did *TMK Steel Holding* relocate to SAR, but its subsidiary *Rockarrow Investments Ltd* relocated from Cyprus to ostrov Ruski, SAR.⁵⁶⁷ However, the subsidiary no longer holds any shares of TMK.

⁵⁶⁷ Interfax (2023b).

Table 7.2. Comparison of tax rates.

	Cyprus	SAR	Russia
Tax rates on received dividends	0%	5%	20% (interest, royalties) 13% (dividends)
Withholding tax rate on dividends	0%	10%	20% (interest, royalties) 13% (dividends)

The relocation to SAR is a costly and time-consuming procedure that entails the discontinuation of a company in its previous jurisdiction and the establishment of a practically new company in SAR. According to the Cyprus Company Registry, *TMK Steel Holding Ltd* has no beneficiary in Cyprus,⁵⁶⁸ yet we can point out that the company no longer accumulates capital in the offshore jurisdiction. Currently, Russian-based *TMK Steel Holding LLC* holds 88.89% of TMK shares, while the rest are free float (11.10%).⁵⁶⁹ Therefore, as the case study illustrates, the attractiveness of SAR has significantly increased after the introduction of sanctions in 2022.

As the ownership structure of TMK was reorganised to the Russian SAR, this section will assess whether the deoffshorization process positively impacted the relocation of TMK offshore-based subsidiaries to Russia. This section will first assess whether TMK, through its subsidiaries, is still actively involved in the outflow of capital from Russia to offshore jurisdictions. Then, the section will discuss whether TMK offshore-based subsidiaries are re-domiciled to the Russian SAR as a result of the deoffshorization process.

The EU sanctions do not target TMK itself; its subsidiaries continue operating in the European offshore jurisdictions. To confirm whether the deoffshorization process had any positive impact on repatriation, I turn to the observation of the assets held by offshore-based subsidiaries. According to the Eikon dataset, TMK has 6 offshore-based subsidiaries out of a total of 77 subsidiaries. Data suggests that 5 offshore-

⁵⁶⁸ See <https://efiling.drcor.mcit.gov.cy/>

⁵⁶⁹ TMK – Share Capital Structure.

based subsidiaries were already operating before the deoffshorization process and continue to be formally active in offshore jurisdictions. The information on the offshore assets of these subsidiaries is unavailable. As for the other subsidiary, *TMK Capital S.A.* had substantial assets in Luxembourg (Panel A, Figure 7.8), an offshore jurisdiction convenient for managing collective investments.⁵⁷⁰ The deoffshorization process had success in the liquidation of this subsidiary,⁵⁷¹ which can be attributed to the amendment to the DTT between Luxembourg and Russia in 2020. As Chapter 3 outlined, the amended DTT presented unfavourable terms for Russian businesses, leading to a 15% withholding tax on both interest and dividend payments from Russia. The liquidation of *TMK Capital S.A.* led to a considerable drop in the total offshore assets of TMK (Panel B, Figure 7.8).

However, when CFC rules were signed into law in November 2014, TMK established a new subsidiary in Luxembourg - *Completions Development Sarl*.⁵⁷² This subsidiary is related to the construction of the TurkStream gas pipeline with Russian SOE Gazprom.⁵⁷³ Thus, the main purpose of this subsidiary is to operate in Luxembourg to manage business operations. Notably, the subsidiary is not necessarily driven by tax benefits, considering that it has no substantial assets. This explains why the subsidiary is currently active⁵⁷⁴ (Figure 7.8), it is not contributing to capital outflow to offshore jurisdictions.

⁵⁷⁰ Kravchenko (2019).

⁵⁷¹ See <https://www.lbr.lu/mjrscs/jsp/>

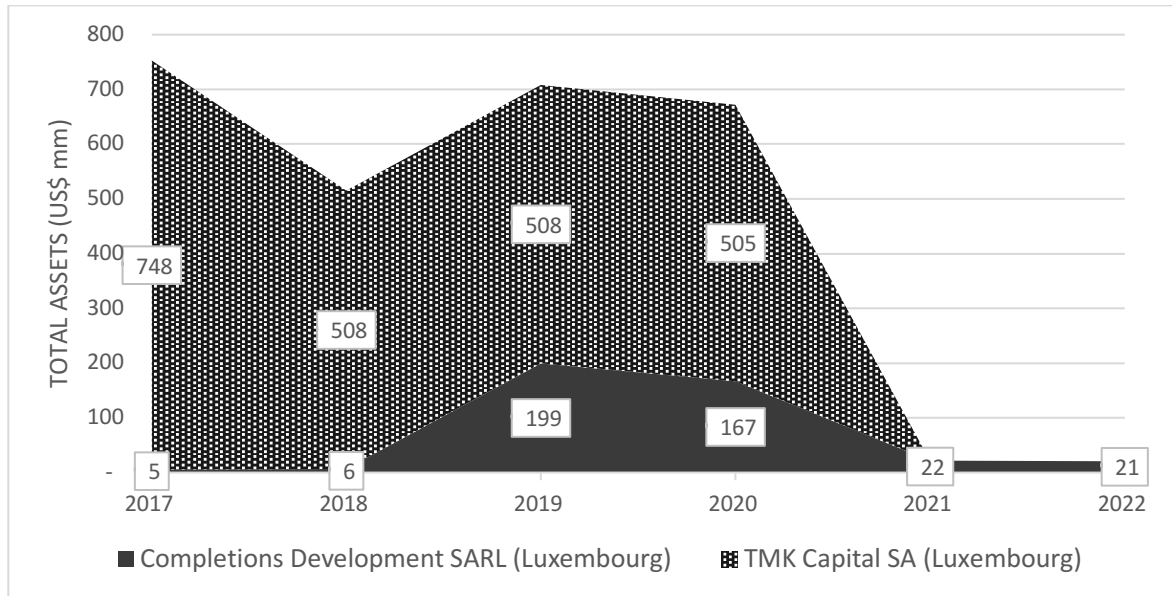
⁵⁷² See <https://www.lbr.lu/mjrscs/jsp/>

⁵⁷³ Center for the Study of Democracy (2020).

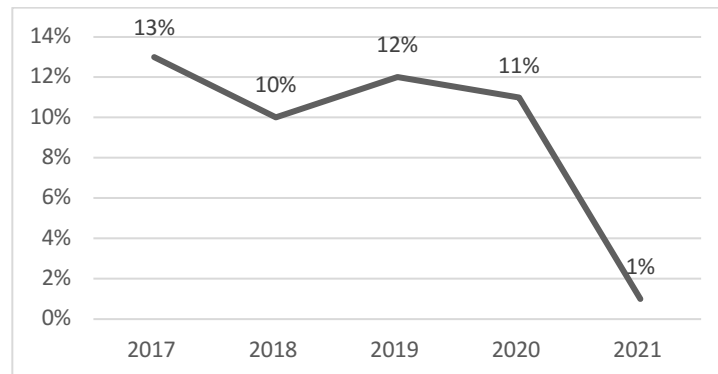
⁵⁷⁴ See <https://www.lbr.lu/mjrscs/jsp/>

Figure 7.8. Components of total assets of the offshore-based TMK subsidiaries.

Panel A



Panel B



Note: Panel A: total assets of TMK subsidiaries (in Luxembourg), 2017-2021. The data was excluded as it has not been disclosed. Panel B: the percentage of total assets of the manually observed sample to total assets of TMK, 2017-2021. Source: Bloomberg and Eikon data.

I found that no subsidiary relocated to the Russian SAR, which is mainly due to the limitations of the SAR mechanism. These limitations are more evident in the comparison between SARs and offshore jurisdictions. Firstly, since Russian SARs do

not provide an exemption on corporate tax but instead reduced rates on dividends, interest, and royalties, the attractiveness of SAR is partial. For instance, from the point of view of tax conditions, SAR would be more appealing to an offshore-based company that does not conduct active economic activity but only distributes dividends received in favour of other legal entities. To illustrate, *TMK Global SA* (Switzerland) is a subsidiary that trades outside the CIS countries, and it established another subsidiary, *TMK Middle East FZCO* (Dubai, UAE), to provide pipe products in the Middle East, Asia, and Africa.⁵⁷⁵ The corporate income tax in Switzerland varies between 11.9% and 21% depending on the company's location,⁵⁷⁶ while in Dubai – 9%.⁵⁷⁷ In this case, offshore jurisdictions provide additional benefits such as financial services, access to global markets, and geographical proximity, which is more appealing for those TMK offshore-based subsidiaries that offer sales and procurement outside Russia. Russian SARs do not provide such benefits. This limits the appeal of Russian SARs for subsidiaries that use offshore jurisdictions to develop their business effectively. Hence, these offshore subsidiaries are active, although the revenue of *TMK Global SA* was fixed only in 2017 (23.4 mln USD), while of *TMK Middle East FZCO* in 2019 (5 mln USD). Eikon and Bloomberg datasets provided no further information on subsequent revenue and assets.

Secondly, another factor that companies consider is the problem of relocation from one jurisdiction to another. Cyprus law allows inbound and outbound re-incorporations,⁵⁷⁸ by which *TMK Steel Holding*, which holds the majority of TMK shares, relocated from Cyprus to the Russian SAR. However, other TMK subsidiaries continue to remain in offshore jurisdictions despite the preferential tax regime available in the Russian SAR. The location of a subsidiary is dependent upon its organisation and operations. For trading subsidiaries, relocation from offshore jurisdictions to the Russian SAR does not benefit the interaction with foreign clients, as such subsidiaries are concentrated in foreign jurisdictions.

⁵⁷⁵ TMK – News (2006).

⁵⁷⁶ PwC – Switzerland.

⁵⁷⁷ PwC – United Arab Emirates.

⁵⁷⁸ Arts. 354A - 354R, Chapter 113, The Companies Law, Republic of Cyprus.

Thus, TMK relocated its ownership structure to the Russian SAR, yet no offshore-based subsidiaries. Notably, TMK's offshore assets were substantially reduced, as the available data suggests that subsidiaries operate for business purposes, not necessarily for tax considerations. Considering the limitations of data relating to offshore jurisdictions, if there is any presence that remains, it has been much reduced. The successful de-offshorization of TMK can be attributed to TMK's strategic dependency to the government. TMK has been a long-standing partner of the government, providing pipe services to Rosneft, Gazprom and Russian Railways.⁵⁷⁹ Similar to Rusal's shareholder's close connection to the government, Pumpyanskiy is known to have a rapport with Russian authorities. This leads to the conclusion that the willingness to relocate to Russia substantially depends on the relationship between oligarchs and the government, with sanctions facilitating the relocation.

7.4. EVRAZ

EVRAZ is one of the most internationalised metallurgy companies of Russian origin.⁵⁸⁰ Before the deoffshorization process (in 2013), EVRAZ was placed 5th among Russian companies by the size of foreign assets. As EVRAZ is registered in the UK, the company is analogous to VEON as a Russian 'migrant MNE'.⁵⁸¹ EVRAZ has a steel production based worldwide, distinguishing the company from Rusal, which has the main assets that form the business located in Russia.⁵⁸²

The analysis of EVRAZ's ownership structure shows that the pre-deoffshorization ownership structure involved a three-tier offshore structure (Panel A, Figure 7.9). In 2013-2014, the major shareholders of EVRAZ were Roman Abramovich, Alexander Abramov, Alexander Frolov, and Yevgeny Shvidler, who controlled their combined 64.46% of shares through Cyprus-based *Lanebrook Ltd* (Panel A, Figure 7.9).⁵⁸³ The pre-deoffshorization structure allowed them to enjoy favourable tax conditions in

⁵⁷⁹ Forbes (2021).

⁵⁸⁰ Panibratov (2012); Fortescue and Hanson (2015).

⁵⁸¹ Evraz – Annual Report (2014).

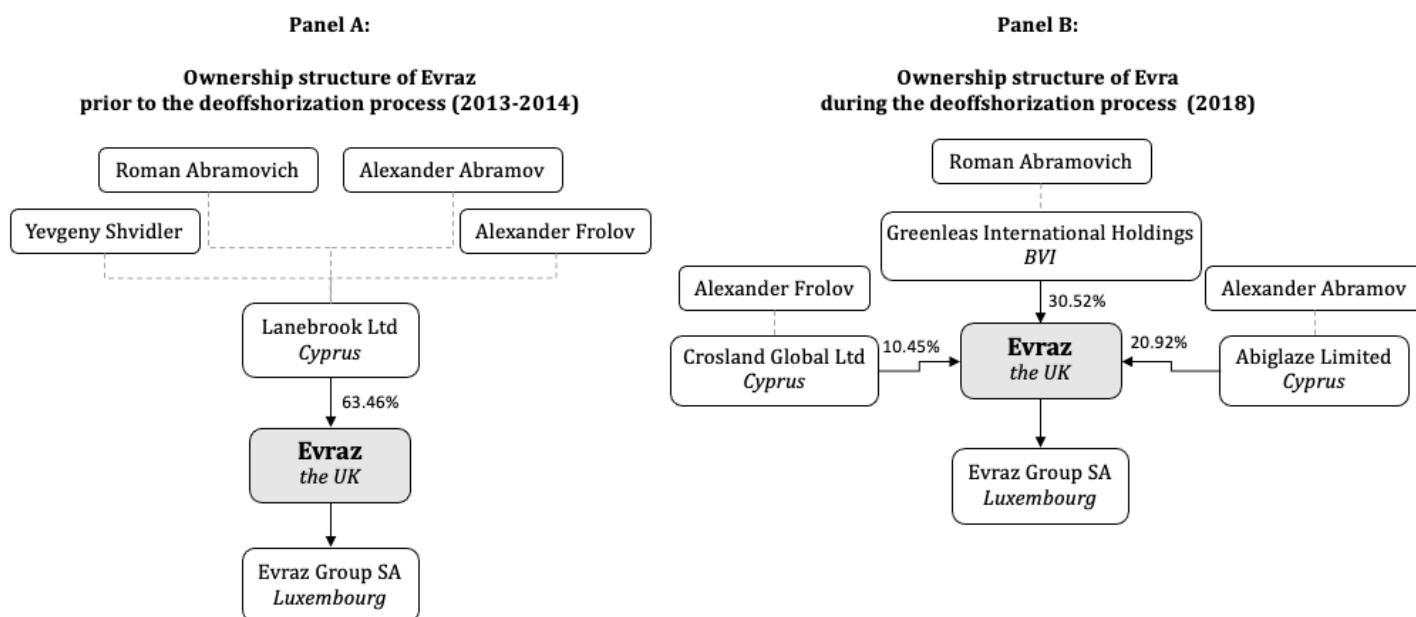
⁵⁸² Joint Report by Vale Columbia Center and IMEMO (2013).

⁵⁸³ Vedomosti (2014); Interfax (2014b).

Cyprus with no dividend tax, while the parent entity of Evraz was incorporated in the UK. As a result, capital in the form of dividends were distributed to the offshore company in Cyprus through the parent company in the UK.

With the implementation of the deoffshorization process, the introduction of CFC rules in 2014 provided that Russian taxpayers are required to declare their controlled foreign companies and pay taxes on income in Russia. In this case, only *Lanebrook Ltd* is classified as CFC, as the total share of participation of Russian residents in this company exceeded 50%.⁵⁸⁴ While CFC rules are effective in the collection of untaxed revenues of *Lanebrook Ltd* on received dividends, the CFC rules do not apply to the parent entity Evraz (the UK) and *Evraz Group SA* (Luxembourg). By such means, the parent entity has been paying taxes in the UK, and the subsidiary *Evraz Group SA*, which owned the majority of mining and trading subsidiaries, remained registered in Luxembourg. While Russia levies a 20% corporate income tax, the UK and Luxembourg impose higher taxation yet offer a more favourable investment climate and access to the global market.⁵⁸⁵

Figure 7.9. Ownership Structure of Evraz: prior and during the deoffshorization process.



⁵⁸⁴ Deloitte (2017).

⁵⁸⁵ Luxembourg - 24.94% corporate income tax, the UK - 25% (EY, 2024).

Made by the author. Sources: EVRAZ – Annual Report (2014); Vedomosti (2014); Interfax (2014b).

The ‘offshorized’ ownership structure of Evraz that contributed to capital flow from Russia remained the same until 2018, when the news about the sanctions against Deripaska of Rusal alarmed the Russian business. Abramovich and shareholders reorganised the structure to safeguard EVRAZ from the U.S. sanctions, yet, in contrast to Deripaska and Rusal, no relocation to the Russian SAR or Russia took place. As *Lanebrook Ltd* controlled more than 50% of EVRAZ shares, the U.S. sanctions would have had a negative impact on EVRAZ. Hence, Abramovich restructured his 31.37% of EVRAZ shares through *Greenleas International Holdings* (BVI), Alexander Abramov and Alexander Frolov through *Abiglaze Ltd* (Cyprus) and *Crosland Global Ltd* (Cyprus), respectively (Panel B, Figure 7.9).⁵⁸⁶

In terms of the deoffshorization policies, Russian businesses have a choice between the status of a CFC or a SAR resident. It is feasible to pinpoint some variations in ownership restructuring in low-tax jurisdictions, which can be handled in terms of evaluating their attractiveness (Table 7.3). In this case, CFC status was preferable to a Russian SAR residence for oligarchs of EVRAZ. BVI and Cyprus are attractive jurisdictions for Russian businessmen, as *Greenleas International Holdings*, *Abiglaze Ltd*, and *Crosland Global Ltd* are holding companies whose primary sources of revenue are dividends and managing finances. Cyprus provides 12.5% corporate tax with an exemption on payable dividends,⁵⁸⁷ BVI – zero tax rate.⁵⁸⁸ Hence, the application of CFC rules is more attractive as the payable tax amount is minimal, while dividends are tax-free.

Table 7.3. Comparison of tax rates.

BVI	Cyprus	SAR	Russia
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⁵⁸⁶ Evraz – Annual Report (2018); Vedomosti (2018b).

⁵⁸⁷ Repousis, Lous and Kougioumtsidis (2019).

⁵⁸⁸ Sherimov (2015).

Tax rates on received dividends	0%	0%	5%	20% (interest, royalties) 13% (dividends)
Withholding tax rate on dividends	0%	0%	10%	20% (interest, royalties) 13% (dividends)

On the other hand, Russian SARs apply a reduced rate on dividends of 5% on income received and 10% on income paid, an increase compared to BVI and Cyprus zero tax on dividends.⁵⁸⁹ Although SARs undeniably provide preferential tax rates, they cannot be compared with the classical concept of "offshore" in its foreign embodiment. Offshore jurisdictions have established arrangements for international businesses, including clear legal mechanisms for company incorporation. On the other hand, the relatively recent introduction of Russian SARs is underlined by the lack of extensive practice by Russian companies. As outlined previously, relocation to the Russian SARs is a lengthy process.⁵⁹⁰ Apart from that, a foreign company of Russian origin cannot be simply relocated to SARs. A company must be created before January 2018 and ought to invest at least 50 million rubles in Russia within six months upon relocation,⁵⁹¹ which has now increased to 300 million rubles.⁵⁹² These conditions appear to be an additional burden, which reduces the attractiveness of the Russian SAR. From a different standpoint, Russian SAR residency rather represents a display of state allegiance. For instance, Oleg Deripaska of Rusal is considered to be loyal to the government, consequently, Rusal and En+ were the first Russian MNEs that were re-domiciled to the Russian SAR in response to the sanctions.⁵⁹³ The major yet not controlling shareholder, Roman Abramovich, is considered in a similar position as an 'tolerated' oligarch Oleg Deripaska of Rusal.⁵⁹⁴ However, not targeted by the sanctions, Abramovich has been more oriented toward Western Europe and the

⁵⁸⁹ *Ibid*; Excluding financial service companies (10%) and utility companies (20%).

⁵⁹⁰ Vedomosti (2022b).

⁵⁹¹ Vedomosti (2018b).

⁵⁹² Art. 284.10 of the Tax Code of the Russian Federation.

⁵⁹³ Aleksashenko (2018).

⁵⁹⁴ Rothacher (2020).

internationalisation of Evraz with the same strategy as Lukoil, which did not positively respond to the deoffshorization process.

In 2022, the UK sanctions targeted Roman Abramovich and parent company Evraz (the UK), which restricted the company from conducting business.⁵⁹⁵ Abramovich and other oligarchs had limited choices: either to use the offshore jurisdictions at the risk of being targeted by the sanctions or to relocate to Russia. Regardless of that, no companies that control EVRAZ shares re-domiciled to Russia and the Russian SARs. Hence, oligarchs responded to the politico-economic factors (such as the threat of sanctions) with a more complex and fractured legal structure. However, in December 2023, Roman Abramovich relocated several companies not related to EVRAZ to ostrov Ruski, the Russian SAR, to manage his assets.⁵⁹⁶

Distinct from the previous case studies, the shareholders of EVRAZ did not relocate their holdings, through which they control their EVRAZ shares, to Russia or the Russian SARs. However, EVRAZ relocated one of its partially-owned subsidiaries, *StreamCore*, from Cyprus to ostrov Ruski, SAR (Figure 7.10). Evraz controls its 50% through subsidiary *EVRAZ Group SA* (Luxembourg).⁵⁹⁷ The detailed analysis of *Streamcore LLC* illustrates that it is one of the most profitable joint ventures of EVRAZ. In 2021, StreamCore's entire asset value was \$334 million USD,⁵⁹⁸ mainly from the scrap processing and sales assets in Siberia. Apart from a reduced rate on dividends of 5% on income received and 10% on income paid, SAR provides tax exemption on income received and property used in projects for geological exploration, production, and mining of minerals.⁵⁹⁹ Although the previous case studies propose that SAR residency is more appealing to a company that only distributes dividends received in favour of other legal entities, the additional benefits that SARs provide increase the attractiveness for natural-resource companies, which are predominantly Russian MNEs.

⁵⁹⁵ RBC News (2023d).

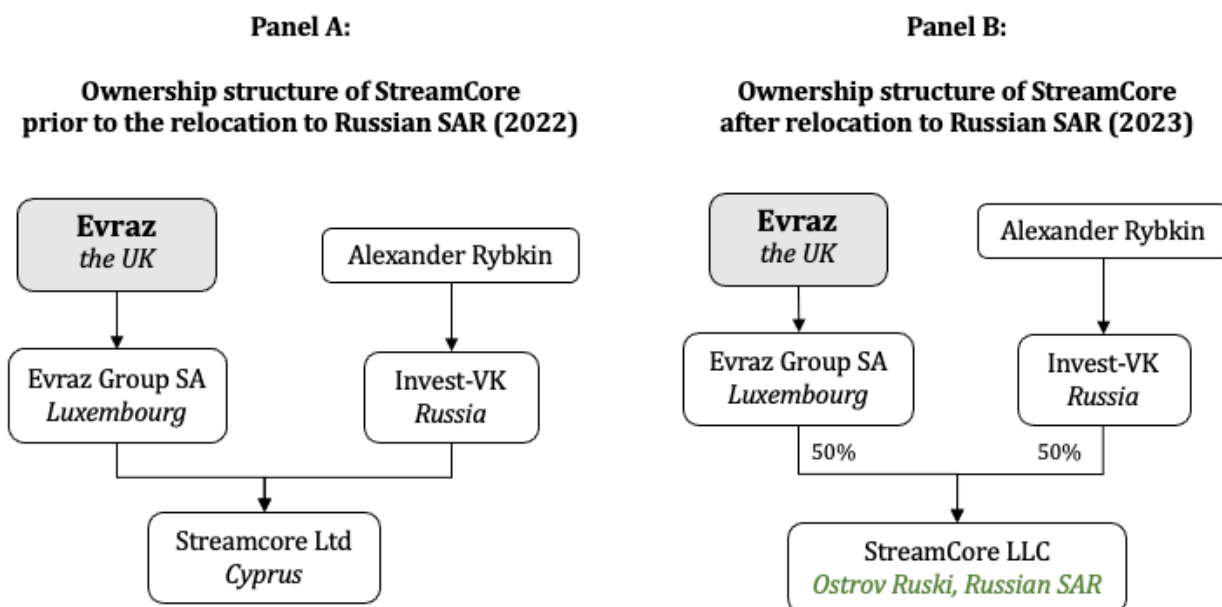
⁵⁹⁶ Interfax (2023c).

⁵⁹⁷ Evraz – Annual Report (2021).

⁵⁹⁸ *Ibid.*

⁵⁹⁹ Vedomosti (2022c); Far East and Arctic Development Corporation – SAR. See: <https://erdc.ru/about-sar/>.

Figure 7.10. Ownership structure of StreamCore: prior and after relocation to The Russian SAR.



Made by the author. Source: EVRAZ – Annual Report (2021); Interfax (2023c).

However, StreamCore is one of the partially owned subsidiaries of EVRAZ, which does not abundantly establish whether the deoffshorization process had any positive effect on EVRAZ offshore-based subsidiaries. Thus, it is needed to evaluate whether EVRAZ continues to actively contribute to capital outflow from Russia to offshore jurisdictions through its subsidiaries. According to Eikon dataset, EVRAZ had 19 offshore-based subsidiaries out of a total of 167 subsidiaries, with only half of them dissolved during the deoffshorization process. 7 out of 19 offshore subsidiaries are currently active and registered in Cyprus. Although the previous case studies propose the fact that re-domiciliation from Cyprus to the Russian SAR is prevalent among Russian business structures, 7 active Cyprus-based EVRAZ subsidiaries did not relocate from Cyprus to the Russian SAR.

None of Evraz's offshore-based subsidiaries disclose their assets and revenue. However, the subsidiary-level analysis provides that during the deoffshorization process, Evraz has primarily engaged in intra-company debt financing. The previous chapter observed that Russian MNEs use intra-debt shifting, mainly for tax reasons. For instance, the Eikon dataset states that *EVRAZ Group SA* (Luxembourg) provided

loans to its subsidiaries. In 2014, EVRAZ Group SA provided an export credit facility for \$425 million and a revolving credit facility to EVRAZ North America Ltd for \$150 million in 2023.⁶⁰⁰ This structure reduces the net income of the subsidiaries, as the earned income of the latter is shifted as interest payment to *EVRAZ Group SA*. Given the variety of offshore tools that Russian MNEs employ to avoid the deoffshorization process, EVRAZ stands out as the most ‘offshorized’ case study of the chapter. However, considering that EVRAZ is registered and sanctioned in the UK, in the long run, it will be challenging for EVRAZ to maintain its assets abroad.

7.5. Conclusion

This chapter analysed the strategic responses of Russian private companies that have opted to relocate to Russian SARs. It provides insights into SARs as a component of the deoffshorization process and evaluates the success of Russian SARs as relocation alternatives to offshore jurisdictions.

The findings broadly support Hypothesis 2, revealing that the establishment of SARs is a noteworthy mechanism of the deoffshorization measures, especially for enterprises with good relationships with the government. While initial regulations predominantly focused on fiscal measures, Russian companies had no incentive to repatriate to home jurisdiction. However, the prospect of sanctions required Russian companies to carefully reconsider relocation options insulated from sanctions. This necessity was reflected in the revised approach to the deoffshorization regulations, which changed from fiscal measure to ‘shelter from sanctions’. Therefore, the establishment of Russian SARs marked the legislative shift to a more nuanced accommodation with political and economic consideration – functioning as anti-sanction measures. This reinforced the benefits of repatriating Russian companies with proximity to the government and augmented the success of the deoffshorization process. The findings of this chapter contrast with the case studies analysed in Chapter 6, where lack of proximity to the government did not incentivise relocation to

⁶⁰⁰ As per Eikon data.

Russia and Russian SARs in the face of the external political environment and sanctions.

There are three primary methods through which businesses re-domicile to the Russian SAR: re-domiciliation of holdings that control ownership shares, re-domiciliation of the parent entity, and re-domiciliation of subsidiaries. Each method provides distinct advantages for the relocating company. First, the re-domiciliation of holdings that control the ownership shares results in a reduced rate of dividend tax rates. From this perspective, Russian SARs particularly appeal to offshore-based companies that do not conduct active economic activity but primarily distribute dividends received in favour of other legal entities. To increase its attractiveness, the Russian SARs provide confidentiality regarding beneficiaries and directors, which parallels tax havens with their strong privacy protection. The re-domiciliated parent entities and subsidiaries also enjoy preferential tax rates, although corporate tax is not exempt. There is no appreciable decrease in the tax burden, and the tax benefits of Russian SARs do not correlate to those of typical offshore jurisdictions. In this regard, Russian SARs differ from the classical notion of "offshore" in their foreign embodiment. Russian SARs employ stricter requirements for benefit provision than conventional offshore jurisdictions, which undoubtedly impacts businesses' willingness to relocate to the Russian SAR. This willingness to relocate substantially depends on the good relationship between the business elite and the Russian government, which is compatible with the proposed hypothesis. The analysis of Russian companies reveals that the re-domiciled companies continue to have offshore-based subsidiaries, although with no substantial assets. This highlights the partial success of deoffshorization process on the private companies with good relationship with the government.

In conclusion, the introduction of Russian SARs as the deoffshorization policy is not just a substitute for offshore jurisdictions; rather, it represents an alternative strategy in the fight against the use of offshore schemes. The primary goal of the establishment of Russian SARs includes an anti-sanction measure. Previously, Russian companies used offshore jurisdictions to protect businesses and assets from

the Russian government. The deoffshorization process reflects a reverse setting, where Russian companies are repatriating to Russia to protect assets from Western sanctions.

Chapter 8: Conclusion

8.1. Introduction

The aim of this thesis has been to investigate whether the deoffshorization process is successful in restricting the use of offshore schemes by Russian companies and their outgoing capital flow channels. As we saw in Chapter 2, Russia is one of the front-runners of capital exported in all positions, which, in the current global environment, has a distressing effect on the Russian economy. Russian companies circumvent legal loopholes and use offshore schemes to transfer assets beyond the Russian borders. Capital does not just flow outside of Russia; it is accumulated in offshore jurisdictions as the wealth of Russian oligarchs and their companies. This issue of the tremendous volume of capital outflow to offshore jurisdictions raises substantial concerns, which is reflected in the implementation of the deoffshorization initiative. Such policy is essential in light of the growing attention devoted to the global anti-offshore movement.

Despite that, this thesis emphasises that the existing literature on the Russian deoffshorization process is scarce. Rather, most of the existing studies focused on the interpretation of the deoffshorization nature. A few empirical research efforts have been conducted to assess individual regulations without making an overall in-depth analysis of the whole deoffshorization process. As a result, our understanding of the nature of deoffshorization and its impact is profoundly incomplete. A lack of consensus within the existing studies on the nature of deoffshorization and its measures resulted in limited studies attempting to analyse how successful the Russian deoffshorization process is. To this end, Chapter 3 outlines three stages of deoffshorization development and its regulations.

Chapters 5, 6 and 7 present an in-depth analysis of the Russian companies' response to the deoffshorization process. In particular, whether the deoffshorization led to the changes in behaviour of Russian companies, particularly changes to the decisions made by their shareholders and managers in restructuring offshore ownership and corporate structures. Together, these chapters provide complex

findings associated with the success of the deoffshorization process. The research in these chapters employs the multiple-case study design of two distinct groups of Russian companies: SOEs and private firms. This design allows for a thorough analysis not only of the effects of the deoffshorization regulations but also of various factors that affect how Russian companies respond to the regulatory environment. Each company has its own objectives, organisational forms, and relationships with governmental officials; its distinctive qualities emphasise the behavioural differences to regulatory changes.

This chapter is organised into three parts. First, I outline the key research findings, which suggest that the deoffshorization reforms overall failed in the fight against the use of offshore schemes. Following the summary of the key findings, the second part highlights the recommendations for reforms and suggests directions for future research, outlining the academic and policy contributions of this thesis to the topic of the deoffshorization process in Russia and the overall fight against the use of offshore schemes.

8.2. Key research findings

The empirical findings of this study can be categorised into two chronological stages of the deoffshorization development: Stage I: unsuccessful initiation of the deoffshorization regulations (2014-2021), and Stage II: the politico-economic elements and the effects of the deoffshorization (2022-currently).

8.2.6. Stage I: Unsuccessful initiation of the deoffshorization regulations (2014-2021)

The initial phase of the deoffshorization regulations (from 2014 to 2021) did not prompt an immediate relocation of subsidiaries and assets from offshore jurisdictions to Russia.

The findings of Chapter 5 partially align with Hypothesis 1. During the initial phase of deoffshorization, Russian SOEs continued to operate in the European offshore jurisdictions and their proximity to the Russian government did not contribute to an immediate relocation of their offshore subsidiaries (from 2014 to 2020). Although the initial response was rather limited, their proximity to the government ultimately resulted in the repatriation after a series of notable deoffshorization regulations in 2020 and 2021. The advancements of the DTT amendments led to the relocation of SOEs' assets and subsidiaries from the European offshore jurisdictions to Russia. Moreover, a certain portion of relocated companies re-domiciled to the Russian SARs, which is another prominent deoffshorization measure.

Given that Hypothesis 1 has been partially confirmed, its application may vary depending on other factors, particularly with reference to export dependency of Russian SOEs and the development of a hostile political environment. As Gazprom and Rosneft are leading Russian SOEs in terms of the higher contributions to government profits, the use of the offshore subsidiaries was tolerated. The European offshore jurisdictions served as intermediary points that connected Russia to global markets. One such example is the Netherlands, where Russian SOEs established a complex web of subsidiary holdings that continued to operate following the implementation of the CFC rules in 2014.

As a result of a detailed analysis of Russian private companies in Chapters 6 and 7, the case studies suggest that the first deoffshorization regulation, CFC rules in 2014, also had no positive effect on the repatriation of Russian businesses from offshore jurisdictions. The analysis demonstrated that the political disputes in 2014 aggravated the Russian business environment, by which offshore jurisdictions appeared as a safe haven for asset protection and favourable conditions for capital movement. Here, the deoffshorization regulations failed to address these political and economic dynamics, providing no incentive for any limit in the use of offshore schemes. Amid geopolitical uncertainty, this resulted in an abrupt capital outflow to offshore jurisdictions by the majority of Russian private companies. The analysis reveals that the Russian business elite continued to accumulate income in offshore

jurisdictions without transferring any capital to the parent company in Russia. The selected companies predominantly used intra-company debt shifting to reduce the corporate tax base via offshore-based subsidiaries during the deoffshorization process. The interest from these loans subsequently travelled overseas, saving Russian companies' income tax, with assets remaining in the offshore jurisdictions.

In terms of ownership structure, the deoffshorization regulations also failed to limit the capital flow. Oligarchs that own assets offshore have several options: disclose CFC and accordingly pay Russian taxes, dissolve CFC, or simply terminate their Russian tax residency. However, the analysis that was conducted illustrated several limitations of CFC rules. In some instances, it is easier and preferable to pay the CFC tax than to repatriate a company to Russia. Companies whose CFCs are located in jurisdictions where the tax is between 10% and 15% are only taxed by the difference between the Russian 15% and the offshore tax rate, excluding dividends. Thus, an additional tax payment in Russia is minimal, while dividends received continue to be exempt from tax. Chapters 6 and 7 further illustrate that in order to avoid an accumulation of paper income, private Russian companies restructured CFCs. Such restructuring was oriented to reduce CFC profits and eliminate redundant structures. This decision effectively illustrated how unsuccessful CFC rules are, as the payable dividends remain in the offshore jurisdictions, contributing to further capital outflow from Russia to offshore jurisdictions.

Another important element of the deoffshorization measures introduced in 2015 is capital amnesty. The conducted research indicates no successful results in the repatriation of capital. Capital amnesty did not align with the CFC legislation to address what capital will be subject to taxation and whether the origin of capital will be questioned. Thus, the early implementation of the deoffshorization regulations oriented on fiscal measures did not make any significant advancement in reducing the use of offshore schemes. Furthermore, private companies had no substantial changes in response to the DTT amendments. Only in the case of NLMK, the oligarch transitioned his structure from Cyprus to Abu Dhabi following the amendment of the DTT between Cyprus and Russia. By 2020, only a handful of subsidiaries and

companies chose to discontinue their activities in hostile European offshore jurisdictions and relocated to other non-sanctioning regions, such as Abu Dhabi, Dubai, and Singapore.

8.2.7. Stage II: The politico-economic elements and the effects of the deoffshorization (2022-currently)

The 'New Reality' that emerged with a new phase of the Ukraine conflict in 2022 presented not only severe sanctions but Russian isolation from global financial and trade flows. This marked a new stage of the deoffshorization process, with notable changes in the repatriation patterns. The previous wave of sanctions in 2014 allowed the companies to bypass the Western sanctions through a number of neutral jurisdictions, such as offshore ones for capital movement. The global political climate reflected in the endangered position of Russian businesses and individuals as the neutrality of these jurisdictions became questioned. One of the prominent examples is the sanctions against Russia adopted by Switzerland that put aside its neutrality.⁶⁰¹ Now, any Russian company is at risk of becoming subject to sanctions, which leaves two main options: either return their assets to Russia or continue to operate abroad, subject to rising unpredictability. The objective reason for the repatriation to Russia transformed from mere patriotism to escape from economic penalties, which may freeze the bulk of assets under English or American law. Considering that more deoffshorization regulations came into force, sanctions provided the basis for the Russian economy to reduce its dependence on offshore jurisdictions.

While initial regulations predominantly focused on fiscal measures, Russian companies had no incentive to repatriate to their home jurisdiction. The intensification of severe sanctions in 2022 substantially strengthened the deoffshorization process in Russia, providing a new stimulation for the relocation to a friendly home jurisdiction. The prospect of sanctions required Russian companies to carefully reconsider relocation options insulated from sanctions. This necessity was reflected in the revised

⁶⁰¹ Shields and Koltrowitz (2022).

approach to the deoffshorization regulations, which changed from fiscal measures to shelter from sanctions. The reasoning was straightforward: you can shield capital from sanctions by repatriating to Russia. Therefore, the establishment of Russian SARs and subsequent advancement to them marked the legislative shift to a more nuanced accommodation with political and economic consideration – functioning as anti-sanction measures. This reinforced the benefits of repatriating Russian companies and augmented the success of the deoffshorization regulations, particularly with companies with good relationships with the Russian government. As a certain portion of companies re-domiciled to the Russian SARs, the analysis reveals that the Russian SARs are more appealing to an offshore-based company that does not conduct active economic activity but only distributes dividends received in favour of other legal entities. To increase its attractiveness, the Russian SARs provide confidentiality regarding beneficiaries and directors, which parallels tax havens with their strong privacy protection.

Yet the case study presents that the Russian SARs employ stricter requirements for benefit provision than conventional offshore jurisdictions, which undoubtedly has an impact on businesses' willingness to relocate to the Russian SAR. This willingness depends on the relationship between the company (and the major shareholders) and the Russian government. First, Russian SOEs relocated several companies from offshore jurisdictions to Russian SARs, with almost no assets left in offshore jurisdictions from 2022. Considering the limitations of data relatable to offshore jurisdictions, if there is any presence that remains, it has been much reduced. A similar pattern has been noticed with Russian private companies with good relationships with the government. Although findings on the initial stage of deoffshorization did not support Hypotheses 1 and 2, the revised approach of deoffshorization regulations to external political and economic factors prompted positive responses of companies with proximity to the government.

As for Russian companies with no relationship with the Russian government, the analysis reveals that these companies maintained their presence in offshore jurisdictions in the face of the external political environment and sanctions in 2022.

Rather, Russian businessmen of these companies were compelled to distance themselves from their companies. The results lend robust support to Hypothesis 3, presenting that deoffshorization regulation did not incentivise relocation to Russia and Russian SARs for companies with no relationship to the government in the face of the external political environment and sanctions. This finding illustrates the failure of deoffshorization regulations in repatriating those with no good relationship with the Russian government.

8.3. Multifaceted approach of the deoffshorization process

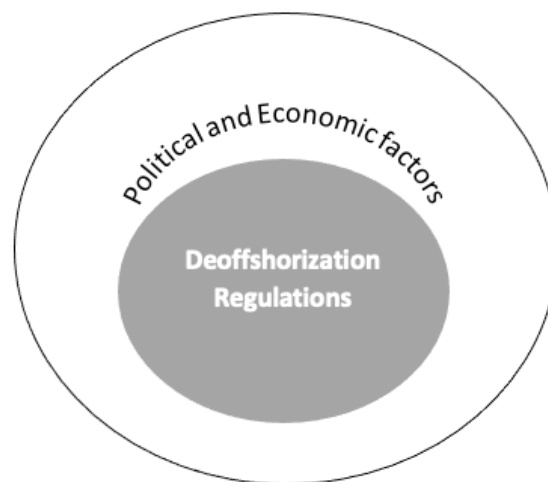
The unsuccessfulness of the deoffshorization in repatriating Russian businesses and capital lies in the overall inadequate approach to the fight against the use of offshore schemes. The potential of the success of the deoffshorization process depends on a number of factors, including the political and economic elements of the Russian Federation, which are predominantly overlooked. The empirical research presented in this study supports this claim as the mere fiscal measures of the deoffshorization process do not increase the likelihood of the repatriation of Russian businesses and capital from offshore jurisdictions.

As we saw in Chapter 2, the existing literature provides different interpretations of the meaning of deoffshorization, both considered by political and legal studies. Given its ambiguous nature, one of the concepts this thesis has proposed is the *multifaceted approach* of the deoffshorization process of the Russian Federation, which includes politico-economic and legal aspects. The multifaceted approach features how these different yet interconnected aspects shape the effect of the deoffshorization process. The success of deoffshorization depends on the level of alignment between legal and politico-economic aspects. In particular, deoffshorization is successful when these political and economic factors increase the risks for operations of Russian companies in offshore jurisdictions, and regulations offer not only a credible channel for relocation to Russia, but also an incentive. If regulations are not aligned with political and economic factors and provide no incentive to relocate

from offshore jurisdictions, deoffshorization has a limited effect on the decline in offshore use.

The legal aspect is the source of the deoffshorization and its essence, which is a set of legal rules and reforms oriented to reduce the channels of capital outflow to offshore jurisdictions and increase legitimate tax planning. On the other hand, the politico-economic aspect is not constrained by established legal rules; instead, it has the ability to expand beyond the legal framework, playing a significant role in the development of the deoffshorization process. Compared to the legal aspect, the politico-economic aspect is far less anticipated and consistent by nature, and in actual operation, it shapes the legal aspect and defines a particular regulatory tactic. The research in this study presents the fact that when both aspects balance and complement each other, the deoffshorization process has a positive effect and it is successful on the repatriation of Russian enterprises.

Multifaceted Approach of Deoffshorization



Made by the author.

Chapter 2 outlined that the political and economic factors initially led to the offshorization of the Russian economy. The primary drivers of the capital flow to offshore jurisdictions were the involvement of the government, unstable political and economic environment in the country, and high corruption rates. These internal politico-economic factors feature the distinctive characteristics of the Russian approach to the initiation of the deoffshorization process. Therefore, the exclusion of

the political and economic factors does not provide a full picture of the deoffshorization process since the Russian alternative approach to the fight against the use of offshore schemes is the result of the historical complexities and challenges that Russia faced.

The empirical research in Chapters 4, 5, and 6 presents a more extensive assessment, indicating that both internal and external politico-economic factors have a considerable influence on either maximising or mitigating the effect of the legal aspect in Russian businesses' responses to the deoffshorization process. Chapter 4 presented that SOEs' proximity to the Russian government did not lead to the immediate relocation of offshore subsidiaries, yet the presence of sanctions and a hostile political environment in 2022 influenced the closure of certain subsidiaries in the European offshore jurisdictions. In Chapter 5 we saw that Russian private companies that are not targeted by Western sanctions continue to develop new schemes to optimise taxation. In this regard, the absence of sanctions is a crucial factor that prevented the legal aspect of the deoffshorization from successfully applying. On the contrary, Chapter 6 illustrated that the adverse effect of sanctions enabled the deoffshorization regulations in the effective repatriation of Russian businesses from offshore to the Russian jurisdiction.

The deoffshorization reforms were predominantly based on fiscal measures, which hindered its impact on businesses. The fight against the use of offshore schemes cannot be based solely on one solution, and a vast array of potential strategies does not make progress toward a resolution impossible. The underlying factors and consequences of the use of offshore schemes are distinct: the origins result in implications, and conditions act as influencing factors. The origins of the offshorization resulted in the necessity of the deoffshorization, while its conditions exacerbated the effects of its origins. By considering the political and economic factors that underpin or hinder the effect of the deoffshorization reforms, we are able to comprehend better the potential for and obstacles to more innovative solutions to the effective fight against the use of offshore schemes. This is the distinctive feature of the Russian case of deoffshorization.

8.4. Future research: policy considerations

Although this thesis attempted to offer a thorough analysis of the subject, a number of concerns were too significant to cover in the confines of this work and should be the subject of a separate, in-depth investigation. In this section, I identify some key areas for future research in this field.

Perhaps the top priority of future research involves a more in-depth investigation of the consequences of this study's findings. This thesis is the first to study the deoffshorization process in the Russian Federation in an attempt to evaluate its success in combating the use of offshore schemes. It is clear that the deoffshorization approach is multifaceted, which incorporates a number of factors that have to be considered in policymaking. For instance, given the current geopolitical landscape and economic downturn in Russia, it is imperative to develop and implement feasible strategies that could improve the business climate of the country in order to attract companies.

If an individual or a company uses OFCs due to the unreliability of the Russian business environment, then the Russian government should revise the investment strategy to create an attractive investment climate in the country to achieve the maximum effect of the deoffshorization reforms. The case studies highlighted that the deoffshorization reforms were not substantially successful in increasing the stimulation of investment and financial activity in the Russian Federation, as only companies with proximity to the Russian government were willing to relocate their offshore subsidiaries and assets. Fighting and eliminating corruption should be a primary goal to improve the attractiveness of the Russian jurisdiction. Furthermore, as Russia has a high corruption rate, the established exchange of financial information is less likely to have a significant impact.

However, if an individual or a company uses OFCs for its benefits, then deoffshorization legislation needs to provide a clear borderline on whether the regulations are targeting harmful offshore practices. Its importance lies in its practical application to businesses that are restructured for purely genuine commercial purposes rather than to avoid paying taxes. The harmful tax practices seem

straightforward in a nutshell, but in practical terms, it can occasionally be challenging to discern between legitimate and illicit methods of using offshore jurisdictions.

Another priority would be a comparative analysis with the U.S. anti-tax abuse reforms or regulations of other developed nations that would increase conformity to the rule of law and a better understanding of implementation techniques in Russia. This will open up possibilities for both scholars and policymakers to investigate ways in which this might be accomplished. For instance, how does the Anglo-American rule of law increase the success of anti-offshore abuse reforms?

8.5. Conclusion

By studying the deoffshorization process and its success in limiting channels of capital flow, we gain a more sophisticated grasp of the problem of the use of offshore schemes and the negative impact of offshore jurisdictions. Along with other countries, Russia initiated its own fight against the use of offshore schemes. However, the deoffshorization regulations have been passed without considering the necessity of assessing and organising the different facets of the underlying legislation and the political and economic factors that led to its necessity. In conclusion, this thesis demonstrates that an extensive reorganisation of the Russian deoffshorization process is long required since the legal rules are unsuccessful at stopping capital outflow to offshore jurisdictions. After all, the legal aspect is a driving force of the deoffshorization; it outlines and shapes the deoffshorization, which is primarily determined by the underlying principles of anti-offshore abuse. By considering the political and economic factors that underpin or hinder the effect of the deoffshorization reforms, we are able to comprehend better the potential for and obstacles to more innovative solutions to the successful fight against the use of offshore schemes. This constitutes an essential direction for further research.

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