

## Control Risks warns of threat from opaque trading practices by Russian businesses

But the risk can be mitigated through good compliance strategies

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Control Risks, one of the world's leading business risk consultancies, has today warned of the risk to foreign companies trading in Russia from so-called 'grey practices' used by local businesses.

'Grey practices' are the opaque mechanisms used by local companies to dishonestly maximise profits to the detriment of foreign partners inadvertently caught up in such schemes. They can include tax evasion schemes, one-day companies, and offshore ownership structures designed to generate black cash - unreported income then used to grease the palms of unscrupulous regulators. They represent a significant but often overlooked source of reputational, operational and regulatory risk to foreign companies doing business in Russia.

But while these practices are not endemic, the impact of the global financial crisis has increased Russian companies' reliance on them.

Charles Hecker, director, Russia/CIS at Control Risks, comments:

"These practices may not at first sight appear clearly and explicitly illegal, but they can very quickly turn from *grey to black*. For example, the money these schemes generate and the structures themselves can form part of deliberate and concerted efforts to defraud, facilitate money laundering, pay bribes and conceal conflicts of interest."

"Grey practices are not necessarily part of corruption, but like corruption, they still expose foreign companies to criminal prosecution. Tighter regulation, in the form of the Foreign Corrupt Practices Act and the OECD Anti-Bribery Convention, and more proactive enforcement is only increasing this exposure."

However, an increasing number of Russian companies are embracing higher standards of corporate governance, particularly in those sectors which are more open to foreign capital, such as FMCG and financial services

Hecker says: "Russia clearly presents a difficult, though not unique, set of challenges to foreign companies. However, this should not force them to pack up and leave. Many foreign companies are continuing to make a great success of their investments and operations in Russia, particularly those which institute best practice internal compliance policies and seek to understand the nuances of the local operating environment."

### ABOUT CONTROL RISKS

**Control Risks** is one of the world's leading global business risk consultancies. As a trusted adviser to almost three quarters of the Fortune Global 500, we enable our clients to succeed in complex and hostile environments. We provide the information, advice and practical support they need to manage the political, security and integrity risks that come with doing business internationally.

### FOR MORE INFORMATION

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