

Russo-Sino Payment: Obstacles and New Hope

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Harsh Attitude of Chinese Bank on Russo-Sino Payment

Background:

The Escalation of U.S Sanctions: the emphasis on the secondary sanction effects on foreign financial institutions
E.O. 14114 amends E.O. 14024 to authorize the imposition of sanctions on foreign financial institutions that have engaged in certain transactions involving Russia's military-industrial base, including all persons whose property and interests in property are blocked pursuant to E.O. 14024.

- conducted or facilitated any significant transaction
- or conducted or facilitated any significant transaction or transactions, or provided any service to...(blocked Russian entities or persons)
- Widen definition of Russia military-industrial base, Russian Banks are included

Chinese Bank's Attitude on Russo-Sino Payment:

- Case-by-case look-thorough review: to the item/service that being trade
- Reluctant attitude on approval of payment
- The volume control of single client
- Political Pressure to support Sino-Russo Trade

Financial Guerilla War: Surrounding the Cities from the Rural Areas

Surrounding the cities from the rural areas:

A strategy that has successfully used by Chinese red army to win the Chinese civil war, and be deemed as part of Maoism. This strategy focus on make good use of the rural areas that less focused by enemies to preserve own power and infiltrate the cities from the rural areas.

Rural commercial banks:

Referred as “农商行” (Nong Shang Hang), are a category of joint-stock local commercial banks in the People's Republic of China that serve local farmers, agriculture and rural economic development.

From our channels, we know that 8 regional Chinese bank is currently preparing to restart normal transaction with Russian banks:

- Jilin Hunchun Rural Commercial Bank
- Heilongjiang Suifenhe Rural Commercial Bank
- Jilin Dunhua Rural Commercial Bank
- Harbin Bank
- Bank of Jilin
- Changchun Rural Commercial Bank
- Changchun Development Rural Commercial Bank
- Yanbian Rural Commercial Bank



昆仑银行
Bank of Kunlun

Plus, the Bank of Kunlun, the Chinese Bank that has already be sanctioned!

Trojan Horse with Chinese Characteristics: VIE Structure

Chinese Company law does not ban the nominal holder agreement. And foreign investors and Chinese company has applied a structure called “Variable Interest Entities” (the “VIEs”) to bypass the restriction of Chinese government on foreign investors for years.

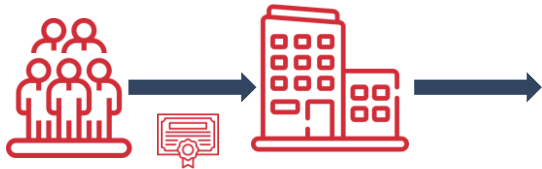
How Do VIEs Work?

VIEs, or variable interest entities, let companies sidestep Chinese rules forbidding foreign investment in sensitive industries like internet.

Outside China

Foreign/Chinese investors

Company A



Investors take stakes in an offshore holding company (**Company A**).

In China

Company B

Company C

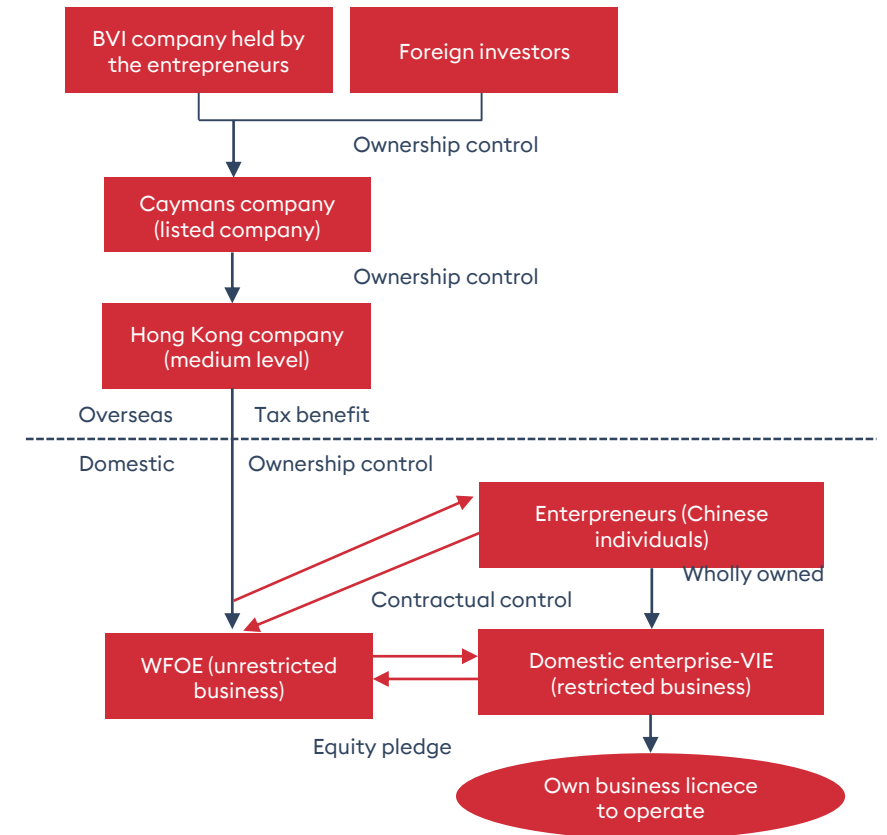
Chinese Owners



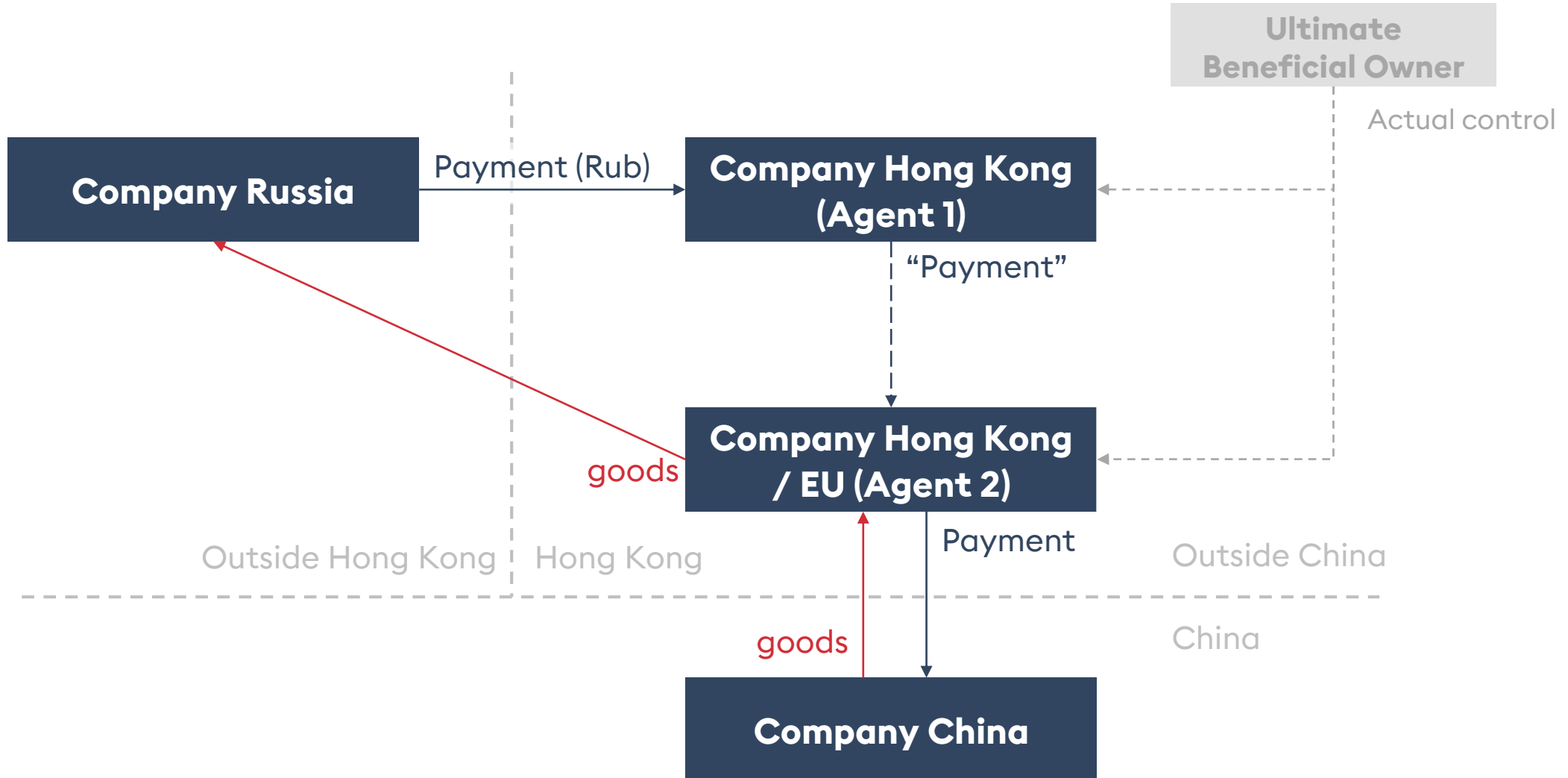
The offshore holding company (**Company A**) sets up a subsidiary in China (**Company B**).

Another company in China (**Company C**) operates the business. It signs contracts pledging to send profits and other benefits to the subsidiary (**Company B**).

A typical VIE structure



Entrepot Trade



About the firm

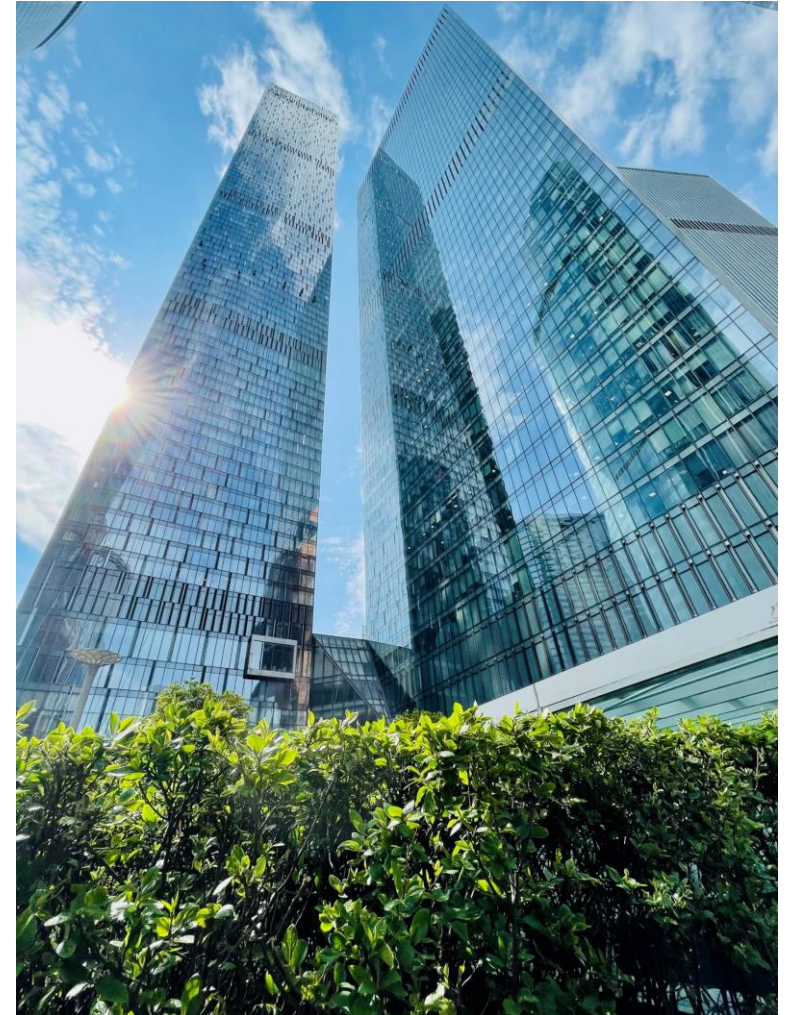
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