CUTTING THE TENTACLES OF RUSSIAN ENERGY ‘OCTOPUS’

DiXi Group follows on the series of materials aimed at exploring the foreign ties of key Russian energy companies for elaboration of proposals for expanding sanctions limiting the international influence of the Russian energy sector.

RUSHYDRO
Every new unprovoked and unjustified Russian war action in Ukraine should be opposed with a united and decisive response from the free democratic world. Every restrictive step, even small and unobvious, is a brick for the wall preventing the Russian war machine from advancing.

Therefore, along with sanctioning the Russian companies with a large foreign presence, we should use the means to influence those which seem to be isolated from global markets. In the energy sector, along with sanctions requires for the big international players such as Gazprom, Novatek, Rosatom, Rosneft, Inter RAO, Lukoil, etc., the critical Russian national companies should also be sanctioned, directly or indirectly.

RusHydro should not be an exception. It is Russia's largest hydropower generating company and ranked third in the world. With its 400 generating facilities of 38 GW installed capacity, the company plays a vital role in Russia’s energy security. The influence on the company means the impact on 20% of Russian power generation.

Also, RusHydro is a large Russian taxpayer. In 2020, 93.4 billion RUB (equivalent of 1.3 billion USD) of taxes were paid by the company to budgets of different levels, followed by even bigger tax payments in 2021 due to the EBITDA and total revenues increase (+1.6% y-o-y and 71% y-o-y, respectively). Cutting the ability of the company operations limits Russia's ability to finance the war.

RusHydro is heavily controlled by the Russian government. As of March 2022, the Russian Federation owned 61.73% of the company, and PJSC Bank VTB, which the Russian Federation controls, owned 13.06% of the company's shares. Moreover, the company's largest customers, contractors, and suppliers are primarily entities controlled by the Russian political elite. Therefore, sanctioning RusHydro basically means sanctioning the Russian government.

RusHydro highlights its connection with the Russian Geographical Society through a long history of cooperation, in particular with its President Sergei Shoigu and Chairman of the Board Vladimir Putin, Russian leaders responsible for the war in Ukraine. Despite the company’s limited connection to the direct war actions, it could be accused of relation with war criminals.

As of March 2022, RusHydro management believed that sanctions and restrictions will not affect the group's ability to continue as a going concern. This assumption is based on the fact of the company's very limited dependance on the international assets and connections. For instance, its share in the last remaining foreign asset, cascade of 565 MW HPPs on the Hrazdan river in Armenia, was sold in 2019. Similarly, several subsidiaries operating abroad are in the liquidation process or conducted limited operations.

However, there are several aspects of how the company’s activity could be affected with international restrictions and sanctions.

1. Limiting access to finance and technology through further sanctions

Following the delisting from London Stock Exchange (LSE), RusHydro should be banned from access to global financial instruments. RusHydro is already added to the sanction lists of the U.S.
Australia\textsuperscript{20}, Canada\textsuperscript{21}, and the UK\textsuperscript{22}; however, it is not included in the EU sanction lists\textsuperscript{23}. Despite the company’s declaring that sanctions would not affect its activities\textsuperscript{24}, as RusHydro loan portfolio mainly consists of rubles and yuan\textsuperscript{25}, all foreign operations of the company should be thoroughly monitored, and new restrictions should be imposed. Namely, the EU shall also adopt such economic and financial measures as import and export restrictions and restrictions on banking services regarding RusHydro.

2. Termination of business cooperation and exclusion from other formats of joint interaction

- Research and technical projects of RusHydro Group should be suspended in Uzbekistan, Kyrgyzstan, Tajikistan, Laos, Vietnam, Angola, Turkey, India, Egypt, Hungary, Georgia, and Azerbaijan (using as a leverage the blocking of access to financial services and markets, restrictions on technological cooperation, as well as negotiations with governments and replacement by Western competitors, where possible);
- Japanese companies (Mitsui & Co, Ltd, KOMAIHALTEC Inc and New Energy and Industrial Technology Development Organization of Japan) and German company Voith Hydro should announce exit from any further cooperation and ongoing projects;
- RusHydro participation in such international organizations and associations as Global Sustainable Energy Partnership (GSEP), International Hydropower Association, International Commission on Large Dams, World Energy Council should be suspended;

3. Blocking ways of technology transfer and terminating R&D cooperation

Prevent the transfer of advanced foreign technologies and the company's activity into foreign markets with its R&D services\textsuperscript{26}; Specialists from RusHydro should be banned from participating in the international R&D projects.

4. Expanding sanctions on RusHydro subsidiaries and its leadership

- The following subsidiaries\textsuperscript{27} operating abroad should be exposed to sanctions:
  - RusHydro International B.V. (in liquidation process)
  - RusHydro International A.G. (in liquidation process)
  - RusHydro International India Private Limited (possible liquidation\textsuperscript{28})
  - International Energy Corporation CJSC
  - VNIIG LLP
  - Hydroogk Aluminium Company Limited
  - BALP Limited
  - BOGES Limited

The following leadership of the company, i.e. the Members of the Board of Directors (13 members, 4 independent) and Management Board (5 members) should be added the sanction lists:

- Board of Directors – Maxim Bystrov, Lev Kuznetsov, Yuri Manevich, Aleksei Kozlov, Nikolai Rogalev, Dmitry Snesar, Yuri Trutnev, Natalia Filippova, Aleksei Chekunkov, Andrei Shishkin, Nikolai Shulginov, Pavel Grachev (left the Board\textsuperscript{29}), Vyacheslav Pivovarov (left the Board\textsuperscript{30});
- Management Board – Viktor Khmarin, Andrei Kazachenkov, Sergei Kirov, Sergei Vasilyev, Bayrta Perveeva, Roman Berdnikov, Nikolai Karpukhin\textsuperscript{31}.

\textsuperscript{20} Autonomous Sanctions (Designated Persons and Entities and Declared Persons—Russia and Ukraine), Amendment (No. 12) Instrument 2022
\textsuperscript{21} Consolidated Canadian Autonomous Sanctions List
\textsuperscript{22} Consolidated list of financial sanctions targets in the UK
\textsuperscript{23} Consolidated list of persons, groups and entities subject to EU financial sanctions
\textsuperscript{24} Интерфакс. В "РусГидро" сообщили, что санкции не повлияют на деятельность компании
\textsuperscript{25} BCS-Express. РусГидро. Каково влияние санкций
\textsuperscript{26} РусГидро. Международная деятельность
\textsuperscript{27} RusHydro. International presence
\textsuperscript{28} http://www.rushydro.ru/company/structure/podkontrolnye-obshchestva/
\textsuperscript{29} EU Reporter. Russia's RusHydro Board lost two independent directors
\textsuperscript{30} Ibid.
\textsuperscript{31} Annual Report 2020
TURKEY
Implementation of projects by JSC Hydroproject Institute (subsidiary)

UZBEKISTAN
Implementation of projects by JSC Lenhydroproject and JSC Hydroproject Institute (subsidiaries)

TAJIKISTAN
Implementation of projects by JSC Hydroproject Institute (subsidiary)

LAOS
Implementation of projects by JSC Hydroproject Institute (subsidiary)

KAZAKHSTAN
VNIIIG LLP (subsidiary)

INDIA
Implementation of projects by JSC Hydroproject Institute (subsidiary)

RusHydro International India Private Limited (subsidiary, 51% share, possible liquidation)

THE NETHERLANDS
RUSHYDRO INTERNATIONAL B.V. (subsidiary) (in liquidation process)

KYRGYZSTAN
CJSC Verhne-Narynskie HPPs (subsidiary, 50% share) (no significant activity, intention to sell)

CHINA
PowerChina (pumped storage power plants construction in Russia and collaboration in third countries on design and engineering projects)

AUSTRIA
Voith Hydro (supplies of equipment)

JAPAN
Mitsui & Co Ltd, KOMAIHALTEC Inc, New Energy and Industrial Technology Development Organization of Japan (NEDO) (wind energy development)

SWITZERLAND
RUSHYDRO INTERNATIONAL A.G. (subsidiary) (in liquidation process)

CYPRUS
Hydroogk Power Company Limited (subsidiary) (in liquidation process)

BEMO project activities (public-private integrated development project implemented jointly by RUSAL and RusHydro) via Hydroogk