IDFI

Institute for Development of Freedom of Information

GEORGIA'S IMPLEMENTATION OF THE INTERNATIONAL SANCTIONS IMPOSED ON RUSSIA

[FEBRUARY - AUGUST]

2022

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Key Findings

- From February 25 to August 10, 2022, the Revenue Service issued a total of 204 goods and vehicle registration certificates, which turned away cargoes destined for the Russian Federation and Belarus;
- No movement of sanctioned cargo towards Russia and Belarus was identified during customs control in the first 2 months after the start of the war;
- According to the registration certificates, the largest share of the sanctioned cargo (or the cargo of a sanctioned person) was shipped from Turkey (39%) and Armenia (35%);
- In 50 out of 204 registration certificates, the code of goods is not indicated, and the goods that are sanctioned are indicated verbally in 71 cases;
- On July 29, 2022, the Georgian customs checkpoint apprehended and returned a shipment of drones (sanctioned cargo) headed toward Russia.
- The analysis of the data obtained by the processing of registration certificates shows that the most significant portion of returned goods (56 cases) belonged to the 84th group of the National Commodity Nomenclature of Foreign Economic Activity (machines and mechanical devices). Among them, was the sanctioned cargo of heat exchangers used for civil aviation;
- Among the most frequently returned goods are also vehicles and their parts (group 87 of the FEA). Nevertheless, according to Geostat data, the export of automobiles to Russia increased by 268% in the 9th month of 2022;
- Responsible agencies do not disclose information related to the implementation of international sanctions against Russia. For example, the Maritime Transport Agency did not provide any information related to the number of requests from sanctioned vessels to dock at the ports of Georgia. The Revenue Service withheld the identities of importers and exporters (including legal entities) on the grounds of customs confidentiality. Citing similar reasons, the National Bank also withheld information about the cases of non-compliance with the international sanctions identified in financial institutions.

As a result of the invasion of Ukraine on February 24, 2022, the Russian Federation came under significant international sanctions. Sanctions imposed on Russia are multi-faceted and relate to specific individuals, businesses, bank transfers, import-export, and more. The European Union, the US, the United Kingdom, and other countries have decided to impose restrictions on trade in various goods with Russia and Belarus. Additionally, strict sanctions were imposed on companies and individuals operating in Russia and Belarus.

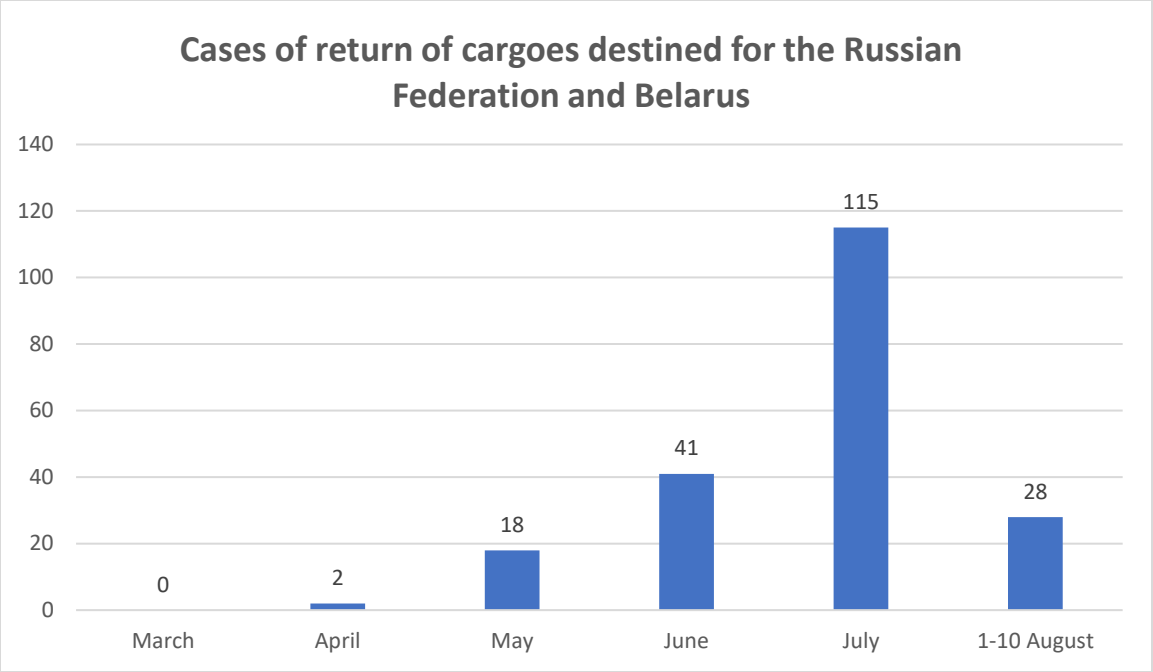
At the very first stage of imposing international sanctions on Russia, Prime Minister of Georgia Irakli Gharibashvili stated that Georgia was not going to join the financial and economic sanctions. This statement, as well as the subsequent statements of individual officials, were quite vague in content and did not present a clear explanation of Georgia's official stance and policy regarding the sanctioning of the Russian Federation. However, later developments and statements of various agencies (National Bank, Revenue Service, the Ministry of Economy) indicated that, despite the fact that Georgia did not impose its own sanctions on the Russian Federation, it did not intend to become a country whose customs territory and/or financial institutions could be used to circumvent international sanctions.

The responsible agencies stated that all products included in the list determined by the countries participating in the international sanctions, as well as any customs operation (export, re-export) that may be carried out by sanctioned individuals or companies, were subject to special customs control. Furthermore, Georgia’s financial sector is a part of the global financial system, which automatically implies joining international sanctions.

IDFI requested relevant official information from various public institutions in order to study the cases of evasion of international sanctions imposed on Russia. At the initial stage, IDFI requested detailed information from the Revenue Service about the identified attempts to ship unauthorized cargo across the border of Georgia starting from February 25, 2022. In response, the Revenue Service provided copies of the registration certificates of goods and vehicles, on the basis of which cargo destined for the Russian Federation and Belarus was returned to the sender, up until August 10, 2020.

According to the documentation provided by the Revenue Service, until August 10, 2022, a total of 204 goods and vehicle registration certificates were issued, turning away cargoes destined for the Russian Federation and Belarus. According to the dates of registration certificates, the first case of return of sanctioned goods brought to the customs territory of Georgia dates back to April 23, 2022. As such, over approximately 2 months following the start of the war, no movement of sanctioned cargo in the direction of Russia and Belarus was identified during the customs control process.

The larger number (115) of cases of turning away cargoes destined for the Russian Federation and Belarus were recorded in the month of July.



The return of goods brought to the customs territory of Georgia, as well as the filling of relevant registration certificates, is carried out according to the instructions "On Customs Supervision" approved by the decree No. 257 of the Minister of Finance of Georgia dated August 29, 2019.

The approved forms of registration certificates for goods and vehicles include, among other data, graphs for filling in information about the exporters and importers of the goods. In the documentation provided by the Revenue Service, the information about the importers and exporters was completely redacted. The Revenue Service, in the case of both importing and exporting legal entities, explained to IDFI that their identities constituted a customs secret. Due to the fact that these documents were provided with this information redacted, IDFI was unable to identify the exporting and importing companies of the cargo, which would have allowed us to verify them against the sanctioned list and obtain additional information about delays in specific shipments.

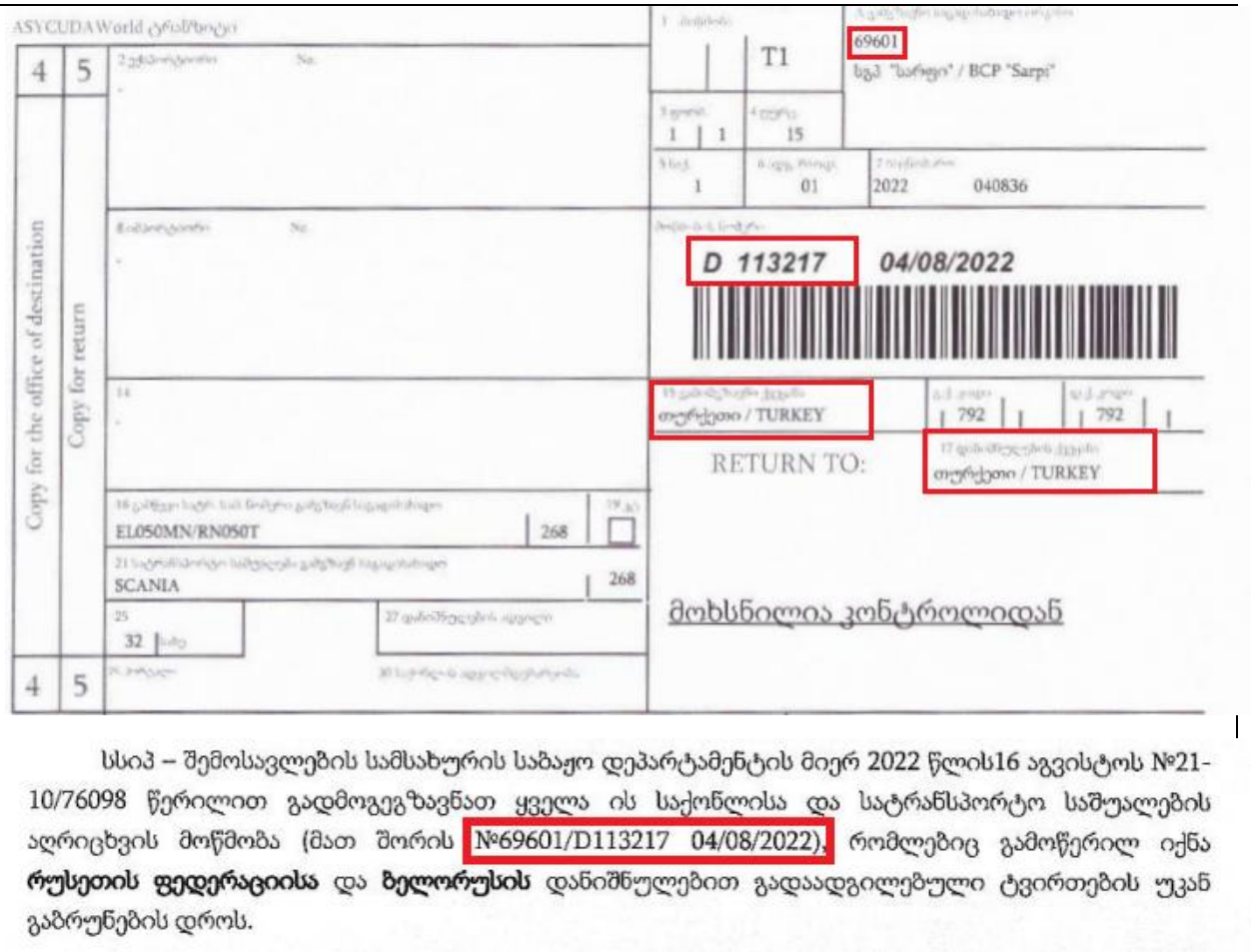
In the certificates provided by the Revenue Service, the origin and destination countries of the cargo are recorded separately. In the presented documents, there are frequent cases when neither Russia nor Belarus appears as the origin or destination country. Specifically, only 99 out of 204 registration certificates indicate Russia or Belarus as the country of destination. For example, there were frequent cases when Turkey was indicated as both the origin and the destination country in the registration certificate. In connection to such cases, the Revenue Service has confirmed in writing that all registration certificates sent to IDFIs were issued when shipments **destined for the Russian Federation and Belarus** were denied.

According to the instructions for filling out the certificate, the name of the country of the sender of the goods is indicated in the country of origin, and the country where the international

shipment will be delivered is indicated as the destination country. However, in cases with multiple destination countries, the one that is indicated is the first one.

In addition, it is likely that in some cases, when a customs officer turns away the cargo, the country where the cargo was turned back is indicated in the destination country section of the registration card.

According to the registration cards, the countries sending the sanctioned cargo (or the cargo of a sanctioned person) most often were Turkey (39%) and Armenia (35%). In 15 cases (7%), Georgia is indicated as the country of origin.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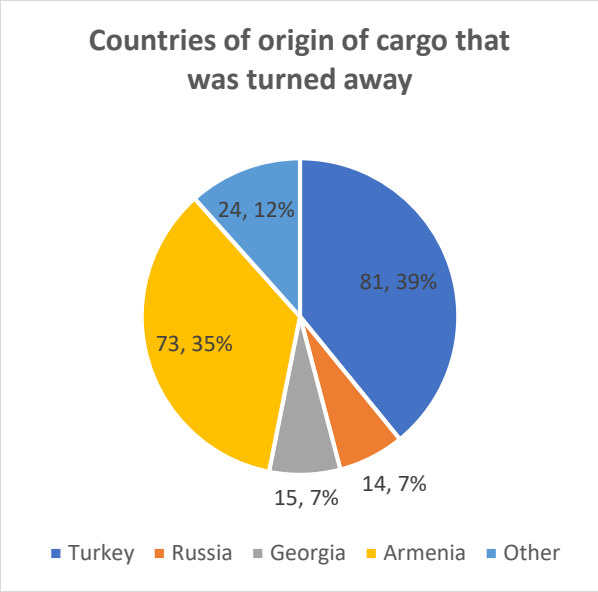
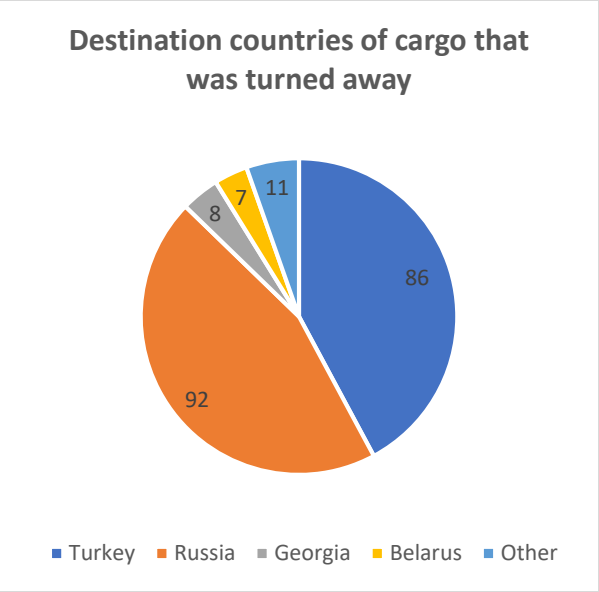
მოხსნილია კონტროლიდან

სსიპ – შემოსავლების სამსახურის საბაჟო დეპარტამენტის მიერ 2022 წლის16 აგვისტოს №21-10/76098 წერილით გადმოგეგზავნათ ყველა ის საქონლისა და სატრანსპორტო საშუალების აღრიცხვის მოწმობა (მათ შორის №69601/D113217 04/08/2022), რომლებიც გამოწერილ იქნა **რუსეთის ფედერაციისა** და **ბელორუსის** დანიშნულებით გადაადგილებული ტვირთების უკან გაბრუნების დროს.

Explanation of the Revenue Service regarding the information entered in the columns of the origin and destination countries in the registration certificates.





The goods and vehicles registration certificates provided by the Revenue Service contain descriptions of the goods that have been turned away. According to the instructions, a commodity code should be indicated in the corresponding column in accordance with the National Commodity Nomenclature of Foreign Economic Activity (SES ESN). 50 of the 204 registration cards provided do not contain a commodity code. In the mentioned cases, where the name or code of the cargo was not indicated, there was for the most part an explanation in words that the cargo had been sanctioned.

In the goods description column, the person filling out the card stated that the goods had been sanctioned in 71 cases. Among them, only 24 have a record of the item code/s along with the explanation. For example, the registration card filled out on July 29, 2022 indicated that **sanctioned cargo drones** were moving across the border of Georgia. The country of origin of the cargo was Turkey, and the destination country was Russia.

The registration card filled out on July 17, 2022, indicates that the **sanctioned cargo (heat exchangers 84195000), which is used for civil aviation**, was moving across the border of Georgia. Italy is indicated as the country of origin of the shipment, and Russia as the destination country. According to the information posted on the website of the Revenue Service by commodity codes, the mentioned goods require various permits for dual purpose products.

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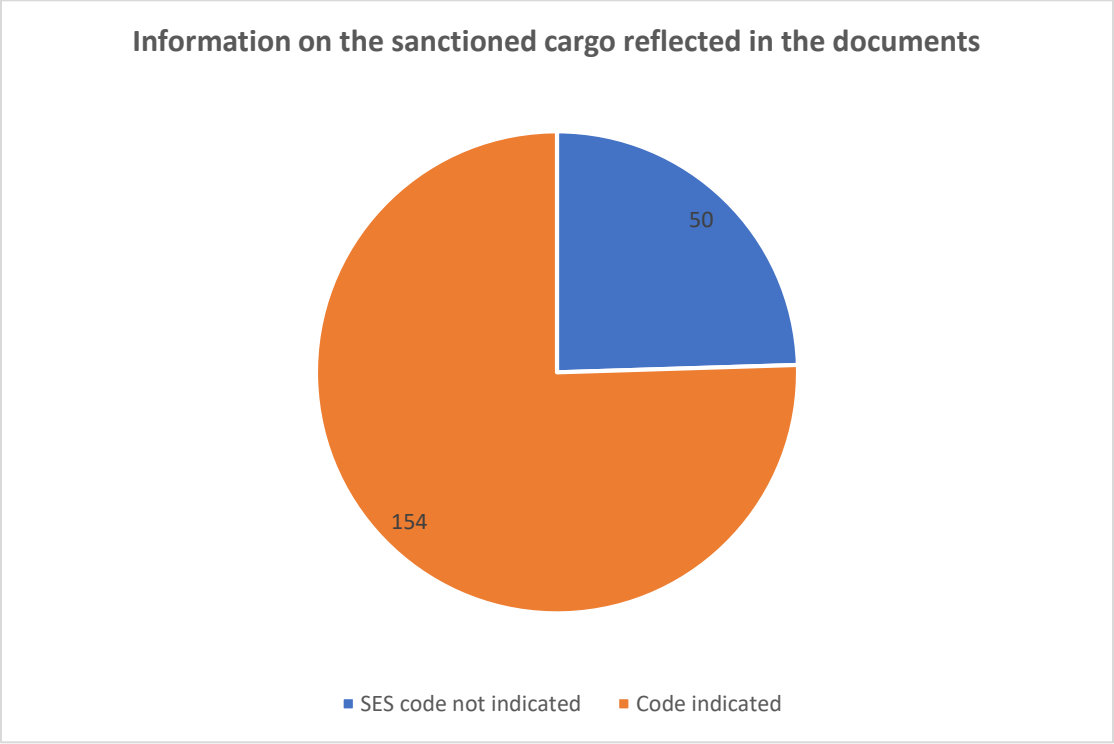
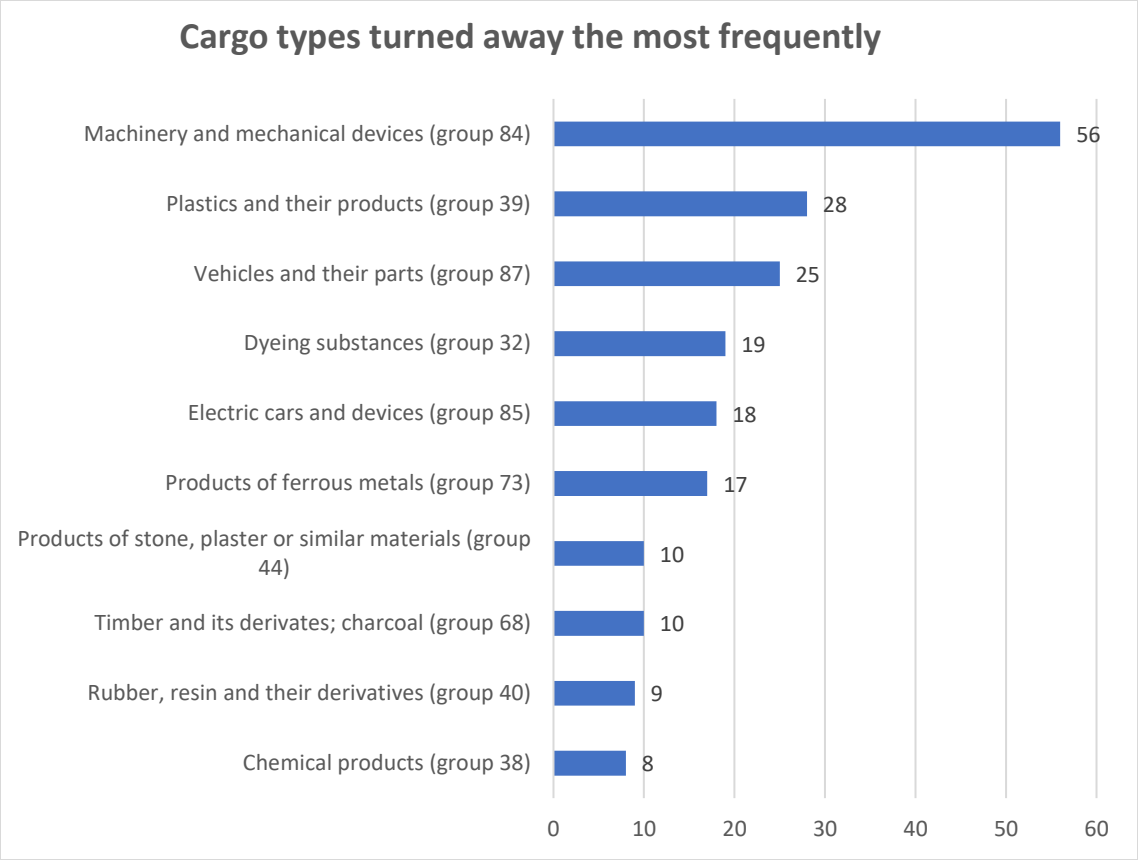
თბოგადამცემები სხვა, 84195000 სანქცირებული საქონელი.



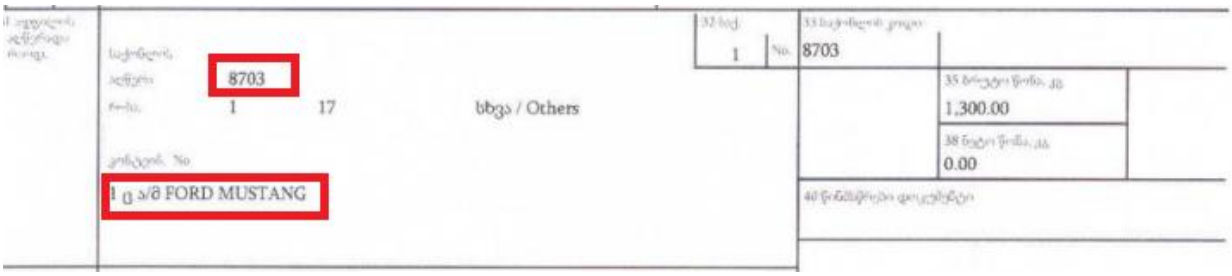
As mentioned above, out of 204 registration cards, the code for the goods that were turned away is specified in 154 cases. In most cases, two-digit codes are indicated in the registration cards. This represented a group of certain goods that might contain a significant number of goods of different denominations. Therefore, it is impossible to identify the name of a specific product through such codes. At the same time, the mentioned codes do not allow us to determine the reasons for turning away the shipment. Specifically, the reason for the delay of a certain shipment was the shipment of sanctioned goods or goods belonging to a sanctioned person. IDFI additionally addressed the Revenue Service with a request, for the name of the sanctioned goods and/or the name of the sanctioned person, in whose possession the goods would be moved, in relation to each registration card, should relevant information be available. In response to this request, the Service explained to IDFI that no additional information was recorded in the automated database of the Revenue Service on top of the data entered in the registration certificates and the goods description graphs.

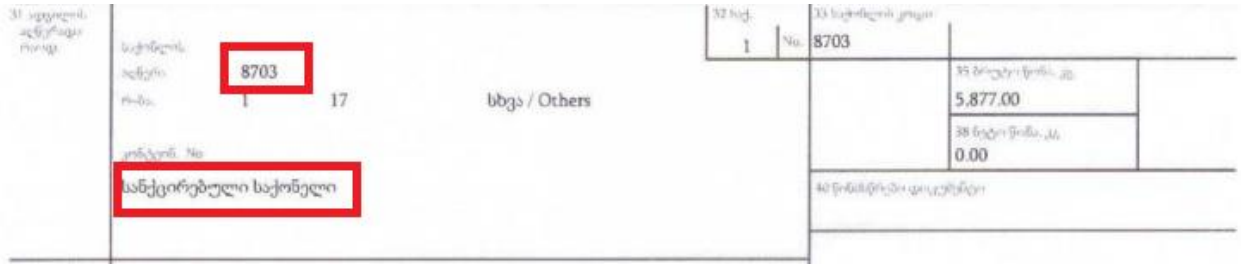
The analysis of the data obtained by the processing of registration cards shows that the goods belonging to group 84 of the SES were turned away most often. Specifically, in 56 cases one of the codes indicated in the description of the goods that they belonged to the mentioned group. **The full name of SES group 84 is nuclear reactors, steam boilers, machines and mechanical devices, parts thereof.** Generally, the specifics on the goods of the mentioned code are limited only to the indication that the cargo represents equipment. According to the instructions for filling out the registration cards, more detailed codes of the cargo name (four-digit or eight-digit code) are indicated for the goods, the import/export of which requires licenses/permits or comprise different excise goods.

In addition, there were frequent cases of products belonging to group 39 (plastics and their products) being turned away. Most of this group represented various polymers, specific cases of which were indicated as being sanctioned goods.



The third (25 cases) most frequently returned goods were vehicles and their parts (group 87). Among these, in 22 cases, Armenia is listed as the origin country of the cargo, with the destination being Russia. In the registration cards, only in one case the code indicates that the goods belonged to a sanctioned group. In other cases, the model of the vehicle, the type of vehicle, or the VIN code are specified. Among the returned vehicles, we find cars of different models and productions. For example, according to the VIN codes specified in the documentation, 5 cars can be identified, including the 2020 TOYOTA GR SUPRA, FORD MUSTANG, and others.





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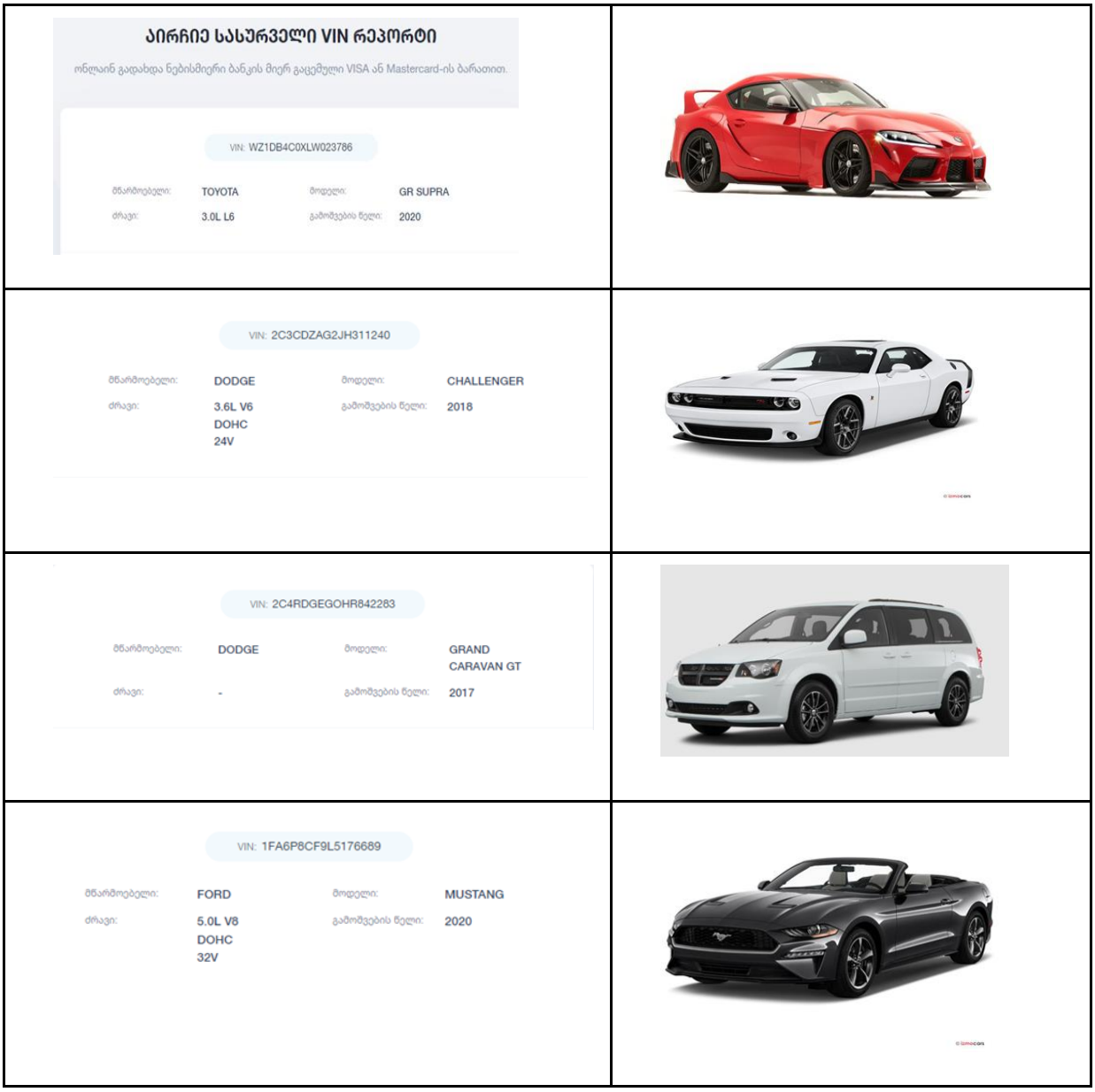

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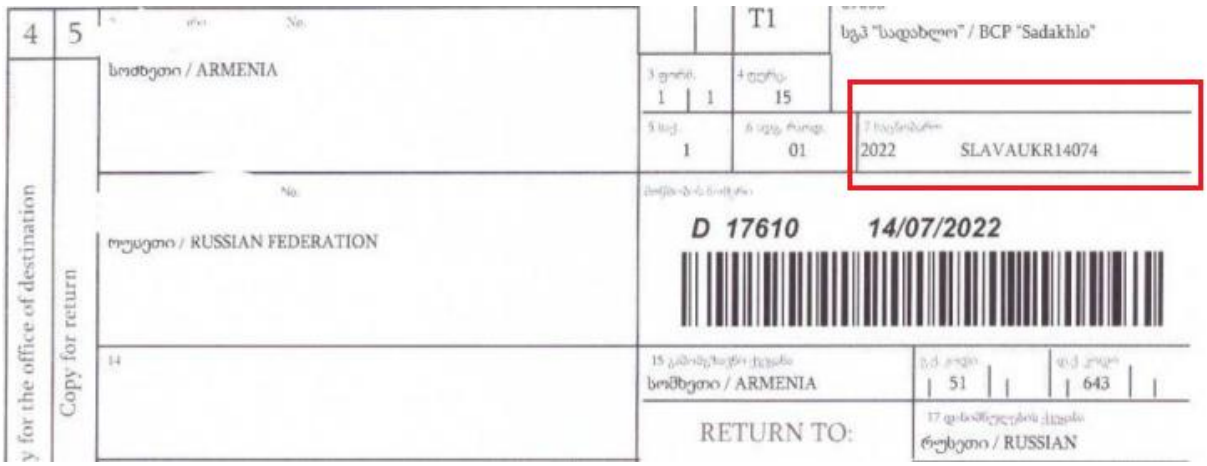
VIN: 2C4RDGEG0HR842283 მწარმოებელი: DODGE მოდელი: GRAND CARAVAN GT ძრავი: - გამოშვების წელი: 2017	
VIN: 1FA6P8CF9L5176689 მწარმოებელი: FORD მოდელი: MUSTANG ძრავი: 5.0L V8 DOHC 32V გამოშვების წელი: 2020	

VIN: 3GNAXKEVOLL255102 მწარმოებელი: CHEVROLET მოდელი: EQUINOX LT ძრავი: - გამოშვების წელი: 2020	
The VIN code identifies the model and year of manufacture of the vehicle that was turned away. The image is a photo illustration of the model.	

Unfortunately, the data reflected in the registration cards do not provide detailed information regarding the reasons for refusal to let the shipments of vehicles through. Specifically, IDFI does not know whether the reason for the return of the said vehicles was their ownership by a sanctioned person, the transportation of various dual-purpose cargo under said code, or something else. It should be noted that there are frequent cases when individual employees of the service make pro-Ukraine entries in the official registration cards of motor vehicles, which is probably related to the indication of pro-Ukraine action (including the identification of a sanctioned person/cargo).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Despite some hindrances in the transportation of vehicles to Russia, the data published by the National Statistics Service shows that during the first 9 months of 2022, the export of motor

vehicles to Russia increased significantly. Specifically, in the first 9 months of 2022, the export of automobiles to Russia increased by 268%. The indicators of the export of motor vehicles from Georgia to Armenia and Central Asian countries have also increased significantly. The increase in the export of automobiles from Georgia to the mentioned countries is related to the circumstances developed as a result of the Russia-Ukraine war. In particular, after the sanctions imposed on Russia, a number of car manufacturers stopped producing or exporting cars to Russia. As a result, the demand for second-hand cars increased significantly in Russia, which in turn was reflected in the growth rate of car exports from Georgia to Russia. According to the representatives of the field, the increase in exports from Georgia to Armenia and Central Asian countries is also related to the situation created in Russia. Specifically, according to one opinion, after the imposition of sanctions in Russia, Russia can no longer supply the mentioned countries with foreign-made cars, and Georgia has filled the gap to some extent. On the other hand, the mentioned countries supply the Russian car market with cars exported from Georgia to a certain extent. Accordingly, we can conclude that in those countries where a high growth rate of car exports has been observed in 2022, the reason for the growth was due to shortages in the Russian car market, which is compensated for to some extent by supplying cars from Georgia directly or through transit in another country.

ქვეყნები, სადაც იანვარ-სექტემბერში ყველაზე მეტი ავტომობილი გავიდა ექსპორტზე:

1. აზერბაიჯანი - $222 მლნ, 22,587 ავტომობილი, ზრდა წინა წელთან 17%
2. უკრაინა - $113 მლნ, 12,091 ავტომობილი, ზრდა წინა წელთან 69%
3. სომხეთი - $69 მლნ, 7,081 ავტომობილი, ზრდა წინა წელთან 1805%
4. ყაზახეთი - $47 მლნ, 4,980 ავტომობილი, ზრდა წინა წელთან 270%
5. რუსეთი - $46 მლნ, 3,233 ავტომობილი, ზრდა წინა წელთან 268%
6. ყირგიზეთი - $33 მლნ, 5,106 ავტომობილი, ზრდა წინა წელთან 230%
7. ბელგია - $22 მლნ, 450 ავტომობილი, ზრდა წინა წელთან 41%
8. არაბთა გაერთიანებული საამიროები - $9 მლნ, 125 ავტომობილი, ზრდა წინა წელთან 37%
9. ტაჯიკეთი - $9 მლნ, 1,470 ავტომობილი, ზრდა წინა წელთან 60%
10. ბელარუსი - $4 მლნ, 130 ავტომობილი, ზრდა წინა წელთან 5907%

The data presented above is fully based on the data processed from the copies of registration certificates provided by the Revenue Service. The mentioned documentation does not fully cover the information related to the movement of the sanctioned cargo. For example, according to the explanation provided by the Revenue Service, in case of a person's oral/written application regarding the intention to export or re-export sanctioned goods/products belonging to a sanctioned person, an appropriate explanation is issued and such goods are no longer exported/re-exported. As it turns out, oral appeals are not documented, while written appeals were received and the corresponding explanation was provided in 55 cases.

In addition, the information presented by the Revenue Service covers only cases of return of goods brought to the customs territory and does not include cases where the exporter of goods was not given the opportunity to carry out customs procedures. In this regard, the cases when ships under international sanctions (ship, ship owner, or cargo were on the list of sanctions) were not allowed to enter the ports of Georgia are particularly noteworthy. In response to the information spread in the media about the appearance of ships sailing under the Russian flag in the ports of Georgia, the Revenue Service explained that the Service, in coordination with the Maritime Transport Agency, was constantly checking both ships and shipowners in relation to international sanctions, and if the ship or the owner of the ship was on the list of sanctions – they were not allowed to enter Georgian harbors and carry out customs procedures.

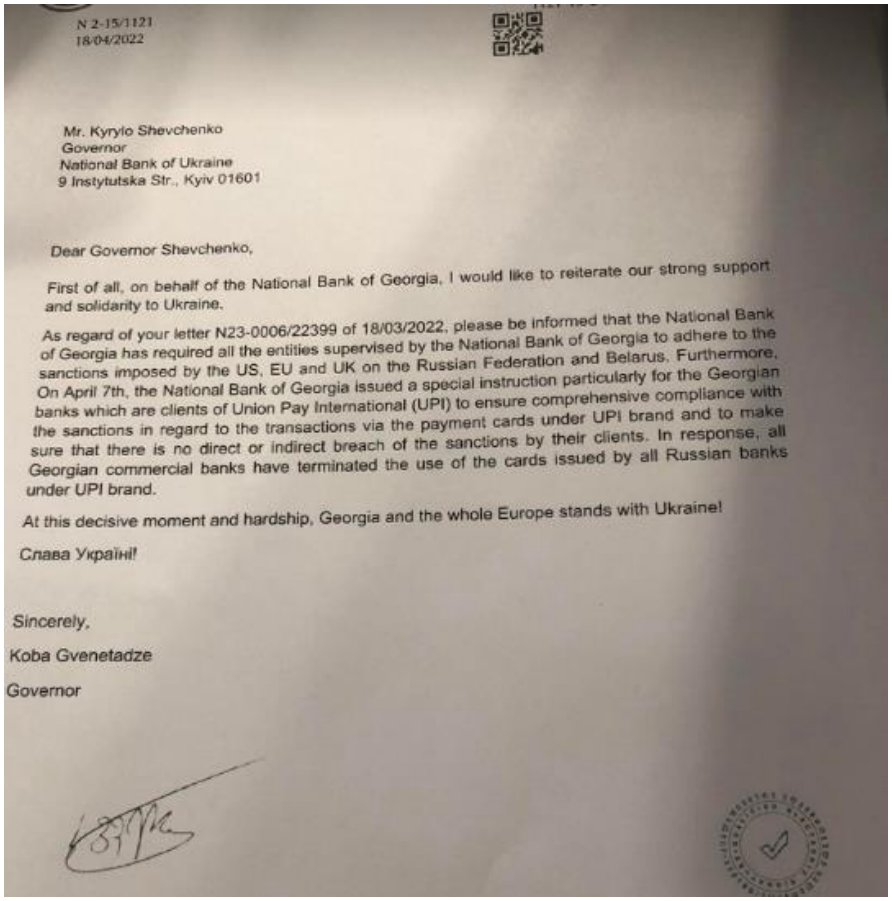
IDFI additionally addressed the Maritime Transport Agency with a request for information regarding the entry of ships under international sanctions into Georgian ports. Specifically, detailed information was requested from the Agency regarding the cases when **ships under sanctions (ship, ship owner, or cargo was on the list of sanctions) were not allowed to enter Georgian harbors and carry out customs procedures. Or ships that were allowed to enter ports, but later, in the process of carrying out customs procedures or after were found to be non-compliant with international sanctions**. Unfortunately, the Maritime Transport Agency has left IDFI's request unanswered. IDFI used the relevant legal mechanisms (an administrative complaint was sent to the Agency) in order to obtain the mentioned information. In response to the complaint, the Agency explained to IDFI that the organization could appeal to the Batumi City Court. Therefore the dispute continues in court.

In terms of enforcement of international sanctions, alongside the data related to customs control, it is also important to analyze information related to attempts to circumvent sanctions in the financial sector. On September 16, 2022, IDFI addressed the National Bank of Georgia with a request for copies of the legal acts adopted after February 25, 2022 in connection with the implementation of control of compliance of Georgian financial institutions with international financial sanctions, correspondence with international organizations and state agencies in connection with ensuring the protection of sanctions, inconsistencies identified in financial organizations, and the corresponding measures taken. In relation to these requests, according to the explanation presented by the National Bank, **information on non-compliance with the requirements of international sanctions identified in financial institutions represents confidential information**. The National Bank also considers **written instructions, according to which compliance control of financial institutions is carried out, to be confidential**. Exceptions are separate instructions regarding remittances, the confidential status of which was revoked by the decision of the National Bank Council. Among them:

- On June 29, 2022, commercial banks and microfinance organizations were instructed that, starting from July 4, transactions carried out through the fast money transfer system from the Russian Federation should not exceed 2,000 USD/EUR for each transfer.

- On June 27, 2022, commercial bank managers were instructed not to provide cash in foreign currency (US dollars, euros, pounds sterling) to foreign financial institutions and persons engaged in the transportation of cash, unless the money is transported to the US, UK, or Eurozone countries.

In addition, the National Bank of Georgia provided IDFI with copies of correspondence with various agencies regarding the aforementioned issue. Among them are correspondence related to the sanctions enforcement process with the Financial Monitoring Service of Ukraine, the National Bank of Ukraine, the Verkhovna Rada of Ukraine.



N 2-15/1121
18/04/2022

Mr. Kyrylo Shevchenko
Governor
National Bank of Ukraine
9 Instytutska Str., Kyiv 01601

Dear Governor Shevchenko,

First of all, on behalf of the National Bank of Georgia, I would like to reiterate our strong support and solidarity to Ukraine.

As regard of your letter N23-0006/22399 of 18/03/2022, please be informed that the National Bank of Georgia has required all the entities supervised by the National Bank of Georgia to adhere to the sanctions imposed by the US, EU and UK on the Russian Federation and Belarus. Furthermore, On April 7th, the National Bank of Georgia issued a special instruction particularly for the Georgian banks which are clients of Union Pay International (UPI) to ensure comprehensive compliance with the sanctions in regard to the transactions via the payment cards under UPI brand and to make sure that there is no direct or indirect breach of the sanctions by their clients. In response, all Georgian commercial banks have terminated the use of the cards issued by all Russian banks under UPI brand.

At this decisive moment and hardship, Georgia and the whole Europe stands with Ukraine!

Слава Україні!

Sincerely,

Koba Gvenetadze

Governor

The documentation also includes the communication with the members of the Parliament of Georgia, who for the most part were requesting from the National Bank of Georgia information about the measures taken by them to ensure compliance with the sanctions regime imposed on the Russian Federation. In particular, in the response letters sent by the National Bank of Georgia to the MPs in the April-September period, the following important information is reflected:

- The National Bank stopped transactions with and providing foreign currency to the sanctioned VTB Bank.
- The National Bank imposed restrictions on the operations of VTB Bank Georgia JSC, including, on March 24, suspending participation in the interbank settlement system (RTGS system);
- The National Bank of Georgia has developed additional reporting forms for commercial banks and tax service providers, according to which detailed information on clients/transactions related to Russia, Belarus, and other high-risk countries will be submitted to the National Bank.
- Georgian banks, clients of the Chinese company Union Pay Internationalis (UPI), have been given instructions on compliance with sanctions in relation to payment cards under the UPI brand.
- The National Bank of Georgia created a department for the oversight of the implementation of international sanctions.
- Commercial banks have been instructed to update their sanctions procedures document after February 2022 in line with international sanctions.

In response to one of the requests, the National Bank of Georgia has also presented a description of the on-site inspection process of representatives of the financial sector and the evaluation methodology in this regard. However, the National Bank also explains to each stakeholder that the information received from the financial institution and/or the results of the on-site inspection of this financial institution represent confidential information.

Conclusion

In light of Russia's invasion of Ukraine, one of the most prominent show of support towards Ukraine from the international community was the imposition and enforcement of strict sanctions against the Russian Federation. The government of Georgia initially refused to join the imposed sanctions on Russia on the grounds of perceived economic and political threats facing the country.

The political decision to abstain from participating in sanctions turned into an important moral and reputational obligation for Georgia not to become a means for Russia to evade international sanctions. In this regard, it is of particular importance that the Georgian authorities, in coordination with international partners, through a fully transparent process, ensure the prevention of any attempt to evade the sanctions on the customs territory of Georgia as well as the financial sector.

Unfortunately, the agencies in charge of enforcing the sanctions do not ensure the availability of relevant information, which would significantly increase the level of confidence of the international community in the process. For example, the Maritime Transport Agency does not publicly disclose the bare minimum statistical data related to their activities.

Furthermore, the presented analysis regarding the customs control of the sanctioned cargo is presented according to the documentation received from the Revenue Service, which was extensively limited by redacting significant portions of data. The analysis raises certain questions related to the effectiveness of customs control on sanctioned goods at the initial stage. For example, the first instance of the sanctioned shipment being rejected by customs control was two months after the start of the war.

Lastly, individual attempts to ship drones and other similar products through Georgia point to Russia's broader interest in using Georgian territory as a transit for such cargo, which increases corresponding risks. In particular, the shipment of similar products to Russia through Georgia will cause significant damage to Georgia's reputation. Therefore, IDFI believes that, at a minimal, the relevant agencies should ensure the proactive availability of detailed statistical information on the enforcement of international sanctions against Russia.

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