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RESULTS OF IMPLEMENTATION OF PUNISHMENT MECHANISMS FOR CIRCUMVENTING SANCTIONS AND IMPLICATIONS OF RUSSIAN ASSETS CONFISCATION FOR ECONOMIC PRESSURE ON THE RUSSIAN FEDERATION

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Recommendations of the Economic Security Council of Ukraine on the sanction regulations

During 2022, the Economic Security Council of Ukraine was working to find Russia's sanctions circumvention schemes, using information from open sources, OSINT mechanisms, and insider information from business community representatives. The results of this work were the identification of several mechanisms that ease the sanctions pressure on the Russian Federation, all the cases were handed over to the relevant bodies of Ukraine and allied countries. This work experience allowed analysts to formulate a number of recommendations for policymakers in 2022-2023, aimed at the most vulnerable points, which fail to fully implement the sanctions policy against the aggressor state.

1. Prevention of sanctions circumvention

Critically important is not only the strengthening of sanctions but also the control over their compliance. Russia openly declares the introduction of parallel imports and other actions aimed at supplying prohibited Western technologies, it also adopts the experience of circumventing sanctions from its ally – Iran. The effectiveness of sanctions is key to limiting the Russian Federation's ability to carry out aggressive policies in the world and on the European continent, therefore, control over their implementation is critically important. At the same time, the implementation of such control involves the partnership of government institutions, civil society, and responsible businesses. The experience of the Economic Security Council of Ukraine shows that only the synergy of all stakeholders can guarantee the effectiveness of sanctions. It is also necessary to build international coalitions (an example can be the recent meeting of high-ranking officials from 33 states, which was coordinated by the US Treasury Department and was aimed at increasing sanctions pressure on the defense industry of the Russian Federation). Such interaction allows for the synchronization of different sanctions regimes (USA, EU, Britain, etc.) and prevents sanctions legislation gaps.

2. Fighting proxy companies

For successful control, it is extremely important to focus on proxy companies and those who manage them. Such companies form a network that is responsible for circumventing sanctions against certain sectors of the economy. Focusing on specific individuals who form relationships and manage proxy schemes to circumvent sanctions is the best way to convey the message of unavoidable personal responsibility for such activities.

3. Control of dual-purpose goods

In the field of the military-industrial complex, special attention should be paid to control over the supply of dual-purpose goods that Russia uses for the defense industry. One of the most effective methods of control is placing responsibility for the use of dual-purpose goods in the defense industry on manufacturers.

4. Strengthening of energy sanctions

Energy continues to be one of the hot topics, as Russia will likely continue its energy blackmail of Europe and the world, trying to create a shortage of the resource and artificially raise its prices. Despite the formal consensus on the diversification of resource supply and the transition to alternative energy sources, real steps to deprive Russia of excess profits are met with increasing resistance every month. This is evidenced by the long-standing debate on the introduction of price restrictions on Russian oil and gas in the EU. Since the beginning of the war, the EU countries have paid Russia 122 billion euros, the continuation of such funding nullifies any attempts to stop the aggressive policy of the Russian Federation. A strong and united EU position on energy blackmail is the only way to overcome the energy crisis caused by Russia's actions. Any compromise decisions will be perceived solely as a sign of weakness and will contribute to the continuation of energy blackmail. In addition, weaker sanctions will be perceived by the Russian Federation as a signal to intensify aggressive actions (first of all, attacks on civilian infrastructure).

5. Extending sanctions to new sectors

It is also important to pay attention to certain sectors of the economy, which are not yet subject to sanctions, in particular nuclear energy. The Russian Federation openly ignores international law, as it is directly responsible for the occupation of the largest nuclear plant in Europe and regularly endangers the work of nuclear plants by shelling Ukraine's energy grid. During the massive shelling on February 24, Ukrainian nuclear plants were forced to go into emergency mode. In addition, the missile attack on November 23 led to a temporary blackout of all nuclear power plants. Despite such irresponsible behavior, the Russian corporation "Rosatom" continues unimpeded work on the preparation, construction, and operation of nuclear reactors on all continents.

6. Criminalization of sanctions violations

Compliance with sanctions will be facilitated by identifying their violation with a criminal offense. The first steps have already been taken. Recently, the EU Council unanimously decided to add sanctions violations to the list of EU crimes. The EU is also changing its approaches to secondary sanctions. The national legislation of most states must be amended accordingly. An important issue is also the legal responsibility of international companies that deliberately continue to cooperate with the Russian Federation and become complicit in its genocidal war.

7. Unification of approaches to lifting or easing sanctions

The Russian Federation is making maximum efforts to "bargain" for the easing of sanctions or to agree behind the scenes on the lifting of certain restrictions. Such non-public agreements not only contribute to the continuation of aggression but also destroy international solidarity in opposing the Russian Federation. It is necessary to link the lifting of sanctions with the cessation of aggression and the achievement of peace. We need not only political coordination between different states, but also the development of a legal justification for the impossibility of lifting sanctions before the aggressor state commits certain actions (withdrawal of troops, compensation for damage caused, etc.). Such a road map for the lifting of sanctions should be public and all states should adhere to it

8. Institutional reform

The effectiveness of the sanctions policy is an important challenge for both Ukraine and the international community. The scale of the sanctions imposed against Russia is unprecedented. The monitoring of this sanction regime requires extra effort and creates a demand for the emergence of new specialized institutions. Discussions are ongoing in the European Union about the possibility of creating a single body that would monitor compliance with sanctions. The appearance of the European version of OFAC would contribute to more effective control and better coordination of the sanctions policy. An equally important issue is the creation of the National Sanctions Bureau in Ukraine

9. Change in international legal approaches to sanctions

States must apply sanctions in cases of serious violations of the principles of international law. And although this is the legal obligation of states, some still consider the decision to (not) join the sanctions to be purely political. Therefore, Ukraine can initiate the development of a universal codification (international treaty) to standardize the criteria and grounds for the application of sanctions, including preventive ones. This document may become a part of future international security guarantees for Ukraine.

General political context and sanctions

The US and the EU have decisively responded to Russia's atrocious aggression against Ukraine by adopting an unprecedented number of sanctions against the Russian economy. Still, even though the international sanctions against Russia are working, they may simply not be enough. This is confirmed in the [Presidential Office of Ukraine](#) and the sanctions coordinator of the U.S. State Department, Ambassador James O'Brien.

In a conversation with the Ukrainian first Vice Prime Minister, Julia Sviridenko, James O'Brien [claimed](#) that even though sanctions are being applied slowly, they allow to stop Russia faster than it would stop itself. He emphasized that the purpose of restrictions is to ensure that the aggressor state does not invade Ukraine again.

Besides, NYT published a [material](#) “Five Ways Sanctions Are Hitting Russia” concerning the key areas where the existing sanction regime should be and are being enhanced:

Finance: The US Treasury is imposing sanctions against the largest Russian banks, meaning that these institutions will be cut off from operations with banks and companies around the world that want to avoid restrictions by the US government.

Trade: The European Union, the United Kingdom, and the United States have imposed restrictions on certain types of trade with Russia, including stopping the sale of luxury items in the aggressor country. The allies of Ukraine are also currently working together and elaborating plans to stop Russian purchases of semiconductors and other advanced technologies.

Technology: With sanctions and export controls, the US and its allies are trying to limit the sale of technologies to the Russian military and energy industry, as well as other strategic industries.

Energy: In May, the European Commission announced plans to stop all imports of Russian fossil fuels by 2027. The European embargo on Russian oil sea transportation and the sanctions on maritime transportation insurance should come into force in December.

Individuals: The Biden's administration imposed sanctions against hundreds of Russian government officials, leaders and oligarchs along with their families. Among them there are some of the highest leaders of the Russian government, including Vladimir Putin himself, Foreign Minister Sergei Lavrov and two senior Russian military leaders - Defense Minister Sergei Shoigu and Chief of the General Staff Valery Gerasimov.

The EU and the US understand that new kinds of restrictions should be introduced to achieve the maximum effect of sanctions, especially against those entities and persons who constantly try to circumvent existing restrictive measures. That is why in order to strengthen the effectiveness of the sanctions already imposed, the Minister of Finance of the United States, Janet Yellen, [stated](#) that Washington will impose new sanctions against the transnational network of individuals and legal

entities that have worked on procurement of military technologies for Russian military operations in Ukraine.

The actions of Ukrainian government are also aimed at the development of sanctions pressure. Specifically, a new package of restrictive measures [was prepared](#). It includes persons from the military leadership of the Russian Federation, enterprises of military-industrial complex and related companies and individuals.

Finally, it must be stated that on November 28, **the EU Council [unanimously decided](#)** to add violations of sanctions to the list of crimes of the EU. Previously the European Parliament has [adopted](#) a resolution recognizing Russia as a state that sponsors terrorism, and the next step should be a similar decision by the US State Department. Such a decision would strengthen the pressure on the Kremlin and would make any relations with Russia practically impossible.

On 30 November, Ursula von der Leyen, President of the European Commission, supported the idea of a special tribunal and made an [official statement](#), stipulating: “Russia must pay for its horrific crimes, including for its crime of aggression against a sovereign state. This is why, while continuing to support the International Criminal Court, we are proposing to set up a specialised court, backed by the United Nations, to investigate and prosecute Russia’s crime of aggression”.

There is one [thing in common](#) for Europe, the USA and Ukraine: after 9 months of full-scale invasion it is not enough simply to impose sanctions packages alone. In order to achieve maximum efficiency not only is harmonization of sanctions between Europe, USA and Ukraine important, but also considering the schemes Russia had been working out for all the previous 9 years of its illegal invasion.

Main trends in the implementation of the restriction mechanisms

Implementation of sanctions mechanisms is not enough. Thus, the mechanisms for the seizure and transfer of Russian assets to [Ukraine’s reconstruction](#) and investigation of war crimes committed in Ukraine should be introduced and implemented.

The European Commission is analyzing the **legal possibilities of the seizure of Russian state and private assets** to compensate for the restoration of Ukraine. The main goal is to identify ways to strengthen tracking, identification, freezing of assets as well as their management as preliminary steps for potential confiscation.

The [next potential aim](#) may be almost \$300 billions of **frozen assets** of the Russian Central Bank, as well as assets and incomes of individuals and entities included in the EU sanctions list. The European Union plans to withdraw the assets of those trying to evade sanctions against Russia. The assets withdrawn are to be used for the needs of Ukraine.

The most recent survey on the topic shows that the countries with the biggest amount of frozen assets under anti-Russian sanctions are Belgium (worth €3,5 billion), Luxembourg (almost €2,5 billion), Italy (2,3 billion), Germany (2,2 billion euros), Austria and Ireland (1,8 billion euros each), France (1,3 billion euros), and Spain (more than €1 billion), with only 3000 euros frozen in Hungary.

The decision to criminalize the violation of sanctions will allow assets to be confiscated every time an indictment is made and will be applied in cases where oligarchs transfer ownership of an asset to a family member or a complex legal entity. In addition to the sanctioning of assets, communication concerning the establishment of a mechanism for investigating war crimes committed in Ukraine is still underway.

Ministers of Justice of the G7 countries will focus on ways to [prosecute suspects](#) in **Russian war crimes**. Germany initiates the first meeting of the Ministers of Justice, the main topic of which will be the investigation of war crimes committed in Ukraine and bringing war criminals to justice. In its turn, the United States also continues to participate in international discussions and consider the possibility of implementing the Ukrainian initiative to establish a special international tribunal to punish Russia for the crime of aggression against Ukraine.

The Kremlin keeps causing the civilian population's energy terrorism before the winter, thus committing war crimes. That is why it is necessary to act now: to continue working on mechanisms to prosecute persons engaged in **terrorist acts against civilian population and infrastructure objects, so that they will not avoid responsibility for the committed acts**.

ESCU in media: key topics

In November the focus of the Economic Security Council's actions was the **GLONASS system which is of critical importance to Russia**.

Specifically, under the information available to the Economic Security Council of Ukraine, 13 companies that produce the chips supporting GLONASS system operate in such countries: USA - 7 companies: Linx Technologies (California), Broadcom (California), Qualcomm (California), Telit (California), Maxim Integrated (California), TRIMBLE (Colorado), Cavli Wireless (California); Switzerland: u-blox AG, STMicroelectronics; Belgium: Septentrio; United Kingdom: Antenova; Canada: Sierra Wireless, NovAtel.

According to the first deputy head of the National Anti-Corruption Committee of the Verkhovna Rada Yaroslav Yurchyshyn, Russia [directly employs](#) the mentioned system to coordinate its missiles and drones to the Ukrainian territory.

The solution to the problem is to **terminate the production of chips supporting GLONASS**, of which the main (if not the only) user is the Russian military machine.

More research of the Economic Security Council of Ukraine was aimed at the Russian banking field and the cooperation of the aggressor state's MIC with foreign companies.

In this regard, the ESCU [shared](#) its findings on the British company Compass Plus serving the **Russian MIR payment system** with the American MarketWatch. Compass Plus Technologies, headquartered in the UK, continues to cooperate with the Russian MIR payment system even despite the war of Russia against Ukraine. After the withdrawal of Visa and MasterCard the mentioned MIR system has been vital for the economy of the aggressor.

Compass Plus has Russian roots. In particular, the company is managed and owned by the Russians: Yuriy Kolyakin and Olga Dyomina. In total, Compass Plus has 184 employees registered at LinkedIn, 122 of which work in Russia (Magnitogorsk and Chelyabinsk). To cut a long story short, a Russian company with a head office in the UK continues servicing the Russian payment system.

Apart from that, to show the examples of the aggressor state buying materials for the military purposes, the Economic Security Council of Ukraine expert [shared](#) with the Euromaidan Press the information about the Russian enterprise Donobuv cooperating with Indian companies that produce military boots. He also explained why these enterprises should get under sanctions for selling shoes to Russia as well.

Further investigations and new topics

The Economic Security Council of Ukraine is currently investigating the **production of computer numerical control (CNC) machine tools** which are supplied to Russia. The companies **DMG MORI, Fair Friend Group and TRUMPF** are only several of the most influential manufacturers of the CNC machine tools essential for Russia's missile manufacturing, aircraft parts and naval ship components.

Being basically the critical equipment at Russian military plants, the CNC machine tools require frequent software updates by the mentioned manufacturing companies. Thus, the timely termination of the machine tools service, as well as their remote shutdown, will be able to stop production process for dozens of enterprises of the Russian military complex and undermine the release of new units of military equipment used in Ukraine.

The Economic Security Council of Ukraine (ESCU) is an institution established to develop expertise in identifying and counteracting internal and external threats to Ukraine's economic security.

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