



ECONOMIC
SECURITY COUNCIL
of UKRAINE

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EXECUTIVE SUMMARY

In 2022, the Russian Federation became the anti-leader of the sanctions rating both in terms of quantity and sectoral content of the restrictions imposed against it. 12 countries as well as all members of the European Union joined the sanctions regime against the aggressor state.

By 2027, experts predict a drop in Russian GDP by 15-17%. Moreover, Russia lost about 40% of its own GDP with the withdrawal of leading foreign companies from the domestic market.

During 2022, the Economic Security Council of Ukraine, with the support of its numerous partners, worked to find Russian sanctions circumvention schemes, using data from open sources, OSINT mechanisms and insider information from representatives of the business community. The results of this work were the exposure of several mechanisms for easing sanctions pressure on the Russian Federation, all cases being transferred to the relevant authorities of Ukraine and allied countries.

Such experience allowed our analysts to develop a set of recommendations for policymakers for 2023, aimed at the most vulnerable points of the sanctions regime, which prevent the full implementation of the sanctions policy against the aggressor state.

1. Strengthen the coordination among partners in the sectoral and legal dimension through the creation of special institutions. This can be achieved through the creation of special institutions at both the EU level and inter-partner levels. An equally important issue is the creation of the National Sanctions Bureau in Ukraine.

2. Agree on the regulatory framework for the introduction of sanctions at the international level. Existing legal loopholes allow Russia to obtain the necessary goods and technologies despite the sanctions. Thus, there is an urgent need to coordinate and harmonize the legal framework for sanctions introduction at the international level.

3. Develop a system for monitoring the implementation of sanctions and their compliance at the international level. Sanction pressure is

significantly weakened due to the absence of a mechanism for monitoring the introduction and compliance with sanctions.

4. Strengthen export control over dual-purpose goods. It is known for certain that Russia takes advantage of the loopholes in export control regime and purchases civilian analogues of military goods for the production of weapons.

5. Expand and improve the mechanism of secondary sanctions. An important issue is also the legal responsibility of international companies that knowingly continue to cooperate with the Russian Federation and become complicit in its criminal aggression.

6. Expand energy sanctions. Any compromise decisions will be perceived exclusively as a sign of weakness and will contribute to the continuation of energy blackmail.

7. Criminalize sanctions violations. The formation of a "scheme" for circumventing sanctions is impossible without intermediaries and executors inside the counterparty country, which, in the absence of punishment for such activities, turns them into the main beneficiaries of gray imports and other illegal mechanisms.

8. Unify approaches to the lifting or easing sanctions. Non-public agreements not only contribute to the continuation of aggression, but also destroy international solidarity in opposing the Russian Federation.

9. Change international legal approaches to sanctions. States must apply sanctions in cases of serious violations of the principles of international law.

ANALYSIS OF SANCTIONS AND INTERNATIONAL RESTRICTIONS INTRODUCED AGAINST RUSSIA SINCE FEBRUARY 24, 2022

Since the beginning of the full-scale Russian invasion on February 24, 2022, sanctions against the Russian Federation, as well as legal entities and individuals under its jurisdiction, have been imposed by the United States, the EU, Australia, Canada, Iceland, Japan, New Zealand, Norway, Singapore, South Korea, Switzerland, Taiwan, and The United Kingdom.

While the scale of support and restrictions imposed is unprecedented, the fact that it is not "global" is clear - most Latin American, African, and Asian countries refrain from joining the restrictions and freezing ties with Moscow, actively participating in bypass schemes and mechanisms.

Nevertheless, Russia is currently the anti-leader of the sanctions rating both in terms of the quantitative and sectoral content of the restrictions imposed against it:

- The international community introduced sanctions against 8,487 individuals and 1,615 legal entities under the jurisdiction of the Russian Federation¹;
- Sanctions were introduced against President Putin, Foreign Minister Sergei Lavrov, Prime Minister Mikhail Mishustin and Defense Minister Shoigu, Deputy Chairman of the Security Council Dmitry Medvedev, Special Representative of the President Sergey Ivanov, Chairman of the Ministry of Internal Affairs Volodymyr Kolokoltsev, State Duma deputies and Belarusian officials. The restrictions provide for the freezing of foreign assets belonging to the relevant persons. Thousands of other individuals are also under sanctions;
- Among the enterprises under restrictions are Uralvagonzavod, Kalashnikov concern, Almaz-Antey, aircraft and shipbuilding corporations, including MiG, Russian Helicopters, Sukhoi, Tupolev, United Shipbuilding Corporation, companies of the space sector, including the Progress Rocket Space Centre, etc.

- Reserves of the Central Bank of the Russian Federation, which are in the banks of the G7 countries, have been frozen (about half of the reserves of the Central Bank), and the international community is discussing mechanisms for the transfer of these assets for the reconstruction of Ukraine;
- On February 27, the EU announced a broadcast ban on Russia Today and Sputnik as well as their affiliates on its territory, the closure of EU skies to aircraft linked to Russia, an asset freeze on high-ranking officials, members of the Russian elite, as well as their family members and aides, and restrictions on the issuance of "golden passports" to them.
- Ban on the sale of aircraft, spare parts, and equipment to Russian airlines; the supply of aircraft from the European Union will last only until March 28, 2022, under contracts concluded before February 26. Their insurance and maintenance are also prohibited;
- Sale, supply, transfer, or export to Russia of goods and technologies intended for use in the aviation or space industry is prohibited;
- A complete ban on the leasing of airplanes, helicopters and other aircraft in the Russian Federation, as well as their insurance and maintenance;
- Prohibition of the supply of goods and technologies for dual purposes, the introduction of restrictions on the export of high-tech goods and technologies for the production of the latter;
- Ban on the supply of goods, equipment and technologies for oil refining;
- Ban on the import of Russian coal;
- Ban on the purchase, import or transfer of crude oil and certain petroleum products from Russia. Phase-out of Russian oil over six months for crude oil and up to 8 months for other refined products. A temporary exception is provided for the import of crude oil by pipeline to those EU member states "which, due to their geographical location, suffer from a special dependence on supplies from Russia";
- Disconnection from SWIFT of more than a dozen Russian banks and termination of broadcasting in the EU of many Russian TV channels;

- Ban on the purchase, import, or transfer, directly or indirectly, of Russian gold, with the prohibition also applying to jewellery;
- Import restrictions in the amount of almost 7 billion euros - include a ban on the import into Russia of finished products and semi-finished products made of steel, machinery and equipment, plastics, vehicles, textiles, shoes, leather, ceramics, some chemical products and non-gold jewellery;
- The eighth package of sanctions introduces into EU legislation the basis for establishing price restrictions related to the sea transportation of Russian oil to third countries and further restrictions on the transportation of crude oil and oil products by sea to third countries. Price capping means that it is possible to provide transport and other services if oil or oil products are purchased at or below a pre-set price limit.
- Other sanctions.

There is yet to be a consolidated figure for potential Russian losses from sanctions, as the situation is highly complex and comprehensive. The average estimate of numerous analysts regarding Moscow's total losses from sanctions is a drop in GDP by 10-15%, but with variations that depend on several factors.

According to many experts, the most likely version was compiled by the International Monetary Fund. According to its forecasts, this year, the drop in the revenues of the entire Russian budget system in real terms is estimated at 11%, and for the period until 2027, that is, for the next five years — 15-17%. So, the incomes will fall, will not return to the previous level, and will remain significantly below the level until February 24. According to GDP per capita, at purchasing power parity, the level of income in the Russian economy will roll back for a decade, until 2010-2011. The unemployment rate in the country will double to 8-9% of the working population. Inflation will accelerate three times (from 8% in 2021 to 24% in 2022 and 12% in 2023). The state budget deficit of the occupying country in the next three years will remain at 5% of GDP, while in the previous five years, the budget was mostly in surplus². The World Bank also makes a similar forecast.

The Bank of Finland Institute for Emerging Economies (BOFIT, an institute specialising in the analysis of the Russian economy) states that the

loss of imports can reduce the gross foreign product (GDP) of Russia by 4-18%, exports - depending on the scenario by 1% to 25%. Sanctions currently being introduced against Russia are able to reduce the gross added value in the Russian economy by almost 4% (the first scenario). Under the development of the second scenario, the drop in total added value may reach 10%. In some industries, it is even higher: in the textile industry — more than 20%, in the production of rubber and plastics, and in the chemical industry — from 20 to 30%. Under the third scenario (complete cessation of imports), Russia's GDP will fall by 18%³.

Turning to Russian analysts, we see that their forecasts are truly cautious. For example, experts from the HSE Centre of Development Institute calculated that if anti-Russian sanctions remain in effect until 2030, the country's GDP growth rate will decrease by 1-1.5% yearly. RBC writes about this with reference to the Institute's director, Natalia Akindinova⁴. Economists believe that personal incomes will not keep up with the dynamics of GDP, as the total costs of the economy will increase, crowding out labour costs. Regarding the prospects of opening households and markets for export and import, experts give different estimates, but everything boils down to the fact that by the end of the decade, the share of Russian exports in GDP will decrease by 5-7%. It follows from the data of the World Bank that in recent years this indicator fluctuated within the range of no more than 25-30%.

The Russian authorities, of course, do not recognise the destructive effect of sanctions. Thus, the former Head of the Accounting Chamber, Alexei Kudrin, says that the Russian economy will be rebuilt in one and a half to two years: during this time, the GDP will decrease, and then it will start to grow. According to him, the scale of the changes is only becoming apparent when the sanctions come into force. Earlier, he claimed that additional budget expenditures for economic stabilisation this year may amount to more than 4 trillion rubles⁵.

Analysts of the Russian Central Bank also presented their variant of the development of events. The Bank of Russia's July forecast predicts a 7.5% decline in the economy in 2022, zero growth next year, and a 1.8% increase in GDP in 2024 and 2025. They expected average GDP growth rates in 2026-2030. Experts interviewed by the Central Bank estimated it at only 1.5% per year. Before the sanctions introduction, analysts expected economic growth in 2022 by 2.4% and in the next two years by 2.1% and 2%⁶.

After all, Russian "liberals" expect the worst. Professor Nataliya Zubarevich believes that the sanctions catastrophe is only gaining momentum.

According to her estimates:

- as soon as companies run out of equipment and raw materials, the effect of sanctions will immediately worsen;
- the main victims of sanctions are industrial centres with a high percentage of people employed in the manufacturing industry;
- petrochemical, coal, machine-building, pulp and paper industries are the most vulnerable to sanctions, although their effect will be noticeable almost everywhere;
- the degradation of industries and the emergence of deficits will gradually increase⁷.

However, the exit of foreign companies from the Russian market is a different problem. Many companies do not leave Russia completely, limiting themselves only to the refusal of new projects and investments or the termination of sales but continuing customer technical support. After all, some companies keep operating despite a formal statement of withdrawal.

Still, according to Yale University estimates, Russia has lost companies worth about 40% of its GDP as a result of foreign business exits, having returned almost all foreign investment in three decades and exacerbated an unprecedented simultaneous flight of capital and population due to the mass outflow of Russia's economic base⁸.

At the same time, it should be understood that some foreign companies in Russia do not operate directly as foreign legal entities but through Russian shell companies with local registration. Such a simple trick, proudly announced as the opening of a representative office or the localisation of production, actually creates an intermediary that protects the parent company from sanctions for cooperation with the Russian regime because the sanctions are not extraterritorial in nature.

ECONOMIC SECURITY COUNCIL OF UKRAINE 2022 ACTIVITIES RESULT REVIEW

Since the beginning of the full-scale invasion, the Economic Security Council of Ukraine has consistently worked to boycott the activities of Western companies that continue to operate on the Russian market and cooperate with enterprises critical to the Russian economy.

Thus, the Swedish manufacturer of bearings SKF and the software developer SAP came into the field of view of the Economic Security Council of Ukraine. As a result of the ECSU activities both companies left the Russian market⁹.

In May 2022, the ECSU, in cooperation with Economic Pravda, conducted a joint investigation. Consequently, it was found out that Kalashnikov (part of the Rostec corporation) supplies weapons for sale to stores in the United States through an intermediary company¹⁰. The ECSU also identified that the Russian company Rybinskabel, which manufactures parts used in the Soyuz and Proton rocket launchers, the Progress spaceship, T-90 tanks, and Russian air defence radar systems, was not noticed by competent international sanctioning bodies and called for appropriate sanctions to be introduced.

In June, the Economic Security Council of Ukraine became a participant in the investigation by the information agency InformNapalm, which was dedicated the supplies of high-precision dual-purpose machines to Russian military-industrial complex enterprises through the Swiss-registered shell company Galika AG¹¹. Subsequently, this information became an essential news item in the Swiss mass media¹².

During this period, the ESCU team also actively worked to combat the presence in the Russian market of Cisco, the American multinational technology conglomerate, the French provider of banking encryption and cryptography services Thales e-Security and the giant global manufacturer of metal defence equipment, the Italian company Danieli.

A great success was the complete withdrawal from the Russian market of the American company IBM and the Swedish company Tetra Pak, which was due to the public pressure by the ESCU.

In July 2022, the ECSU revealed another front scheme initiated by the Kalashnikov Concern to trade arms in 44 countries worldwide through the front company Alfa Precision and proved its relationship with the international seller of air rifles, EDGun. The joint work resulted in the publication of Economic Pravda¹³. In parallel, the ECSU launched a campaign to fight for the exit of the British packaging and paper company Mondi Group from the Russian market¹⁴.

In August, the several months of work on the Belgian company OpenWay succeeded. OpenWay Group develops the Way4 platform for digital banking and management of all kinds of payment services and tools, on which the Russian banking system is actually held, since the largest banks of the Russian Federation, including sanctioned ones, are among its users. As a result of successful media lobbying, a large study was published in the Brussels Times¹⁵ and Economic Pravda¹⁶.

ECSU also launched a campaign to investigate the work of German manufacturers of metalworking equipment working with the Russian military-industrial complex, among them Walter AG, Schunk, and Kemmler¹⁷. The campaign is still underway¹⁸.

In September 2022, one of the key priorities was to investigate Russia's dependence on the import of western microchips, which are required to produce various weapons. ATMEL (Microchip Technology Inc.), Micron Technology, Pulse, Maxim Integrated Philippines, Intel, Xilinx Inc (AMD), Marvell Technology, Texas Instruments, and NXP Semiconductors are among the companies that have come into the field of view of ECSU activities¹⁹.

In October 2022, the Economic Security Council continued the campaign to fight for the exit of the Italian company Danieli from the Russian market. Danieli provides services to the Viksun Metallurgical Plant, which produces pipes for Nord Stream II, and the Kamensk-Ural Metallurgical Plant, which makes unique parts for Russian aircraft and is owned by sanctioned Russian tycoon Viktor Vekselberg. Danieli cooperates with another sanctioned Russian - the owner of Severstal Oleg Mordashov²⁰.

Work on the American Cisco also continued, since it became known that in August of this year, Russia received about 500 batches of Cisco equipment.

It was delivered to Russia through China, Vietnam, Switzerland, Mexico, Malaysia, Australia, Thailand, the Netherlands and the USA. The issue was covered in detail in a publication prepared by the American magazine MarketWatch²¹.

An outstanding achievement for the ESCU team was the introduction by the Ukrainian government of sanctions against the target Russian oligarchs, companies, and collaborators. From now on, among the sanctioned companies is the Russian enterprise European Bearing Corporation. It manufactures all groups of bearings, including cassette and aviation ones. EPK Group products are actively used in producing Russian locomotives, aircraft and missile systems, and other military equipment, which Russia uses in the war against Ukraine. In particular, self-propelled howitzers Akatsiya from JSC Uraltransmash and Tu-95MSM missile carriers of the Taganrog Beriyev Aviation Scientific-Technical Complex operate on the bearings manufactured by the EPK Group.

In November, the ESCU began working on a major campaign to stop the production by foreign companies of modules with the support of the Russian GLONASS navigation system, which has numerous military purposes and has been used during missile strikes on the territory of Ukraine²².

In December, the ESCU team continued its campaign to stop the provision of banking services to Russian clients by foreign companies, including Compass Plus Technologies. According to the ESCU, Compass Plus Technologies, headquartered in the UK, is engaged in the maintenance of the Russian payment system Mir. In particular, last year, the National System of Payment Cards (NSPC), the operator of the Russian Mir system, announced the integration of its transport processing platform with TranzWare technology from Compass Plus. The project was developed to meet the needs of Mir payment card users. The article about the specified problem was published by MarketWatch²³. Work on the Italian company Danieli also continues²⁴.

A significant achievement was the publication of a study on the production of the Russian Orlan-10 UAV prepared in cooperation between the Royal United Services Institute (RUSI), Altana Technologies and the Economic Security Council of Ukraine. The study exposed the entire supply chain of Russia's most successful UAV to show how dependent the Russian military is on Western technology.

To achieve this goal, RUSI has identified a number of individuals, companies and jurisdictions involved in the development and production of components for Orlan-10. The investigation succeeded, including with the help of the Council of Economic Security of Ukraine. The ESCU received valuable acknowledgements in the text of the paper²⁵.

In 2023, the Economic Security Council of Ukraine plans to continue work on expelling foreign companies from sectors of the economy critical for Russia. The team's current key projects include a research on Russia's dependence on importing numerical software machine tools and companies that provide such products as well their maintenance despite the aggression and international sanctions.

RECOMMENDATIONS

In 2022, the Economic Security Council of Ukraine worked to find Russian sanctions circumvention schemes using open-source information, OSINT mechanisms and insider information from business community representatives. The results of this work were the exposure of a number of mechanisms for easing sanctions pressure on the Russian Federation; all cases were transferred to the relevant authorities 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 that prevent the full implementation of the sanctions policy against the aggressor state.

1. Strengthen the coordination of partners in the sectoral and legal dimension by creating special institutions. The lists of individuals and legal entities and the degree and nature of restrictions applied to them are significantly different. Yes, specific factories of the Russian military-industrial complex or related individuals are under US sanctions, but they do not fall into the EU or the United Kingdom's field of view. In turn, this leads to the continuation of the activities of industrial complex enterprises and the maintenance of import, albeit significantly complicated, of critical components, in connection with which there is an urgent need for coordination of partners in the sectoral and legal dimensions. This can be achieved through the creation of particular institutions at the EU level and at the inter-partner level. An equally important issue is the creation of the National Sanctions Bureau in Ukraine.

2. Agree on the regulatory and legal framework for introducing sanctions at the international level. Ukraine's international partners have distinct legislative norms regarding the grounds, the procedure for implementation, and entities subject to sanctions restrictions. In this respect, while in the USA the status of a state sponsor of terrorism entails significant legal consequences (restrictions on foreign aid, the possibility of personal lawsuits, the strictest regime of export control, secondary sanctions), in the European Union this instrument is legally null and void²⁶. Japan, Australia, the USA and the EU have different protocols regarding the qualification of goods as having dual purpose, and the situation within the EU itself is no less complicated, where the national legislation of the

member states has striking differences. Existing legal loopholes allow Russia to obtain the necessary goods and technologies despite the sanctions. Thus, there is an urgent need to coordinate and harmonise the legal framework for sanctions at the international level.

3. Develop a system for monitoring the implementation of sanctions and their compliance at the international level. Russia is the anti-leader in the sanctions rating – currently, the international community has imposed sanctions against 8,487 individuals and 1,615 legal entities under the jurisdiction of the Russian Federation²⁷. However, the sanctions pressure is significantly weakened due to the lack of a mechanism for monitoring the introduction and compliance with sanctions - the vast majority of foreign partners do not have a legal and institutional framework for tracking and, accordingly, identifying and punishing sanctions violations by their citizens and citizens of third countries. In such conditions, the accumulation of sanctions restrictions has low efficiency, which creates the need to develop a system for monitoring the implementation of sanctions and their implementation - discussions regarding such a mechanism are already underway at the EU level²⁸.

4. Strengthen export control over dual-purpose goods. opportunities for bypassing sanctioned Russian legal entities. Differences in the export control regime between the US (where it is the strictest up to the presumption of refusal for supplies to countries sponsoring terrorism) and the EU and its members are the main "window of opportunity" for the supply of critical goods. Currently, it is known that Russia takes advantage of these loopholes and purchases civilian analogues of military goods to produce weapons²⁹, which determines the relevance of this recommendation.

5. Expand and improve the mechanism of secondary sanctions. Until recently, the EU publicly considered secondary sanctions contrary to international law and refused to introduce restrictions against individuals and legal entities from third countries that facilitate the avoidance of sanctions by counterparties. The EU is also currently changing its approaches to secondary sanctions. It is necessary that the national legislation of most states be amended accordingly. An important issue is the legal responsibility of international companies that deliberately continue to cooperate with the Russian Federation and become complicit in its criminal aggression.

6. Expand energy sanctions. Despite the formal consensus on the diversification of resource supply and the transition to alternative energy sources, tangible steps to deprive Russia of excess profits are met with increasing resistance every month. This is evidenced by the long debate on introducing 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 exclusively as a sign of weakness and contribute to the continuation of energy blackmail. In addition, not too powerful the Russian Federation will perceive new sanctions as a signal that aggressive actions can be intensified (first of all, attacks on civilian infrastructure).

Equally important is to begin work on the implementation of sanctions against the nuclear energy sector. The Russian Federation openly uses its capabilities in the construction and maintenance of reactors for the dependence of the countries where the projects are implemented. At the same time, representatives of Rosatom openly violate international agreements and rules, exposing the continent to the risk of accidents at Ukrainian nuclear plants.

7. Introduce sanctions against intermediary companies. For successful control, it is imperative to focus attention on proxy companies and the persons who manage and manage these companies. It is such companies that 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.

8. Introduce sanctions against new sectors, individuals, and military-industrial complex enterprises. Despite the unprecedented scale of the currently introduced restrictions, thousands of Russian enterprises that work for the Russian military industry, including subsidiaries of Rostec, have still not been subject to international sanctions. The same is true of members of the Russian government and oligarchy who continue using assets abroad and unimpeded activities to undermine

Ukraine's national security. The issue of extending sanctions to new sectors of the Russian economy remains relevant – for example, extraction and sale of precious stones, export of all types of metal products, etc.

9. Criminalise sanctions violations. One of the key shortcomings of the sanctions regime is the lack of clear legal consequences for citizens of the country that imposes the restrictions. The formation of a "scheme" to bypass sanctions is impossible without intermediaries and executors inside the counterparty country, which, in the absence of punishment for such activity, turns them into the main beneficiaries of gray imports and other mechanisms. The first steps to change this situation have already been taken. Recently, the EU Council unanimously decided to add sanctions violations to the list of EU crimes. And the European Commission proposed to introduce a rather severe punishment - five years in prison³⁰.

10. Unify approaches to lifting or easing sanctions. The Russian Federation is making maximum efforts to "bargain" to ease sanctions or to agree behind the scenes on lifting certain restrictions. Such non-public agreements contribute to the continuation of aggression and destroy international solidarity in opposing the Russian Federation. It is necessary to link the lifting of sanctions with the cessation of aggression and achieving peace. We need political coordination between different states and the development of a legal justification for the impossibility of lifting sanctions before the aggressor state commits specific actions (withdrawal of troops, compensation for damage caused, etc.). Such a road map for lifting sanctions should be public, and all states should adhere to it.

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

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The ESCU would like to express special thanks to the TRUMAN team, who have supported us since the very beginning. Collectively, we managed to establish a solid coalition of political, public and civil figures from Ukraine and abroad, ready to oppose the aggressor state on the economic and business fronts. Together, we were able to prepare this digest and achieve all the results set out in it, namely, to effectively prevent Western companies and technologies from participating in Russian economic activity. member states has striking differences. Existing legal loopholes allow Russia to obtain the necessary goods and technologies despite the sanctions. Thus, there is an urgent need to coordinate and harmonise the legal framework for sanctions at the international level.

МАТЕРІАЛИ ТА ПОСИЛАННЯ

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