



DIGEST

January - June, 2023

The Economic Security Council of Ukraine (ESCU)

is an institution established in 2021 to identify and counter internal and external threats. Today, the work of the ESCU protects economic security and resilience against Russian aggression not only in Ukraine, but our experience can and should be used internationally. The semi-annual report on the work of the ESCU is devoted to the conclusions of our institution, which will be useful for both policy makers and experts.

In the first half of 2023, the ESCU continued to work on finding companies that use creative and new mechanisms to circumvent economic sanctions.

We have succeeded in getting some companies on the new sanctions lists, and in this document we also share recommendations on how to strengthen the work on compliance with the sanctions regime at the level of international partners.

We are working on developing mechanisms for confiscation of Russian assets, and you will find new proposals in this area in this report.

We are also actively working on recommendations on the rules of investor protection in Ukraine, as it is private investment that can stimulate Ukraine's economic growth and thus contribute to the security of the entire European continent.

The ESCU actively cooperates with Ukrainian and foreign government agencies responsible for sanctions policy and national security in general, and has established partnerships with leading international think tanks.



I. SANCTIONS EVASION

Since February 24, 2022, a team of the ESCU analysts has been investigating sanctions circumvention schemes, developing recommendations to prevent violations of economic restrictions and advising government authorities. Our priority is to expose companies that supply Western technologies to the Russian military-industrial complex. The ESCU has gained unique experience and developed its own OSINT methodology. Results for the first half of 2023:

RESULTS

2

companies listed
in the 11th EU sanctions package

7

companies added
to the US sanctions list

60+

companies
are sanctioned by Ukraine

Details of the major investigations in the Annex

However, Russia is finding ways to circumvent the sanctions. In particular, by setting up intermediary companies in other countries' jurisdictions, which increases the supply chain to 20-30 entities. Tracking such schemes takes longer and is less effective than preventing them from occurring. Therefore, in addition to imposing new sanctions, it is necessary to improve the sanctions regime.

RECOMMENDATIONS

Improve the mechanism of secondary sanctions

Focusing on specific individuals who manage proxy schemes to circumvent sanctions will help convey the message of inevitable personal responsibility for such activities.

Unify the process of imposing sanctions

The sanctions imposed by Ukraine and our international partners are not identical: one company may be subject to different restrictions in different countries. Russia uses loopholes created by non-synchronized actions to circumvent sanctions.

Develop a monitoring and control system

There is no unified legal and institutional framework for tracking, and thus detecting and punishing, sanctions violations.

Impose criminalization of sanctions violations

Although sanctions violations have been recognized as a crime at the EU level, the necessary solutions have not yet been fully implemented in the national legislation of the member states and Ukraine.

The details of the ESCU were published in an [expert report](#) by the Stockholm Center for East European Studies (SCEEUS)



II. CONFISCATION OF RUSSIAN ASSETS

An important component of the aggressor state's responsibility is to restore economic justice and compensate for the damage caused. However, there is a lack of legal and institutional instruments at the international level to transfer Russian assets to Ukraine. Although sovereign Russian assets located abroad have been frozen, there is no universal legal mechanism that would allow for their rapid confiscation and use to compensate victims of the aggression or to rebuild Ukraine.

Russian private assets can be confiscated, and some successful cases have already been implemented. However, these processes are bureaucratic and time-consuming. Also, most states lack a legal basis for making appropriate decisions.

Therefore, the ESCU proposes to establish an international economic tribunal whose main tasks will be:

- hearing cases concerning Russian assets;
- creating legal grounds for asset confiscation, as well as ensuring the principle of individual responsibility;
- payment of compensation to specific victims, which in the long run will help restore justice.

III. PROTECTION OF INVESTORS' RIGHTS

Rapid and effective post-war reconstruction of Ukraine will require a significant amount of foreign aid and investment. At the same time, all investors have a demand for an independent court to protect their rights. The need to guarantee the rule of law was repeatedly emphasized by Ukraine's international partners during the June Ukraine Recovery Conference in London.

That is why the ESCU, together with renowned British lawyer Jason McCue and Pittsburgh School of Law professor Charles Kotuby (Payback4Ukraine initiative), is working on the concept of the Kyiv Commercial Reconstruction Court.

This court will have jurisdiction over property disputes involving foreign investors who will invest in the post-war reconstruction of our country. Its main advantage is that cases will be heard by foreign judges (traveling judges) with an impeccable reputation and extensive experience in commercial disputes in other countries based on English law. After its successful launch, this institution should be gradually integrated into the Ukrainian judicial system and serve as a model for launching a comprehensive judicial reform in Ukraine.

IV. ANALYSIS OF THE DIMENSIONS OF RUSSIAN AGGRESSION



The ESCU, together with the State Service for Special Communications and Information Protection, with the assistance of the Strategic Communications Department of the Office of the Commander-in-Chief of the Armed Forces of Ukraine and company TRUMAN, conducted a study of the relationship between the various dimensions of Russian aggression.

It has been proven that different types of Russian attacks are consistent with each other. In particular, the ESCU analysts have identified systemic correlations between Russian cyberattacks and missile attacks. For example, a cyberattack on the satellite Internet service began on February 24, 2022, between 05:00 and 09:00, at the exact moment when Russian troops began actively shelling Ukrainian cities and entering our country. Russia followed this rule on March 1, 2022, when the Russian military fired missiles at a TV tower in Kyiv, and at the same time Russian hackers launched malware against Ukrainian TV companies. But this was most clearly manifested in the fall and winter of 2022, when, after a series of cyberattacks on the energy sector, Russia launched several waves of missile attacks on energy infrastructure and simultaneously launched a propaganda campaign to shift responsibility for the consequences to Ukrainian government agencies, local governments, or large Ukrainian businesses.

Non-conventional aggression (primarily Russia's cyberattacks) has no geographical limitations. This means that Western companies that continue to supply Russia with the latest technologies are not only contributing to the continuation of the war against Ukraine. They are also undermining the security of their own countries. Therefore, based on the study, the ESCU recommended that the relevant authorities in Ukraine and abroad:

- adapt military doctrines to modern challenges;
- change legal approaches to the definition of aggression by expanding the relevant legal interpretations;
- to restrict authoritarian regimes' access to modern technologies by strengthening sanctions;
- determine that certain cyberattacks can be qualified as war crimes.

THE ESCU IS GRATEFUL FOR THE TRUST AND COOPERATION



Strategic Communications Directorate of the Commander-in-Chief of the Armed Forces of Ukraine



National Security and Defense Council of Ukraine



State Service for Special Communications and Information Protection of Ukraine



National Agency on Corruption Prevention of Ukraine



Ministry of Foreign Affairs of Ukraine



Royal United Services Institute for Defence and Security Studies



Stockholm Center for East European Studies



Company TRUMAN




Payback 4Ukraine


Interagency working group on the implementation of the state sanctions policy



ANNEX

Using information from open sources, OSINT mechanisms, and insider information from representatives of business communities, the team of the ESCU analysts found evidence of cooperation between a number of foreign companies and enterprises critical to the Russian economy and military-industrial complex:

 **DANIELI** (Danieli) is an Italian giant in the metalworking machine tool market that has been cooperating with sanctioned Russian companies for a year since the start of full-scale Russian aggression. Following [media coverage](#), the company announced its withdrawal from the Russian market and plans to sell all its Russian [assets](#).

 (Haas Automation) is a leading American manufacturer of high-precision CNC machines. Despite the sanctions imposed in 2014, the [company continued](#) to supply products to Russian military plants through its official distributor, the Russian group of companies Abamet. The information was passed on to the U.S. Departments of Commerce and Treasury, which oversee compliance with the sanctions.

 • **ComNav Technology** a Chinese manufacturer of microchips to support the Russian navigation system GLONASS. Following publicity at both the [national](#), and [international](#) levels, this company was added to the NACP's list of international sponsors of war.

The following companies have been added to the international and Ukrainian sanctions lists as a result of the ESCU's investigations:

- subsidiaries of [OpenWay \(Belgium\)](#) and [Compass Plus \(UK\)](#) in the Russian Federation, which are providers of digital solutions for the largest banking institutions in Russia;
- [Special Technology Center LLC](#) is the monopoly manufacturer of Orlan UAVs, as well as the front company [SMT Ailogik LLC](#) and their main foreign suppliers;
- [Testkomplekt LLC](#), [Abamet Management Company JSC](#), [Radiopriborsnab JSC](#), and more than 60 other companies that participate in procurement schemes used by the Russian Federation to import critical technologies, equipment, and components, including microelectronics and high-precision machine tools.