



DIGEST

July-September 2023

The Economic Security Council of Ukraine (ESCU) is an institution established in 2021 with the aim of identifying and countering internal and external threats.

Since the onset of Russia's full-scale invasion of Ukraine, the ESCU team has been investigating sanctions evasion schemes, formulating recommendations to prevent violations of economic restrictions, and providing consultations to government authorities. **Our priority is to expose companies supplying Western technologies to the Russian military-industrial complex.** In 2023, **two** companies were added to the 11th package of EU sanctions, **seven** were included in the US sanctions list, **over 60** Ukrainian restrictions were imposed.

In the third quarter of 2023, ESCU analysts conducted a **comprehensive analysis of sanctions**, based on which they formulated recommendations to improve Ukraine's national sanctions system. We also conducted **research on the market for precision machinery in Russia** and its impact on the production of military equipment and weapons. It was found that the Russian subsidiary of **DMG Mori** continues to operate, and the products of the German-Japanese machine tool manufacturer find their way to Russian military plants. Materials and recommendations for policymakers have been submitted to the relevant sanctions authorities.

Since July 2023, the ESCU has been creating an **anti-corruption platform** that provides organizational, analytical, and communication support to members of public control councils, including those affiliated with the Ministry of Defence of Ukraine and the National Anti-Corruption Bureau. We are also collaborating with partners from the United Kingdom and the United States to develop the **concept of a model commercial court**, particularly for protecting investors' rights in Ukraine.





RESISTANCE TO RUSSIAN AGGRESSION

ANALYTICAL REVIEW OF SANCTIONS POLICY

After a full-scale invasion of Ukraine, Russia has become the most sanctioned state in history: **15,587** legal entities and **8,915** individuals are subject to restrictions for supporting Russian aggression.

IMPACT OF
SANCTIONS:

\$29.3 billion

Budget deficit in Russia for the second quarter of 2023

2,1%

decline in the Russian GDP in 2022

\$500 million

is lost by the Russian economy every day due to sanctions

However, Russia has found **new ways to circumvent sanctions**, including through trade with other countries. Insufficient coordination and a low level of synchronization of sanctions lists among partner countries, as well as complex sanctions implementation, hinder their effectiveness.

Compared to Western states, Ukraine has a unique understanding of the aggressor country and can make a significant contribution to strengthening sanctions. At the same time, Ukraine has **shortcomings in its own sanctions regime**, including a lack of transparency and legislative gaps that require reform to synchronize with the global sanctions system.

The experience of ESCU analysts has allowed formulating **recommendations** to address the most significant challenges in the Ukrainian sanctions regime.

RECOMMENDATIONS

1. To ensure thorough **public oversight** of the development and implementation of Ukraine's sanctions policy.
2. To develop and legislatively establish **criteria and grounds** for the imposition of sanctions.
3. Legislatively establish **responsibility** for circumventing and violating sanctions.
4. To allocate responsibilities among participants in the sanctions mechanism, giving **preference to civilian authorities** and limiting the involvement of law enforcement and intelligence agencies to auxiliary functions.
5. To implement a **unified state sanctions registry**, ensuring maximum transparency and the availability of public and well-founded reasons for imposing sanctions.
6. To introduce a **system of interaction with representatives of civil society**, including the use of the OSINT potential of Ukrainian organizations and existing open data analysis tools to facilitate information exchange with international partners.
7. To ensure a transparent mechanism for **challenging decisions** regarding the imposition, cancellation, and modification of sanctions, as well as a mechanism for **lifting sanctions**.



RESISTANCE TO RUSSIAN AGGRESSION

CNC MACHINE MARKET IN RUSSIA: THE CASE OF DMG MORI

Since the onset of the full-scale invasion, the analytical team at ESCU has focused its efforts on researching the market for **Computer Numerical Control (CNC) machines**. This high-tech equipment serves as a cornerstone for precision manufacturing and the production of military hardware, including missile systems.

German-Japanese company **DMG Mori** held a 20-30% share of the Russian CNC machine market, with its equipment **installed in over 30 military plants**. Despite the parent company's statements about exiting the Russian market and closing the Ulyanovsk plant, **OSINT analysts at ESCU have found evidence that the Russian subsidiary of DMG Mori remains active**. By the end of 2022 and the beginning of 2023, DMG Mori Rus had sales totalling \$18 million in the Russian market. The investigation's results were published in the German publication Die Zeit.



Missile system "Avangard"



Missile system "Sarmat"

The primary clients of DMG Mori Rus were companies established by **former employees and partners of the subsidiary**. Furthermore, the production facilities of these clients were located at addresses similar to the DMG Mori plant in Ulyanovsk.



DMG Mori CNC machines

In addition, in the summer of 2022, **DMG Mori Rus products were supplied through intermediaries to the factories of the Russian military-industrial complex**. This included machines manufactured at the Ulyanovsk plant of DMG Mori, which ended up at the Russian enterprise "Promtech-Dubna," subject to sanctions by the United States and the European Union.

During the full-scale war, Russia imported DMG Mori goods worth **over \$6 million** through enterprises displaying signs of being front companies and servicing the Russian military-industrial complex. In September 2023, Ukraine's National Agency on Corruption Prevention included DMG Mori in the list of international sponsors of war.

DMG Mori is not the only CNC machine manufacturer that still maintains assets and representations in Russia, and its products are finding their way into the country through parallel or "gray" imports. ESCU analysts conducted and published an extensive analysis of Russia's dependence on foreign CNC machines. The production of military equipment and weaponry in Russia is significantly reliant on the import of foreign CNC machines, mainly due to the absence of a domestic precision machine-building industry.

The investigation's results and recommendations have been provided to sanctions policy authorities. Specifically, it is recommended that **foreign governments** review their export control legislation and enhance corporate responsibility for manufacturers. **Manufacturers** are advised to reassess their compliance systems, implement a risk-oriented approach to assess clients, and monitor product deliveries.



ECONOMIC RESILIENCE

Effective public control over government activities, transparency and openness of public policy, and improvement of the investment climate are all necessary for the sustainable reconstruction of Ukraine.

In July 2023, the ESCU launched an anti-corruption platform to ensure effective public administration. The ESCU experts and analysts provide advisory, organizational, informational and other support to members of public control councils, including monitoring, analysis and evaluation of the authorities' activities, as well as assistance in effective public communication.



The Public Oversight Council

of the National Anti-Corruption Bureau of Ukraine (POC NABU)

POC NABU is an independent elected body established in 2014 to ensure transparency and civil control over NABU's activities.

With informational support from the National Security and Defence Council of Ukraine, POC NABU is preparing an information campaign on Lifestyle Monitoring (LM) of subjects of declaration.

Lifestyle Monitoring is a selective analysis of information about a specific subject of declaration conducted by the National Agency for the Prevention of Corruption (NAPC) based on publicly available information. Findings of inconsistencies between income and the lifestyle of the declarant serve as grounds for a full review of the declaration and may be referred to the relevant anti-corruption authorities.

A website is currently being developed where citizens can familiarize themselves with the requirements and submit statements. Members of POC NABU will analyze requests and forward them to NAPC with reasoned justifications.

In the event of potential corruption violations, NAPC will report them to the relevant law enforcement agencies, including the National Anti-Corruption Bureau, and citizens will receive regular reports on the number of submissions and the status of their review.

PROTECTION OF INVESTORS' RIGHTS

*The ESCU, together with foreign partners from the United States and the United Kingdom, is involved in developing **the concept of a model commercial court**, including to protect the rights of foreign investors who will be involved in the country's reconstruction.*



ECONOMIC RESILIENCE



PUBLIC ANTI-CORRUPTION COUNCIL OF THE MINISTRY OF DEFENCE OF UKRAINE (PACC MoD of Ukraine)

PACC MoD is a collegial advisory body created in April 2023 to ensure transparency and civilian control over the activities of the Ministry of Defence of Ukraine.

STATE QUALITY ASSURANCE OF DEFENCE-RELATED GOODS, WORKS, AND SERVICES

The functions of state quality assurance of defence procurement are currently performed by the Department of the Ministry of Defence, which is directly subordinated to the Deputy Minister, who also acts as the state customer. **The existing model does not comply with the principles of independence, transparency, and impartiality, which need to be changed to meet NATO standards.**

PACC MoD of Ukraine proposes the creation of an **independent state body** responsible for state quality assurance of defence-related goods, works, and services. With the support of analysts from the National Security and Defence Council of Ukraine, a concept for the establishment of such an entity that complies with NATO agreements (STANAG 4107 standardization) has been prepared.

The joint work of the ESCU and the PACC MoD of Ukraine on a detailed analytical document based on the experience of NATO member states continues, which will be presented to stakeholders in October 2023.

Members of PACC MoD in Ukraine promptly respond to emerging crises in the defence sector.

Specifically, recommendations regarding the declaration of military personnel have been analyzed and provided to the Anti-Corruption Committee of the Parliament in connection with draft law № 9534. An analysis of data from a journalistic investigation into alleged improper procurement of winter uniforms is ongoing. PACC MoD also communicates events related to the State Audit Service's findings regarding improper profit calculations by companies in contracts with the MoD of Ukraine.

To highlight these and other topics in the mass media, the ESCU provides communication support, including to Anastasiia Shuba, Chair of the Legislation Monitoring and Policy-Making Commission of PACC MoD of Ukraine.