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HOW TO WITHHOLD MONEY AND TECHNOLOGY SUPPLY FOR THE WAR

July 2022 sanctions watch summary and lessons learned

Economic sanctions against Russia are unique in scale and design. Their effectiveness against the world's pariah, which tried to undermine world security, is hard to measure in a short period. Russian Federation disclosed macroeconomic data to conceal the actual consequences of the sanctions and wages propaganda and diplomatic "fog of war", spreading the message that "sanctions do not work" through speakers as high as the Prime Minister of Hungary to support the thesis.

The reality is the opposite. Heavy sanctions imposed on Russia caused grave damage to the ability to continue the brutal conventional war against Ukraine and hybrid operations (that include cyberattacks, propaganda and diplomatic warfare) against G7, NATO and the EU. Leading countries should continue economic pressure on the aggressor to protect the international law per se – argues ESCU expert Ilona Khmeleva in [the op-ed on the legal nature of the sanctions](#).

A significant part of this damage was inflicted not only by governments but by global companies. According to Yale research "[Business Retreats and Sanctions Are Crippling the Russian Economy](#)", 1000 companies curtailed operations in Russia. If combined, these businesses were responsible for 40% of the country's GDP and 5 million jobs. Along with the total cease of investment and inability to borrow money, this makes the Russian government use fossil fuel profits and wealth funds to finance social programs, shortening the ability to finance further modernization and overseas subversive operations.

However, the Russian propaganda machine, a vast network of "experts" strengthened by energy blackmail in Europe, works to undermine the sanctions' impact, pushing governments to slow down the pressure. This media environment also suggests businesses slow down movement out of Russia, seeking a possibility to keep profits, whether by staying in the country or building business relations with the companies that use sanctions loopholes to circumvent restrictions.

Such an attitude is a mistake for the long-term stability, argues Roman Vybranovskyy, ESCU secretary, in an [op-ed for the Ukrainian press](#), since the russian special services tightened control over all business aspects, turning the operations into an actual or potential weapon against the stability of Europe and NATO.

Therefore, wide public pressure on businesses that hesitate to use leverage to protect world stability is needed. Since the war began, this pressure has been a critical priority for the Economic Security Council of Ukraine. From the Council's perspective, support of russia is not a "tendency" or "case study", but a wrong decision, and such decisions should have brand names on them.

Selected brands that caught ESCU's attention this summer represent not only standalone cases of cooperation with russia but also potential loopholes that others will use if the operations continue.

Selling russian weapons: **KALASHNIKOV Concern.** Kalashnikov is one of the key small arms producers and uses fake brands "EDG Gun" and "Alfa precision" to sell weapons to 44 countries. Our research suggests that this operation is a testing ground for the russian defence industry, which is losing markets worldwide.

Keeping hi-tech for the russian weapons: **GALIKA AG.** Swiss company Galika AG managed to withdraw a significant amount of money through the russian court decision, fully controlled by the government. This company, which has tight contacts with the key weapon produces ROSTECH continues to work with russian firms after the start of the war in 2014, supplying them with the western technology needed for modern rockets, tanks, and aircraft.

Hi-tech support for the Russian industry: **DANIELI.** The Italy-based company Danieli, which manufactures a lot of equipment for the metallurgical industry, contributes to the russian military aggression in Ukraine. Danieli keeps manufacturing tools for its russian clients, including a company that produces components for nuclear reactors and tanks.

Security support for the russian IT: **THALES and CISCO.** Thales Group keeps working with numerous russian businesses, including state-owned enterprises, sanctioned ones, and those located in Crimea occupied by russia. In early March 2022, CISCO officially announced that it stopped all business operations, including sales and services, in russia and belarus. However, it hasn't happened. Almost 20% of all russian network infrastructure operates using the CISCO solutions, including the russian payment system MIR (introduced following Visa and Mastercard's termination of operations in russia) and data centres belonging to Sberbank of russia.

AND success story: Tetra Pack and IBM. The Swedish company **Tetra Pak** produced seven out of ten packages of milk and juices in russia. Swedish National Trade Council refused Tetra Pak's request to supply components for the Lobnya factory

in the moscow region, citing the need to provide "humanitarian aid". Tetra Pak ceased all business operations in russia. Currently, the company is completing its Russian business's wind-down process and management buyout.

IBM was among a long list of companies that suspended operations in russia after the invasion. On the other hand, the corporation has not stopped paying its staff. IBM's management believed that people did not deserve to suffer because of sanctions against the russian government. However, IBM has informed its employees of its decision to end its work in the country and has begun laying off staff. This decision was due, not least, to public pressure.

ESG as it is: Halliburton. Yet there are companies for whom social responsibility is a principle rather than an empty sound. The oil service giant Halliburton did not need civil or public pressure to decide on the exit from the Russian market. In March this year, Halliburton announced a complete wind-down of its business in Russia. Experts and market representatives repeatedly confirm the information.

The Economic Security Council of Ukraine will continue analyzing the effects of sanctions on the aggressive behaviour of russia.

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