



# Defunding the War against Ukraine

*Economic Strategies for Countering Russian Aggression*

DECEMBER 2023

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Improving Cooperation.  
Promoting Freedom from Fear.

REIMAGINING INTERNATIONAL SECURITY POLICY  
**The New Paradigm Project**

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## DISCLAIMER

The contents of this report are the sole responsibility of the authors and they take responsibility for the content of this report and any errors or omissions it may contain.

## COVER PHOTO

Photo by Markus Spiske on Unsplash.

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“The work of Anna Romandash and David Cortright is vital to outline not only areas for further expansion of existing sanctions regimes, but the perhaps more pressing areas in which global democracies must focus to fully enforce these policies. It’s time that members of the sanctions coalition against Russia redouble their efforts to ensure that they collectively mount a sanctions counteroffensive to match Ukraine’s military one. The Romandash and Cortright report is definitely a must-read for policymakers on steps to tighten sanctions against the Putin regime.”

—Dr. Benjamin L. Schmitt, Senior Fellow, Department of Physics and Astronomy  
and the Kleinman Center for Energy Policy, University of Pennsylvania

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“Cortright and Romandash have produced an exceptional data-based and policy smart report that rivals the research detail produced by various 6–8 person Panels of Experts that monitor UN sanctions. But this report exceeds others in providing a truly independent account of Russian versatility and cooperative partners in sanctions evasions, and in the clarity of its recommendations to strengthen the sanctions.”

—George A. Lopez, Sanctions Analyst, and member of  
UN Panel of Experts for DPKR (1874) in 2010–2011, 2022–2023

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“An important and thorough research paper laying out the options that exist to deepen the sanctions that have been deployed to hamper Russia’s war against Ukraine.”

—Nicholas Mulder, Cornell University, author of *The Economic Weapon:  
The Rise of Sanctions as a Tool of Modern War*

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“David Cortright and Anna Romandash have written an important contribution to the ongoing discussion about sanctions on Russia, discussing in detail the scope of the current sanctions regime and the different measures’ effect on Russia. Importantly, the authors also discuss some key recommendations for making sanctions more effective—and bringing Russia’s war of aggression against Ukraine to an end. Their report represents a nuanced assessment that will enrich the discussion and help to advance Ukraine’s cause.”

—Benjamin Hilgenstock, Senior Economist at KSE Institute (Kyiv School of Economics)  
focusing on Russia sanctions

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“A thorough, detailed, well-composed, and scrupulously documented paper, with observations that match those of other sources. Rigorous, timely, and most important.”

—James O’Rourke, Teaching Professor of Management and Organization  
at Mendoza College of Business, University of Notre Dame

# Table of Contents

<b>Executive Summary</b> .....	2
<b>Introduction</b> .....	3
<b>Part I. Sanctions Overview</b> .....	3
Energy Sanctions.....	4
Financial Sanctions.....	5
Individual Sanctions .....	5
Restricting Arms and Dual-Use Technology .....	5
Diamonds.....	6
<b>Part II. Assessing Impacts</b> .....	6
<b>Part III. Patterns of Evasion</b> .....	8
Capping Oil.....	8
The Politics of Gas.....	9
Profiteers and Enablers .....	10
Avoiding Humanitarian Harm .....	12
<b>Part IV. Strengthening Implementation</b> .....	14
Denying Weapons and Military Technology .....	14
Dissuading Enablers.....	15
Investing in Investigations.....	16
Pressuring Violators.....	18
Squeezing Finances .....	19
Messaging Strategies .....	20
<b>Conclusion</b> .....	21
<b>Recommendations</b> .....	21

## Executive Summary

The sanctions imposed by the United States and many of its allies on Russia since 2022 have been unprecedented. The current financial, economic, trade, and other restrictions aim to constrain Russia's ability to continue its aggression. Imposed by most developed countries, the sanctions and export controls have the potential to diminish Russia's war-making capacity, weakening state finances and eroding its military technological base. The measures have imposed significant costs on Russia, but to date they have not achieved their objectives due to Russia's elaborate circumvention and preparatory strategies and the lack of compliance by many countries and companies. The success of sanctions as a means of constraining Russian aggression will depend on closing channels of evasion and tightening the enforcement of these measures.

Combined with Ukrainian resilience, global public scrutiny, and effective international diplomacy, economic pressures can contribute to ending the war and deterring potential future invasions, not only by Russia but by other countries.

This report reviews the sanctions and export controls enacted to date and the effects they are having on Russia's industrial economy. It also examines the principal gaps in sanctions enforcement that Russia has exploited. It identifies actions by companies and countries that are profiting from sanctions circumvention and are enabling Russia to continue its illegal war and annexation of Ukrainian territory.

This analysis relies on interviews with dozens of energy sector and sanctions experts, including representatives of the International Working Group on Russian Sanctions.<sup>1</sup> It combines findings of international investigative media

teams as well as economists and energy researchers to provide a comprehensive overview of the impacts of sanctions on Russia and how it is attempting to bypass the measures.

The paper offers policy recommendations on what the United States, the European Union, and other sanctioning parties can do to close sanctions loopholes and strengthen economic constraints on Russia's continuing war against Ukraine. The recommendations include the following:

1. Strengthening energy sanctions by increasing documentation requirements for Russian oil buyers, lowering the price cap on Russian oil, maintaining tighter control and monitoring of oil tankers, and continuing efforts to curtail Russian gas exports.
2. Enhancing financial sanctions by extending restrictions to Gazprombank as well as other banks operating in Russia, especially branches of Western banks.
3. Improving compliance with export controls through greater investigative and enforcement measures against entities that use subsidiary companies to transfer prohibited goods to Russia.
4. Imposing secondary measures against companies that profit from sanctions evasion schemes.
5. Offering Sanctions Assistance Missions to countries on Russia's periphery to improve border monitoring and control.

Although sanctions alone will not end the war, they can increase the cost Russia must pay for its crimes and can help to limit state revenues and military capabilities. Combined with Ukrainian resilience, global public scrutiny, and effective international diplomacy, economic pressures can contribute to ending the war and deterring potential future invasions, not only by Russia but by other countries. Effective implementation and enforcement of the existing sanctions and the introduction of new measures to close loopholes and tighten restrictions are important means of applying pressure against Russian aggression in Ukraine.

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<sup>1</sup> The International Working Group on Russian Sanctions is based at the Freeman Spogli Institute for International Studies at Stanford University. Listings of its members and publications are available at <https://fsi.stanford.edu/working-group-sanctions>.

## Introduction

When Russia launched its full-scale invasion of Ukraine in February 2022, its actions met with widespread condemnation across the world. The UN General Assembly adopted three resolutions in the months following the attack, demanding that Russia end the war, rejecting its annexation of Ukrainian territories, and calling for the withdrawal of Russian military forces.<sup>2</sup> More than 140 countries voted in favor of these resolutions, with only a handful opposed, such as Belarus, Eritrea, North Korea, Russia, and Syria.

Since 2022, the sanctioning coalition of Ukrainian allies has introduced thousands of sanctions against a wide set of targets, including Kremlin-linked individuals and entities, Russian financial assets and banks, energy exports, and weapons and related technology.<sup>3</sup> The coalition of sanctioning countries<sup>4</sup> includes the United States, the European Union, most non-EU European countries (except Bosnia Herzegovina, Serbia, and Turkey), Australia, Canada, Japan, New Zealand, Singapore, South Korea, and Taiwan.<sup>5</sup> The measures include price limits on purchasing Russian energy resources, freezing approximately half of Russia's foreign reserves (roughly \$300 billion),<sup>6</sup> barring transactions through the SWIFT banking network,<sup>7</sup> and initiating an arms embargo, export controls, and import restrictions. Additional mechanisms are being introduced in waves against other targets alongside a continuous adjustment of measures to plug loopholes and enhance impact.

Russia is no stranger to international sanctions. In 2014, it was sanctioned by the United States and the European Union, among others, for its illegal annexation of Crimea

and for launching and supporting war in the Donbas. Sanctions in 2014, and in the years that followed, targeted both individuals and specific sectors, placing limits on commerce in dual-use goods, and imposing an arms embargo and travel bans against those directly responsible for annexing Crimea. The sanctions left out major revenue streams such as energy and failed to impose restrictions on key politicians and decision makers within the Russian government.<sup>8</sup> In the following years the Russian government prepared and adjusted its national economy in the expectation of more sanctions in the future.

## Part I. Sanctions Overview

The sanctions imposed in response to the 2022 full-scale invasion are unprecedented in their scope and number. Russia has become the most sanctioned country in the world, with more than 26,000 restrictive measures applied on its companies, individuals, and state entities by the sanctioning coalition. Together with the sanctions applied since 2014, the total number of sanctions has risen to 32,000.<sup>9</sup> The current sanctions are more comprehensive than the earlier measures and have greater international participation. The countries imposing sanctions on Russia account for more than half of the world's GDP and are also responsible for a significant portion of the world's design and production of semiconductor products.

The key purpose of the sanctions is to impede Russia's capacity to continue the war by reducing state revenues and limiting access to arms and other weapons-related technology. The sanctions aim to create additional costs for war supporters within the Russian government and among decision-making elites. Although sanctions alone

2 Edith M. Lederer and Michael Weissenstein, "UN Approves Resolution Calling for Russia to Leave Ukraine," AP News, 24 February 2023, <https://apnews.com/article/russia-ukraine-politics-china-united-nations-6965d19c953c2f6e45f483c1dfe04a7f>.

3 Benjamin Schubert et al., "Sanctions Tracker—Live Monitoring of All Sanctions against Russia," Correctiv.org, 1 June 2023, <https://correctiv.org/en/latest-stories/2022/03/01/sanctions-tracker-live-monitoring-of-all-sanctions-against-russia/>.

4 "The Main Database of Sanctions That Were Imposed after Russia's Attack on Ukraine," War and Sanctions, n.d. <https://sanctions.nazk.gov.ua/en/>.

5 Reuters, "Singapore to Impose Sanctions on Russia, Including Bank Transactions," CNBC, 28 February 2022, <https://www.cnbc.com/2022/02/28/singapore-to-impose-sanctions-on-russia-including-bank-transactions.html>.

6 Charles Riley, "The West's \$1 Trillion Bid to Collapse Russia's Economy," CNN Business, 1 March 2022, <https://edition.cnn.com/2022/03/01/business/russia-economy-sanctions/index.html>.

7 Peter A.G. van Bergeijk, "Sanctions against the Russian War on Ukraine: Lessons from History and Current Prospects," *Journal of World Trade* 56, no. 4 (2022): 571-586, <https://kluwerlawonline.com/journalarticle/Journal+of+World+Trade/56.4/TRAD2022023>.

8 Katharina L. Meissner and Chiara Graziani, "The Transformation and Design of EU Restrictive Measures against Russia," *Journal of European Integration* 45, no. 3 (3 April 2023): 377-94, <https://doi.org/10.1080/07036337.2023.2190105>.

9 Schubert et al., "Sanctions Tracker—Live Monitoring of All Sanctions against Russia."

will not end Russia's war, they are intended to have a constraining effect on the government's war-making ability by diminishing its military technical capacity and increasing the costs of the war and occupation.

Sanctions also have “signaling” and punitive functions.<sup>10</sup> They impose costs on Russia for the crime of military aggression and could help to deter attacks against other neighboring states. They send a message to other countries of what they can expect if they invade others, so that Russia's war of aggression is not seen as a precedent to be followed.

The measures imposed on Russia can generally be grouped into four categories: energy, finances, individuals, and military-related sanctions (arms embargo and technology export controls).

## ENERGY SANCTIONS

Energy sanctions are intended to reduce Russia's largest source of state revenues—its exports of oil, gas, and to a lesser extent, coal. In 2022, these resources accounted for nearly half of Russia's exports and more than 15 percent of its GDP,<sup>11</sup> and their proportion kept growing as the war continued. Oil sales earned nearly \$218 billion in 2022, comprising a quarter of all export revenues.<sup>12</sup> Gas brought in approximately \$138 billion, and coal earned approximately \$20 billion.<sup>13</sup>

The European Union was Russia's principal energy customer before and during the early stages of the invasion. In 2022, when it was already transitioning to other energy sources due to sanctions, the European Union spent approximately \$150 billion on the purchase of Russian oil, gas, and coal.<sup>14</sup> The European Union bought nearly half of Russia's oil and a quarter of its coal.<sup>15</sup> Half of Europe's gas needs were met by Russia.

Despite the sanctions, Russia's profits from energy exports increased significantly in 2022. Different factors played into this. Western sanctions did not come fully into force until December 2022, so, for most of the year, European states kept purchasing oil and gas as before. The sanctions contributed to an increase in global energy prices, benefitting Russia because it was able to reap higher revenues even as the volume of exports began to decline. In addition, Russia was able to trade freely with other major customers outside the sanctioning coalition, especially China and India.<sup>16</sup>

The United States<sup>17</sup> and the United Kingdom<sup>18</sup> were not heavily dependent on the Russian energy market and were able to sever imports quickly when sanctions were imposed. However, the European Union had to make major policy changes to implement the sanctions. The European Union banned 90 percent of its previous imports of Russian oil and refined petroleum products by early 2023. It also banned imports of Russian coal and all new investments in Russian energy infrastructure.<sup>19</sup> It worked with

10 As András Rácz et al. explain, “Sanctions also signal the unity of the sanctioning parties and exert their effectiveness by weakening the economic, financial and military capacities of the adversary.” See András Rácz, Ole Spillner, Guntram B. Wolff, “Why Sanctions Work against Russia,” *Intereconomics* 58, no. 1 (January/February 2023): 52–55, <https://www.intereconomics.eu/author/andras-racz.html>.

11 Statista, “Oil and Gas Sector as a Share of GDP in Russia Quarterly 2017–2023,” 21 July 2023, <https://www.statista.com/statistics/1322102/gdp-share-oil-gas-sector-russia/#:~:text=Russia's%20oil%20and%20gas%20industry,last%20three%20months%20of%202022>.

12 Anatoly Kurmanav and Stanley Reed, “How Russia Is Surviving the Tightening Grip on Its Oil Revenue,” *New York Times*, 7 February 2023, <https://www.nytimes.com/2023/02/07/business/russia-oil-embargo.html>.

13 “Working Group Paper #14: Using Energy Sanctions to Shorten the War,” The International Working Group on Russian Sanctions, 4 September 2023, [https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2023-09/working\\_paper\\_14\\_-\\_using-energy-sanctions\\_09-04-23.pdf](https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2023-09/working_paper_14_-_using-energy-sanctions_09-04-23.pdf).

14 Maria Demertzis and Ben McWilliams, “How Much Will the EU Pay Russia for Fossil Fuels over the Next 12 Months?” Bruegel, 23 March 2023, <https://www.bruegel.org/analysis/how-much-will-eu-pay-russia-fossil-fuels-over-next-12-months>.

15 European Commission, “Sanctions on Energy,” n.d., [https://eu-solidarity-ukraine.ec.europa.eu/eu-sanctions-against-russia-following-invasion-ukraine/sanctions-energy\\_en](https://eu-solidarity-ukraine.ec.europa.eu/eu-sanctions-against-russia-following-invasion-ukraine/sanctions-energy_en).

16 Elna Ribakova, Benjamin Hilgenstock, and Guntram B. Wolff, “The Oil Price Cap and Embargo on Russia Work Imperfectly, and Defects Must Be Fixed,” Bruegel, 12 July 2023, <https://www.bruegel.org/analysis/oil-price-cap-and-embargo-russia-work-imperfectly-and-defects-must-be-fixed>.

17 White House, “Background Press Call by a Senior Administration Official on Announcement of U.S. Ban on Imports of Russian Oil, Liquefied Natural Gas, and Coal,” The White House, 8 March 2022, <https://www.whitehouse.gov/briefing-room/press-briefings/2022/03/08/background-press-call-on-announcement-of-u-s-ban-on-imports-of-russian-oil-liquefied-natural-gas-and-coal/>.

18 Paul Bolton, “Imports of Fossil Fuels from Russia,” House of Commons Library, 13 March 2023, <https://commonslibrary.parliament.uk/research-briefings/cbp-9523/>.

19 European Commission, “Sanctions on Energy.”



G7 nations to establish a price cap on Russian oil enacted in December 2022. The European Union and individual European countries also took action to end the purchase of Russian gas. The result was a rapid shift to alternative sources of energy supply.

## FINANCIAL SANCTIONS

Financial sanctions have established limits on Russia's access to overseas funds and the financing of international transactions. Foreign assets of the Russian Central Bank in Western countries were frozen, amounting to approximately \$300 billion, roughly 54 percent of Russian state reserves.<sup>20</sup>

Major Russian banks were cut off from SWIFT, the international system for financial transactions, although some banks have been exempted from this restriction (to facilitate remaining commerce between Russia and the West).<sup>21</sup> Most Russian banks and financial institutions were cut off from accessing capital markets and lost their ability to conduct international business—although Russian branches of European and other non-Russian banks still operate freely.<sup>22</sup>

## INDIVIDUAL SANCTIONS

Individual sanctions target specific decision makers within the Russian government and individuals and businesses linked to the energy and financial sectors, including prominent tycoons and financial oligarchs; there are more than ten thousand individual sanctions.<sup>23</sup> The assets of sanctioned individuals have been frozen or

confiscated, and they are subject to travel and visa bans.<sup>24</sup> So far approximately \$30 billion in assets of targeted individuals and entities have been frozen. Legal discussions are happening among sanctioning governments on how to make frozen funds accessible for Ukraine's reconstruction.

## RESTRICTING ARMS AND DUAL-USE TECHNOLOGY

Sanctioning countries have imposed a strict arms embargo on Russia, halting the supply of weapons and dual-use technology that can be used in support of military operations. They have also prohibited exports to Russia of dual-use technology, semiconductor chips, and other Western-made tools and equipment that can be used for military purposes. Export controls are distinct from sanctions and fall under different legislative authority and administration, but they have a similar purpose: limiting commerce in goods that could aid the Russian war effort. The list of restricted items is complex and includes drones, advanced electronics and industrial chemicals, as well as relevant software and components and fuel for weapons systems.<sup>25</sup> The restrictive measures also target aviation and IT exports that have military potential.

The export controls are intended to undermine Russia's ability to acquire and produce precision weapons and thereby diminish its military capacity.<sup>26</sup> They prohibit transfer to Russia of any microchip products made or designed by the United States and its sanctioning partners, which is most of the world market for these goods.<sup>27</sup> These measures have the potential to degrade Russia's

20 Benjamin Hilgenstock, Elina Ribakova, and Guntram Wolff, "Toughening Financial Sanctions on Russia: Enforcing Energy Sanctions and Reducing Shadow Reserves Effectively," DGAP Policy Brief, 10, 2023, <https://www.ssoar.info/ssoar/handle/document/86858>.

21 Russell Hotten, "Ukraine Conflict: What Is Swift and Why Is Banning Russia So Significant?" BBC News, 4 May 2022, <https://www.bbc.com/news/business-60521822>.

22 Claudia Girardone, "Russian Sanctions and the Banking Sector," *British Journal of Management* 33, no. 4 (21 September 2022): 1683–88, <https://doi.org/10.1111/1467-8551.12656>.

23 Statista, "Sanctions Imposed on Russia by Target 2023," 7 September 2023, <https://www.statista.com/statistics/1293531/western-sanctions-imposed-on-russia-by-target/>.

24 Brooke Harrington, "The Russian Elite Can't Stand the Sanctions," *The Atlantic*, 5 March 2022, <https://www.theatlantic.com/ideas/archive/2022/03/russian-sanctions-oligarchs-offshore-wealth/623886/>.

25 "Sanctions on Dual-Use Goods," European Commission, n.d., [https://eu-solidarity-ukraine.ec.europa.eu/eu-sanctions-against-russia-following-invasion-ukraine/sanctions-dual-use-goods\\_en](https://eu-solidarity-ukraine.ec.europa.eu/eu-sanctions-against-russia-following-invasion-ukraine/sanctions-dual-use-goods_en).

26 Jack Crawford, "Further Together: An Opening for NATO–EU Sanctions Cooperation," Royal United Services Institute, 16 March 2023, <https://rusi.org/explore-our-research/publications/commentary/further-together-opening-nato-eu-sanctions-cooperation>.

27 George Calhoun, "The U.S. Still Dominates in Semiconductors; China Is Vulnerable," *Forbes*, 11 October 2021, <https://www.forbes.com/sites/georgecalhoun/2021/10/11/the-us-still-dominates-in-semiconductors-china-is-vulnerable-pt-2/?sh=191aafed70f7>.

military capacity and if effectively enforced could limit the Kremlin's ability to replace damaged equipment and deploy additional guided weapons. The export controls also strike at the heart of Russia's military industrial economy, undermining its productivity and global competitiveness.

## DIAMONDS

Russia is a major exporter of diamonds, which are largely mined by the state-owned company Alrosa. Russia earned \$4.7 billion from diamond exports in 2021.<sup>28</sup> After the full-scale invasion, the United States imposed restrictions on the Russian diamond industry, banning Russian diamond imports and sanctioning Alrosa. The United Kingdom followed suit, but the European Union was initially reluctant to adopt a full ban on Russian diamonds because of the role of Belgium, which has a lucrative business in polishing diamonds for sale to commercial markets. In September 2023 Belgium agreed to allow the European Union to approve a ban on Russian diamonds. The measure includes a mechanism for labeling and tracking Russian diamonds to prevent resale. The ban will go into effect at the end of 2023.<sup>29</sup> There are many challenges in attempting to monitor and control the diverse global diamond market, but the additional European Union sanctions are noteworthy and could provide an opening for exerting consumer pressure against Russia, as was done against diamond mining in Africa during the 1990s.

## Part II. Assessing Impacts

Predictions of sanctions' likely impacts were greatly exaggerated after the February 2022 invasion. A month into the full-scale war, the World Bank estimated that sanctions would shrink the Russian economy by as much as 11 percent, but by the end of 2022 the economic decline was only 2.1 percent, according to the Russian statistics agency.<sup>30</sup> In the second quarter of 2023, the economy grew by 4.9 percent.<sup>31</sup> Russia's unexpected ability to weather the initial storm of sanctions was due mostly to an increase in energy revenues that resulted from the spike in oil prices following the imposition of sanctions. Revenues from energy exports rose to an all-time high, while import costs dropped, creating a huge budget surplus, with unprecedented levels of revenue flowing into Moscow's coffers. The government also generated fiscal stimulus by greatly increasing military spending and production and raising soldiers' compensation while maintaining social spending.

As the energy sanctions have taken hold over the last year, energy revenues have declined. In the first quarter of 2023, Russian exports were valued at \$100.8 billion, which was 28 percent lower than during the last quarter of 2022 (\$140.6 billion).<sup>32</sup> Overall export revenues have declined by 40 percent since the invasion. Reduced energy export earnings are the biggest factor in this decline. In the first quarter of 2023, energy revenues fell by 45 percent in comparison with the same period prior to the invasion.<sup>33</sup> These figures suggest that the combined effects of financial restrictions and energy sanctions are significant, eroding the value of the currency and reducing export revenues.<sup>34</sup>

28 Silvia Amaro, "Russian Diamonds Could Soon Be Sanctioned—Potentially Disrupting the Global Jewelry Market," CNBC, 12 May 2023, <https://www.cnbc.com/2023/05/12/russian-diamonds-could-soon-be-sanctioned-disrupting-the-global-jewelry-market.html>.

29 Elizabeth Paton, "How More Sanctions on Russian Diamonds Could Affect the Global Market," *New York Times*, 28 August 2023, <https://www.nytimes.com/2023/08/28/fashion/russia-diamond-sanctions.html#:~:text=Jewelry%20shoppers%20may%20see%20prices,come%20gradually%20rather%20than%20suddenly>.

30 Beth Timmins and Ben King, "Russia's Economy Shrinks by Less Than Expected," BBC News, 20 February 2023, <https://www.bbc.com/news/business-64708832>.

31 Ukrainska Pravda, "Russia's Economy Is Recovering despite Sanctions, but Mobilisation Could Negate This," *Ukrainska Pravda*, 11 August 2023, <https://www.pravda.com.ua/eng/news/2023/08/11/7415242/>.

32 Benjamin Hilgenstock et al., "Russian Oil Exports under International Sanctions," Kyiv School of Economics, 26 April 2023, [https://kse.ua/wp-content/uploads/2023/04/Russian\\_Oil\\_Exports\\_under\\_International\\_Sanctions\\_23Q1\\_UPDATE26042023.pdf](https://kse.ua/wp-content/uploads/2023/04/Russian_Oil_Exports_under_International_Sanctions_23Q1_UPDATE26042023.pdf).

33 Hilgenstock et al., "Russian Oil Exports under International Sanctions."

34 Hilgenstock et al., "Russian Oil Exports under International Sanctions."

Because of its fiscal deficit, Russia has had to draw from its financial reserves to sustain spending. This has led to a weakening of the ruble, which in August 2023 reached its lowest point since right after the start of the invasion,<sup>35</sup> approximately \$0.01.<sup>36</sup> The devaluation of the ruble forced the Russian Central Bank to take the “crisis” step of raising the prime interest rate to 12 percent, and then higher,<sup>37</sup> which is likely to lower consumer purchasing power and further depress civilian economic production. The Bank reports the inflation rate at around 3.6 percent, but real inflation is at 60 percent, according to economist Steve Hanke.<sup>38</sup>

Although military manufacturing has increased, the production of automobiles, aircraft, and other civilian goods has plummeted. The government is struggling to maintain degraded transportation and energy infrastructures.<sup>39</sup> In the first quarter of 2023, car sales in Russia were nearly 45 percent less than in the same period the year before.<sup>40</sup>

Russian civilian aviation also took a hit. Nine small companies stopped flying, and although the major carriers have continued to operate, they no longer fly to most Western countries and are banned from their airspace.

The lack of parts due to sanctions as well as the private sector boycott of Russia has forced the government to cannibalize components from older planes in storage.<sup>41</sup> The aviation sector is also relying on some 500 planes illegally seized from Western leasing companies by the Russian government after the start of the invasion,<sup>42</sup> a theft of \$10 billion worth of aircraft that has been described as the largest act of air piracy in history.<sup>43</sup> The reliability of the stolen foreign fleet is declining, however, due to a lack of proper maintenance and spare parts. Safety concerns are on the rise, with at least seven emergency incidents reported.<sup>44</sup>

The economy has experienced several major shocks. The net outflow of private capital since the start of the invasion is more than \$250 billion,<sup>45</sup> as foreign companies left and hundreds of thousands of Russians fled the country with whatever assets they could take with them.<sup>46</sup> According to the BBC, more than a million citizens have left the country since the start of the war, including approximately 100,000 IT engineers (roughly 10 percent of all computer engineers in Russia).<sup>47</sup> Those who fled are

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- 35 Emma Burrows, “Russia’s Ruble Hits Its Lowest Level since Early in the War. The Central Bank Plans to Step In,” AP News, 15 August 2023, <https://apnews.com/article/russia-ruble-sanctions-war-ukraine-cf5448603b78f1bb884f3c68df5c7cd5>.
  - 36 Daria Mosolova, Mary McDougall, and Anastasia Stognei, “Rouble Hits 16-Month Low as Military Spending Rises and Exports Fall,” *Financial Times*, 14 August 2023, <https://www.ft.com/content/52fc7195-e15c-4610-9e36-58b50ba8e44b>.
  - 37 Elena Fabrichnaya and Alexander Marrow, “Russian Central Bank Says Rates Will Need to Stay High as It Hikes to 13%,” *Reuters*, 15 September 2023, <https://www.reuters.com/markets/rates-bonds/russian-central-bank-hikes-key-interest-rate-13-2023-09-15/>.
  - 38 Zahra Tayeb, “Russian Inflation Is Raging at 60%, Not the Reported 3.6%. Thanks to the Ruble’s ‘Freefall,’ Top Economist Steve Hanke Says,” *Markets Insider*, 24 July 2023, <https://markets.businessinsider.com/news/currencies/russia-economy-inflation-60-percent-falling-ruble-steve-hanke-2023-7>.
  - 39 Brian O’Toole and Daniel Fried, “Sanctions Alone Won’t Defeat Russia in Ukraine. But They’re Having a Bigger Impact Than It Might Seem,” *Atlantic Council*, 23 February 2023, <https://www.atlanticcouncil.org/blogs/new-atlanticist/sanctions-alone-wont-defeat-russia-in-ukraine-but-theyre-having-a-bigger-impact-than-it-might-seem/>.
  - 40 Sergey Teplyakov, “A Car Crash You Can’t Look Away from: Russian Car Production Industry Plummets after Ukraine War,” *Novaya Gazeta Europe*, 15 May 2023, <https://novayagazeta.eu/articles/2023/05/15/a-car-crash-you-cant-look-away-from-russian-car-production-industry-plummets-after-ukraine-war-en>.
  - 41 Mari Eccles and Gabriel Gavin, “Turbulence Batters Russia’s Air Sector,” *Politico*, 14 February 2023, <https://www.politico.eu/article/russia-alexander-neradko-aeroflot-s7-airlines-turbulence-aviation-sector/>.
  - 42 Simon Calder, “Putin’s Plane Grab Is ‘Largest Single Civil Fleet Destruction Activity in the History of Aviation,’” *The Independent*, 16 March 2022, <https://www.independent.co.uk/travel/news-and-advice/putin-planes-fleet-destruction-aviation-b2037174.html>.
  - 43 Anastasia Dagaeva, “Turbulent Times: How Russian Airlines Are Weathering the Storm,” *Carnegie Endowment for International Peace*, 28 March 2023, <https://carnegieendowment.org/politika/89389>.
  - 44 Eccles and Gavin, “Turbulence Batters Russia’s Air Sector.”
  - 45 “Russia Loses Record \$253Bln in Wartime Capital Flight,” *Moscow Times*, 24 July 2023, <https://www.themoscowtimes.com/2023/07/24/russia-loses-record-253bln-in-wartime-capital-flight-a81948>.
  - 46 Oleg Vyugin et al., “Worse Than a Crisis, the 2022 Russian Economic Anomaly: How It Works, and Where It Is Headed,” <https://re-russia.net/en/expertise/052/>.
  - 47 Maria Kiseleva and Victoria Safronova, “Why Are People Leaving Russia, Who Are They, and Where Are They Going?” *BBC News*, 3 June 2023, <https://www.bbc.com/news/world-europe-65790759>; and AFP, “Moscow Says 100K IT Specialists Have Left Russia This Year,” *Moscow Times*, 20 December 2022, <https://www.themoscowtimes.com/2022/12/20/moscow-says-100k-it-specialists-have-left-russia-this-year-a79754>.

mostly highly educated professionals, described by the *Economist* as Russia's intellectual elite.<sup>48</sup>

The brain drain associated with the departure of skilled workers will lead to the erosion of economic innovation and entrepreneurship.<sup>49</sup> Foreign investment in Russia has diminished and is not expected to return to its pre-invasion numbers in the foreseeable future. In 2022, Russian Foreign Direct Investment fell by more than \$40 billion, with a continuous decline throughout the next year.<sup>50</sup> The mobilization of troops for the front has diverted workers from the private sector and exacerbated a labor shortage, which along with the loss of technology imports, has further undermined productivity.

The outflow of capital, human resources, and international companies will have long-term consequences and may turn Russia into another Iran or Venezuela,<sup>51</sup> a country with vast energy resources but incapable of maintaining its infrastructure or developing the economy due to international isolation.<sup>52</sup> The Kremlin has responded to these multiple challenges by further centralizing and “Sovietizing” the economy, leading to militarized stagnation as the channeling of money and resources to the war system depletes civilian productivity.

### Part III. Patterns of Evasion

The economic costs of sanctions are likely to mount in the months and years ahead and could make a substantial contribution to constraining Russia's ability to maintain its war policy, but that outcome will depend upon how well they are implemented and whether sanctioning states respond effectively to the Kremlin's strategies for

evasion. The key factors in strengthening the impact of sanctions will be more rigorous enforcement of restrictions on Russian energy exports to reduce state revenues, and greater efforts to close the many loopholes that exist through third-party countries and companies that profit from and enable the war.

### CAPPING OIL

In Fall 2022, the finance ministers of the G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States, and the entire European Union) decided to implement a price cap on selling Russian seaborne crude oil. The goal was to allow limited oil exports from Russia to stabilize global markets but to reduce Russian energy revenues by establishing a lower purchase price. The cap went into effect in December 2022.

The cap is set at \$60 a barrel and applies to all oil transported by tankers owned by any G7 or European Union members.<sup>53</sup> Because Greek companies own most of the tankers and dominate the trade of Russian oil through the Black Sea, Russia is required to sell its oil at the prescribed price.<sup>54</sup> The price cap is enforced even if the buyer is from a country that is not sanctioning Russia. The new arrangement works because oil companies require insurance to transport their cargo, and under the new regulations, European shippers cannot legally carry Russia oil and obtain insurance if the price is higher than the cap.

For now, the price cap appears to be working, with Russian oil still flowing but the resulting revenues declining. The system faces challenges, however. The Greek owners of the ships have been unhappy with the price cap and have lobbied for a higher price in order to protect their

48 “Much of Russia's Intellectual Elite Has Fled the Country,” *The Economist*, 9 August 2022, <https://www.economist.com/international/2022/08/09/much-of-russias-intellectual-elite-has-fled-the-country>.

49 Cade Metz and Adam Satariano, “Russian Tech Industry Faces ‘Brain Drain’ as Workers Flee,” *New York Times*, 13 April 2022, <https://www.nytimes.com/2022/04/13/technology/russia-tech-workers.html>.

50 “Foreign Direct Investment, Net Inflows (BoP, Current US\$)—Russian Federation,” World Bank, n.d., <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=RU>.

51 Anna Romandash, “Russia's War Economy: A Disaster in the Making,” *Katapult Ukraine*, 30 June 2022, <https://katapult-ukraine.com/artikel/russia-s-war-economy-a-disaster-in-the-making>.

52 Anna Romandash, “Russia's Handbook for Evading Sanctions,” *Inkstick*, 11 July 2023, <https://inkstickmedia.com/russias-handbook-for-evading-sanctions/>.

53 “G7 Agrees Oil Price Cap: Reducing Russia's Revenues, While Keeping Global Energy Markets Stable,” European Commission, 3 December 2022, [https://ec.europa.eu/commission/presscorner/detail/pl/ip\\_22\\_7468](https://ec.europa.eu/commission/presscorner/detail/pl/ip_22_7468).

54 Julian Lee, “Russia Still Needs Europe's Oil Tankers,” *Bloomberg*, 16 February 2023, <https://www.bloomberg.com/opinion/articles/2023-02-16/russia-still-needs-europe-s-oil-tankers-elements-by-julian-lee>.

profit margins.<sup>55</sup> The Russian and Chinese governments are working to escape their dependency on European shipping and insurance companies and are investing in the construction of their own tanker fleets.

To transport their oil, Russian sellers need to show a contract documenting that the sale price is below or matches the price cap. Russia is trying to game the system by using false documentation, giving tanker owners forged contracts showing a lower sales price than what was actually paid.<sup>56</sup> A related practice is tanker-switching: transferring oil from one ship to another to hide the country of origin and bypass the price cap.<sup>57</sup> Greek-owned tankers have transferred at least 23 million barrels of Russian crude oil outside Greek waters.<sup>58</sup> Transferring oil in this manner creates serious environmental risks.<sup>59</sup>

Russia also tries to escape the price cap by selling more oil to China and India and relying on them to resell the oil on secondary markets at higher prices.<sup>60</sup> Since the 2022 invasion, China has increased its oil exports to sanctioning countries by 94 percent in comparison to 2021, with most of these oil exports directed to G7 countries, where most Russian oil purchases are under sanctions.<sup>61</sup>

Another method for bypassing the sanctions is to turn off trackers on sanctioned ships to avoid international detection.<sup>62</sup> Russia is also buying “shadow fleets,” placing the flags of other countries on Russian ships and

using tankers that do not have reliable international insurance.<sup>63</sup>

## THE POLITICS OF GAS

When European states announced plans to shut down the Nord Stream 1 and 2 pipelines, the Kremlin responded with threats and then took action to halt all gas deliveries to Europe. It was a dramatic act of gas blackmail that backfired spectacularly. The European Union accelerated efforts to wean itself from dependence on Russia. Germany and other states found alternative supplies of gas and rapidly transformed the continent’s energy economy. Prior to the full-scale invasion, EU countries exported around 140 billion cubic meters (BCM) of gas per year; and in 2022, Russian pipeline gas exports to Europe were 62 BCM. In the first half of 2023, they amounted to just 10 BCM.<sup>64</sup>

Although most EU countries have been transitioning from the Russian pipeline gas, they increased their purchase of Russian liquid natural gas (LNG). In the first half of 2023, they spent approximately \$5.7 billion on roughly 13 BCM of LNG, a 40 percent increase with the same period in 2021.<sup>65</sup> Yet, despite this, Russia is no longer a key energy gas supplier for the European Union as the region diversified to other sources. Russia lost the European

55 Hilgenstock et al., “Russian Oil Exports under International Sanctions.”

56 Hilgenstock et al., “Russian Oil Exports under International Sanctions.”

57 Robert Perkins, “Tanker Switching for Russian Oil Hits Record High as Sanctions Kick In,” S&P Global Commodity Insights, 8 March 2023, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/030823-tanker-switching-for-russian-oil-hits-record-high-as-sanctions-kick-in>.

58 Julian Lee, Alberto Nardelli, and Slav Okov, “A Bay Off Southern Greece Becomes a Cog in Russia’s Oil Supply Chain,” Bloomberg, 23 February 2023 <https://www.bloomberg.com/news/articles/2023-02-23/a-bay-off-southern-greece-becomes-a-cog-in-russia-s-oil-supply-chain>.

59 David Sheppard et al., “Almost No Russian Oil Is Sold Below \$60 Cap, Say Western Officials,” *Financial Times*, 14 November 2023, <https://www.ft.com/content/09e8ee14-a665-4644-8ec5-5972070463ad>.

60 Terence West, “Russian Oil Exporters Circumvent G7 Oil Price Cap through Shipping Fee Inflation,” EnergyPortal.eu, 16 August 2023, <https://www.energyportal.eu/news/report-russia-evades-oil-price-cap-by-inflating-shipping-costs/166476/>.

61 “The Laundromat: How the Price Cap Coalition Whitewashes Russian Oil in Third Countries,” Centre for Research on Energy and Clean Air, 3 August 2023, <https://energyandcleanair.org/publication/the-laundromat-how-the-price-cap-coalition-whitewashes-russian-oil-in-third-countries/>.

62 Alaric Nightingale et al., “How an Aging Armada and Mystery Traders Keep Russian Oil Afloat,” Bloomberg, 12 May 2023, <https://www.bloomberg.com/graphics/2023-russian-oil-flows-after-sanctions/>.

63 Julian Lee, “Will Your Claim against a Russian Oil Tanker Be Paid?” *Washington Post*, 14 November 2022, [https://www.washingtonpost.com/business/energy/will-your-claim-against-a-russian-oil-tanker-be-paid/2022/11/13/5f9d790a-6332-11ed-a131-e900e4a6336b\\_story.html](https://www.washingtonpost.com/business/energy/will-your-claim-against-a-russian-oil-tanker-be-paid/2022/11/13/5f9d790a-6332-11ed-a131-e900e4a6336b_story.html).

64 Szymon Kardaś, “Own Goal: How Russia’s Gas War Has Backfired,” ECFR, 27 July 2023, <https://ecfr.eu/article/own-goal-how-russias-gas-war-has-backfired/#:~:text=In%20the%20first%20five%20months,period%20in%202021%20and%202022>.

65 Kate Abnett, “LNG Imports from Russia Rise, despite Cuts in Pipeline Gas,” Reuters, 30 August 2023, [https://www.reuters.com/business/energy/lng-imports-russia-rise-despite-cuts-pipeline-gas-2023-08-30/#:~:text=BRUSSELS%2C%20Aug%2030%20\(Reuters\),an%20analysis%20by%20campaigners%20showed](https://www.reuters.com/business/energy/lng-imports-russia-rise-despite-cuts-pipeline-gas-2023-08-30/#:~:text=BRUSSELS%2C%20Aug%2030%20(Reuters),an%20analysis%20by%20campaigners%20showed).

market, its most important customer and largest source of gas revenues.<sup>66</sup>

The Kremlin has responded to this loss by shifting its energy exports mostly to Asian markets, primarily China and India. Putin's vaunted "pivot to the East" has not been able to replace the loss of customers in the West and has brought little relief from Russia's mounting economic difficulties. Russia began operations of the Power of Siberia pipeline in 2019, but it carries only a fraction of the gas previously exported to Europe. When the pipeline reaches its maximum capacity in 2024, it will deliver less than one quarter of the gas transported to Europe via pipelines in 2019.<sup>67</sup>

Construction on the Power of Siberia 2 pipeline to Mongolia and China is stalled and is not expected to be completed until the end of the decade. Even then, its annual capacity would reach only 50 BCM, one-third of what was previously provided to Europe.<sup>68</sup> Russia lacks the infrastructure to complete the project quickly, and in the meantime its gas revenues will remain depressed. Russia's cumbersome transportation and energy infrastructure already faces challenges and is likely to face mounting difficulties as sanctions complicate the task of restructuring and upgrading gas delivery systems.<sup>69</sup>

Russia also faces the problem of having to sell its gas and oil to China and India at a steep discount. In 2022 China received a 50 percent discount on Russian gas<sup>70</sup> and 40

percent on oil.<sup>71</sup> The discounts on gas will reportedly remain in place into 2024.<sup>72</sup>

Trade relations with China have expanded, but the relationship is unbalanced. Trade with China grew by 30 percent as European markets faded, with China now purchasing one-third of Russia's exports, mostly energy,<sup>73</sup> whereas Chinese exports to Russia constitute only 3 percent of its total exports.<sup>74</sup> The irony is that Russia's position with China is beginning to resemble what the European Union had previously with Russia. It is vulnerable to the whims of a single customer, which can negotiate and influence the price it pays for energy and perhaps other goods.

## PROFITEERS AND ENABLERS

One of the persistent pathways of sanctions evasion is the use of third-party intermediaries as conduits for conducting prohibited business. These schemes involve both companies and countries, with states creating and/or using subsidiary corporations to bypass restrictions and carry on business as usual. A typical approach involves setting up a company in a third country where it is more difficult to obtain information about the end beneficiary and where the government is neutral or supportive of the Russian regime. That company then creates a subsidiary in one of the countries with which Russia has a free trade regime, such as countries in the Eurasian Economic Union (for example, in Armenia, Kazakhstan, or Kyrgyzstan).<sup>75</sup> The subsidiary company purchases embargoed goods and resells them back to Russia through a

66 Mark Didenko, "Russia Loses Europe as Its Largest Energy Client 'Forever,' Says IEA Head," NV, 30 November 2022, <https://english.nv.ua/business/russia-loses-europe-as-its-largest-energy-client-forever-says-iea-head-50287669.html>.

67 Sergey Vakulenko, "Can China Compensate Russia's Losses on the European Gas Market?" Carnegie Endowment for International Peace, 1 June 2023, <https://carnegieendowment.org/politika/89862>.

68 "Russia Announces Progress with China on the Power of Siberia 2 Gas Pipeline," Enerdata, 23 March 2023, <https://www.enerdata.net/publications/daily-energy-news/russia-announces-progress-china-power-siberia-2-gas-pipeline.html>.

69 Kardaś, "Own Goal: How Russia's Gas War Has Backfired."

70 Jennifer Sor, "China Has Secured Russian Gas at a 50% Discount until the End of This Year," *Markets Insider*, 8 September 2022, <https://markets.businessinsider.com/news/commodities/russia-natural-gas-china-Ing-europe-energy-crisis-discount-asia-2022-9>.

71 Amy Chew, "Russia Becomes China's Discount 'Gas Station': Ukrainian Experts," *Nikkei Asia*, 21 September 2022, <https://asia.nikkei.com/Politics/Ukraine-war/Russia-becomes-China-s-discount-gas-station-Ukrainian-experts>.

72 Alla Shcherbak, "China Exacts Even Larger Discount on Russian Gas as Primary Importer of Sanctioned Resource," NV, n.d., <https://english.nv.ua/business/russia-s-gazprom-to-further-discount-gas-for-china-raising-price-cut-to-50-as-export-volumes-rise-50352903.html>.

73 "World Bank Open Data," World Bank Open Data, 2023, <https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?locations=RU>.

74 "In Photos: Muscovites Grapple with Summer Heat Wave," *Moscow Times*, 7 August 2023, <https://www.themoscowtimes.com/2023/08/07/in-photos-muscovites-grapple-with-summer-heat-wave-a82076>.

75 Karen Gilchrist, "How U.S. Microchips Are Fueling Russia's Military—despite Sanctions," CNBC, 7 August 2023, <https://www.cnbc.com/2023/08/07/how-us-microchips-are-fueling-russias-military-despite-sanctions.html>.

complex supply chain. Multiple subsidiaries can be added along the way to make the transaction more difficult to trace—and to complicate the process of finding the end beneficiary.

The sanctioning countries have indirectly contributed to these corrupt schemes by increasing their trade with countries that enable sanctions evasion. As the United States, the European Union, and other allies reduced their direct trade with Russia, they dramatically boosted exports to countries on Russia's periphery. These countries then increased their exports to Russia in a round-about process of backdoor trading.<sup>76</sup>

U.S. and EU exports to Armenia, Georgia, Kazakhstan, Kyrgyzstan, and Uzbekistan rose from \$14.6 billion in 2021 to \$24.3 billion in 2022; at the same time, these five countries collectively increased their exports to Russia by nearly 50 percent to around \$15 billion.<sup>77</sup> Germany, for example, sharply increased its exports to Kazakhstan and other border countries,<sup>78</sup> selling them machinery, tech equipment, electronics, and chemicals, much of which were then exported to Russia.<sup>79</sup> Included in Kazakhstan's increased exports to Russia in 2022 was a billion dollars' worth of machinery and tech equipment that it does not produce domestically. Armenia's exports of integrated circuits to Russia jumped from less than \$2,000 in 2021 to \$13 million in 2022.<sup>80</sup>

Private companies profit from these arrangements. Sanctions have stopped some of this commerce, but continuous monitoring and pressure are needed to close off the flow of dual-use products.

The Saint Petersburg-based company Fortap has imported an estimated \$138 million worth of electronics since the start of the war. It buys goods from the subsidiary Bion Group Ltd Sti, registered in Turkey, which obtains prohibited electronics from companies in Germany and the United States (including Intel).<sup>\*</sup> Investigators were able to trace the supply chain and identify the beneficiaries, and Fortap was placed under sanctions, although not before acquiring a large volume of sanctioned goods.<sup>\*\*</sup>

\* Chris Cook and Max Seddon, "The Shadowy Network Smuggling European Microchips into Russia," *Financial Times*, 12 November 2023, <https://www.ft.com/content/e70467d7-9df2-4a8c-9d0f-ddc61062b745>.

\*\* War & Sanctions, "Limited Liability Company 'Fortap,'" 2023, <https://sanctions.nazk.gov.ua/en/sanction-company/10379/>.

Russia has procured DJI drones from China through the help of a subsidiary set up in Kazakhstan, which worked through a firm in the Netherlands. The latter purchased the Chinese drones for Kazakhstan, where the subsidiary arranged for the drones to be sold in Russia to veterans' and pro-war organizations.<sup>\*\*\*</sup> Beijing has claimed that it does not sell drones or other weapons to parties in the war,<sup>†</sup> but its weapons show up on the battlefield through these and other cutout arrangements.<sup>‡</sup>

\*\*\* Benoit Faucon and Ian Talley, "Chinese Drones Still Support Russia's War in Ukraine, Trade Data Show," *Wall Street Journal*, 18 February 2023, [https://www.wsj.com/articles/chinese-drones-still-support-russias-war-in-ukraine-trade-data-show-cd39d40b?mod=hp\\_lead\\_pos4](https://www.wsj.com/articles/chinese-drones-still-support-russias-war-in-ukraine-trade-data-show-cd39d40b?mod=hp_lead_pos4).

† "China Imposes Drone Export Curbs amid US Tech Tensions," *Russia-Ukraine War News | Al Jazeera*, 31 July 2023, <https://www.aljazeera.com/news/2023/7/31/china-imposes-drone-export-curbs-amid-us-tech-tensions>.

‡ Dan De Luce, "China Helps Russia Evade Sanctions, Likely Supplies Moscow with War Tech Used in Ukraine," *NBC News*, 27 July 2023, <https://www.nbcnews.com/news/investigations/china-helps-russia-evade-sanctions-tech-used-ukraine-war-rcna96693>.

76 Sophia Nina Burna-Asefi, "Just Passing through: Kazakhstan's Parallel Trade Predicament," *The Diplomat*, 27 February 2023, <https://thediplomat.com/2023/02/just-passing-through-kazakhstans-parallel-trade-predicament/>.

77 Georgi Kantchev, Paul Hannon, and Laurence Norman, "How Sanctioned Western Goods Are Still Flowing into Russia," *Wall Street Journal*, 14 May 2023, <https://archive.ph/3teYu#selection-553.9-561.20>.

78 "Germany and Kyrgyzstan: Bilateral Relations," German Federal Foreign Office, 23 October 2023, <https://www.auswaertiges-amt.de/en/aussenpolitik/laenderinformationen/kirgisistan-node/kyrgyzstan/228612>.

79 European Commission, "EU Trade Relations with Kazakhstan," 2023, [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/kazakhstan\\_en#:~:text=In%202022%2C%20the%20EU's%20trade,2021](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/kazakhstan_en#:~:text=In%202022%2C%20the%20EU's%20trade,2021).

80 Kantchev et al., "How Sanctioned Western Goods Are Still Flowing into Russia."

A Swiss subsidiary of the Taiwanese computer manufacturer Acer sent roughly \$70 million worth of computer products to the Russian Federation in 2022, even though Acer stated it would exit the Russian market along with hundreds of other companies.\* Under public pressure, Acer halted its Russia operations in late 2022;\*\* however, data show that a small number of shipments of sanctioned tech is still taking place between Switzerland and Russia. At the time of the sales in 2022, Acer's shipments were not illegal; however, more sanctions were added against sales of dual-use Western tech in December 2022, so ongoing sales in 2023 would constitute a breach of sanctions.\*\*\*

\* "Taiwanese Manufacturer Acer Supplies Computer Equipment to Russia," Espresso.Tv, 9 June 2023, <https://global.espresso.tv/taiwanese-manufacturer-acer-supplies-computer-equipment-to-russia>.

\*\* Linnea Ahlgren, "Airbus to Stop Purchasing Russian Titanium within Months," Simple Flying, 2 December 2022, <https://simpleflying.com/airbus-stop-russian-titanium-months/>.

\*\*\* Filipp Lebedev and Gleb Stolyarov, "Exclusive: Taiwan's Acer Ships Computer Hardware to Russia after Saying It Would Suspend Business," Reuters, 8 June 2023, <https://www.reuters.com/technology/taiwans-acer-ships-computer-hardware-russia-after-saying-it-would-suspend-2023-06-08/>.

Boeing stopped all operations in Russia when the large-scale war began, but Airbus continued some of its businesses. It maintained ties with a titanium manufacturing facility in Russia† and lobbied for industry-related exemptions for purchases‡ arranged through subsidiaries.§

† Aishwarya Nair and Tim Hopher, "Boeing Suspends Russian Titanium as Airbus Keeps Buying," Reuters, 7 March 2022, <https://www.reuters.com/business/aerospace-defense/boeing-suspends-part-its-business-russia-wsj-2022-03-07/>.

‡ Benjamin Katz and Yusuf Khan, "Airbus Calls on West to Avoid Sanctions on Russian Titanium," Wall Street Journal, 21 June 2022, <https://www.wsj.com/articles/airbus-calls-on-west-to-avoid-sanctions-on-russian-titanium-11655817028>.

§ Richard Schuurman, "Airbus Continues to Source Russian Titanium via Subsidiaries," AirInsight, 12 April 2022, <https://airinsight.com/airbus-continues-to-source-russian-titanium-via-subsidiaries/>.

## AVOIDING HUMANITARIAN HARM

As noted, the sanctions and export controls on Russia are targeted at the energy sector, state finances, big banks, and the military tech sector, to apply pressure on individuals and industries responsible for the war. There are no sanctions on food, medicine, and other necessities of life. Consumer goods are also exempted, although certain items are affected by dual-use restrictions if they contain components that can be repurposed for war.<sup>81</sup>

Sanctions are blunt instruments and can have unintended consequences. The financial sanctions in Russia may be aimed at tycoons and the assets of the state, but ordinary citizens also feel the squeeze, especially those with foreign connections. De-risking and overcompliance by major financial institutions have reduced funding for a wide range of transactions, even those that have nothing to do with the war.

The social costs of sanctions in Russia so far have been limited,<sup>82</sup> but as the war continues and the effects of sanctions ripple through the economy, social conditions could worsen. The decline of the ruble and the hollowing out of the civilian economy could lower the living standards of average Russians. Higher inflation affects everyone, especially those with fixed incomes. Pro-government agencies claim that the inflation rate remains low, but independent groups report rising prices for many food products due to war and sanctions.<sup>83</sup>

Officially, unemployment remains low, mostly because of the mobilization of hundreds of thousands for military service, increased arms production, and the greatly increased salaries and benefits paid to those involved in the war. On the other hand, hundreds of thousands have fled Russia because of the war and the closing of foreign companies.

Avoiding harm to vulnerable populations is a humanitarian imperative in sanctions policy. The United States and

81 Briar Stewart and Corinne Seminoff, "As War in Ukraine Enters 2nd Year, Compliance with Economic Sanctions on Russia Is Key: Experts," CBC, 25 February 2023, <https://www.cbc.ca/news/world/russia-sanctions-compliance-experts-1.6759244>.

82 Lama El Baz et al., "Western Sanctions Have Largely Spared Ordinary Russians," Chicago Council on Global Affairs, 24 July 2023, <https://globalaffairs.org/research/public-opinion-survey/western-sanctions-have-largely-spared-ordinary-russians>.

83 Pricing Day, a Service of the Alexei Navalny team, <https://pricing.day/>.



other countries have recognized the need for exemptions that avoid unwanted social hardships. In 2022 the UN Security Council adopted Resolution 2664, which mandates a humanitarian carve-out for financial asset freezes, to allow for delivering humanitarian assistance and meeting basic human needs. This mandate does not apply in the current sanctions because Russia has blocked Security Council action in Ukraine, and because Russia does not receive or need humanitarian aid.

Russia became more self-sufficient in agricultural production over the past decade and has high levels of food security.<sup>84</sup> The Global Hunger Index ranks Russia 28th out of 121 countries, indicating a low risk of hunger or undernourishment. Russia can sell its grain supplies and other food exports as it wishes, but it has consciously chosen to manipulate world food markets to hike prices and gain higher revenues. The Kremlin has waged a global propaganda campaign, brazenly claiming that the sanctions are causing world hunger. In fact it is Russia's own policies that are raising prices and worsening food shortages. It continues to block Ukrainian grain exports through the Black Sea, and it has destroyed vast quantities of grain through the bombing of storage and shipping facilities in Odesa and other port cities.<sup>85</sup> Russia is twisting the humanitarian argument to blackmail countries into supporting calls for the lifting of sanctions. The food insecurity problems that have emerged in poorer countries over the past year and a half are not the result of sanctions but are due to the war and Russia's own actions.

The sanctions and the Kremlin's crackdown on civil society<sup>86</sup> have disrupted the work of independent social organizations and media groups. The withdrawal of Western communications, credit card companies, and payment services from Russia restricted access to

external financing.<sup>87</sup> The U.S.-based Charity and Security Network warned that sanctions could impede the work of civil society opponents of the war by blocking access to information sources that contradict state propaganda.<sup>88</sup> The greatest threat to civil society, however, has come from the government, which shut down all independent media sources and arrested thousands of dissenters.

Despite the government's repression and the restrictions on external support, independent groups continue to operate. Russians in the diaspora are publishing online publications such as *Meduza* and *Mediazona*. They are communicating through social media with Russian followers who use VPNs and messaging apps such as Signal, and some are using cryptocurrency and financial services such as KoronaPay to fund their activities.

U.S. officials have acknowledged the challenges independent groups face and have attempted to provide licenses and exemptions that allow them to operate.<sup>89</sup> The U.S. Treasury Department has enabled discreet banking channels for funding scientific exchanges and other unofficial activities. More can be done to support and encourage Russians who are speaking out against the war from exile and within.

Continuous restructuring and focusing of sanctions are needed. Measures that target military capabilities and reduce the finances of the state and pro-war elites are important and should be strengthened, but restrictions that hinder the lives of ordinary people and the operation of independent groups are counterproductive and should be removed. The goal is to reduce civilian harm and provide assurances for the Russian people that the West is not against them, as Kremlin propagandists claim, but

84 Albert MacKenzie, "Russian Food Self-Sufficiency: Reality or Potemkin Village?" *Czapp*, 7 April 2022, <https://www.czapp.com/analyst-insights/russian-food-self-sufficiency-reality-or-a-potemkin-village/>.

85 Dinara Khalilova, "The Guardian: War Crimes Dossier to Accuse Russia of Using Hunger as Weapon of War," *Kyiv Independent*, 25 September 2023, <https://kyivindependent.com/the-guardian-war-crimes-dossier-to-accuse-russia-of-deliberately-causing-hunger-in-ukraine/>.

86 Emma Farge and Gabrielle Tétrault-Farber, "Human Rights in Russia Have 'Significantly Deteriorated' since War—UN Expert," *Reuters*, 18 September 2023, <https://www.reuters.com/world/human-rights-russia-have-significantly-deteriorated-un-expert-2023-09-18/>.

87 Maria Tezina et al., "Yesli Bvt Tochnim," 22 April 2022, <https://tochno.st/materials/kak-pervyy-mesyats-spetsialnoy-operatsii-otrazilsya-na-blagotvoritelnosti-monitoring-pozhertvovaniy-rossiyan>.

88 Gabe Murphy, "Broad-Based Sanctions on Russia Undercut Russian Civil Society When It Is Needed Most," *Charity & Security Network*, 5 April 2022, <https://charityandsecurity.org/blog/broad-based-sanctions-on-russia-undercut-russian-civil-society-when-it-is-needed-most/>.

89 U.S. Department of the Treasury Office of Foreign Assets Control and His Majesty's Office of Financial Sanctions Implementation, *Humanitarian Assistance and Food Security Fact Sheet: Understanding UK and U.S. Sanctions and their Interconnection with Russia*, 28 June 2023, <https://ofac.treasury.gov/media/931946/download?inline>.

against the war. Keep the pressure on the war-making system and those who profit from it, not civil society.

Polls by the Levada Center in Russia show a consistent majority of Russian respondents support military operations in Ukraine, but the same polls show that pluralities want to start negotiations rather than continue the war. In an August 2023 Levada survey giving respondents a choice, 38 percent expressed support for continuing military operations, and 50 percent favored transitioning to peace negotiations, although most do not want to make concessions.<sup>90</sup> Polls by other Russian firms indicate strong antiwar sentiment among about 20 percent of respondents and a larger percentage of hard-core war supporters, amidst a broader public that feels powerless to do anything about the conflict but generally prefers negotiations to war.<sup>91</sup>

Stronger targeted sanctions are needed to raise the costs of Russia's aggression and impede the war-making system, but they can also be used as leverage to encourage a diplomatic settlement. U.S. Secretary of State Antony Blinken has offered sanctions relief if Russia agrees to end the war and negotiate an "irreversible" withdrawal of its troops.<sup>92</sup> The Kremlin has shown no interest in such a course and has doubled down on war and occupation, but as the costs of sanctions and military operations mount, a diplomatic option may become more acceptable. The offer of sanctions relief could encourage that process and would be welcomed by many people in Russia. The United States and other sanctioning countries should reiterate the message, especially to Russian elites, that economic reintegration will depend on ending the policy of aggression in Ukraine.

## Part IV. Strengthening Implementation

Sanctions are having a significant impact on Russia's economy, but greater efforts are needed to address Kremlin countermeasures and plug the many gaps that exist in sanctions compliance. The governments of countries in the sanctioning coalition can do more to tackle the issues that are impeding the effectiveness of sanctions. In the sections below we outline specific issues and recommendations to realize these goals.

### DENYING WEAPONS AND MILITARY TECHNOLOGY

**RECOMMENDATION 1:** Restrictions on technology exports should be monitored and enforced more vigorously by sanctioning countries. U.S., UK, and EU officials could do more to communicate control lists of dual-use technologies clearly and directly to relevant businesses and regulatory and law enforcement agencies responsible for export control. Where appropriate, new components and products should be added to the lists.

Investigations into the embargo against weapons and the export controls on dual-use technology have produced mixed results. Reports indicate that Russia is struggling to produce the arms it needs and access integrated circuits and other technological components for precision weapons.<sup>93</sup> On the other hand, evidence<sup>94</sup> of

90 Re: Russia, "Peace without Concessions: Surveys Show That Most Russians Want an End to the War but Are Not Ready to Give Up What They Have Won," 7 September 2023, <https://re-russia.net/en/review/356/>.

91 David Cortright and Alexander Finiarel, "Russians' Support for the War May Be Softer Than You Think," *Responsible Statecraft*, 25 May 2023, <https://responsiblestatecraft.org/2023/05/25/russians-support-for-the-war-in-ukraine-isnt-as-widespread-as-you-might-think/>.

92 NPR, "Blinken Sets a Standard for Lifting Sanctions: An 'Irreversible' Russian Withdrawal," 16 March 2022, <https://www.npr.org/2022/03/16/1086835380/blinken-sets-a-standard-for-lifting-sanctions-an-irreversible-russian-withdrawal>.

93 Brad Lendon, "Russia Having Difficulty Making New Weapons, but Might Have Enough Older Ones, Report Says," CNN, 19 April 2023, <https://edition.cnn.com/2023/04/19/europe/russia-weapons-production-report-intl-hnk-ml/index.html>.

94 Julien Bouissou, "War in Ukraine: Hundreds of Western Electronic Components Found in Russian Weapons," *Le Monde.Fr*, 17 June 2023, [https://www.lemonde.fr/en/economy/article/2023/06/17/war-in-ukraine-hundreds-of-western-electronic-components-found-in-russian-weapons\\_6032830\\_19.html](https://www.lemonde.fr/en/economy/article/2023/06/17/war-in-ukraine-hundreds-of-western-electronic-components-found-in-russian-weapons_6032830_19.html).

Western-made circuitry and microchips was found in Russian missiles and weapons on the battlefield.<sup>95</sup>

Russia has greatly increased its production of missiles, artillery, and ammunition and doubled its production of tanks from 100 to 200 per year.<sup>96</sup> It is expending artillery and ammunition at a higher rate than it has been able to produce, however, and is facing shortages of essential elements such as rocket propellants and explosives.<sup>97</sup>

Restrictions on technology exports could be monitored and enforced more vigorously.<sup>98</sup> One of the challenges is a lack of clarity and definition on what can or cannot be sold to Russia.<sup>99</sup> U.S., UK, and EU officials have produced control lists of dual-use technologies that are subject to controls, but more could be done to communicate these lists clearly and directly to relevant businesses and to regulatory and law enforcement agencies responsible for export control. Where appropriate, new components and products should be added to the lists.

One of the major challenges of enforcing the arms embargo is the flow of weapons to Russia from Iran and North Korea,<sup>100</sup> which are under nonproliferation sanctions.<sup>101</sup> On one hand, the fact that Moscow is relying on these countries to replenish its weapons supply appears to be a sign of desperation and an indication of serious shortages. However, both countries are heavily armed with advanced weapons systems. The United States has threatened measures against the companies that produce and sell the drones to Russia,<sup>102</sup> but such measures are likely

to have minimal impact because many of the responsible individuals and entities are already under sanctions.

## DISSUADING ENABLERS

**RECOMMENDATION 2:** Engagement efforts with governments in the periphery states should continue to encourage tighter monitoring and control of the flow of military-related technology into Russia. Stronger coercive measures against noncompliant companies should be combined with positive inducements and support for border control. A model to consider could be Sanctions Assistance Missions.

Halting the transshipment of technology exports through third-party states to Russia is an urgent priority. This requires engaging with governments in the periphery states to encourage greater efforts to monitor and control the flow of military-related technology into Russia. These tasks fall within the responsibilities of the EU's Sanctions Envoy, the head of the Office of Sanctions Coordination in the United States, and other representatives of sanctions-related entities within the governments of sanctioning countries.

Efforts to limit Russia's backdoor trading are already underway. Among the proposed solutions are economic measures against the companies and countries that facilitate this trade. The Ukrainian government has developed documentation on the companies providing Russia with instruments of repression, labeling them as "sponsors of terrorism" and thus subject to international sanctions.

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- 95 Olena Bilousova et al., "Russia's Military Capacity and the Role of Imported Components," Kyiv School of Economics, 19 June 2023, <https://kse.ua/wp-content/uploads/2023/06/Russian-import-of-critical-components.pdf>; Anna Romandash, "How to Get Away with Sanctions, Russian-Style," *IPS Journal*, 21 August 2023, <https://www.ips-journal.eu/topics/economy-and-ecology/how-to-get-away-with-sanctions-russian-style-6918>; Francis Farrell, "Kyiv's Frustration Boils as Flow of Western Chips for Russian Missiles Continues Uninterrupted," *Kyiv Independent*, 25 July 2023, <https://kyivindependent.com/kyivs-frustration-boils-as-flow-of-western-chips-for-russian-missiles-continues-uninterrupted/>.
- 96 Tetiana Lozovenko, "Russia Steps up Production of Kalibr and Kh-101 Missiles by 3-4 Times—Ukrainian Defence Intelligence," *Ukrainska Pravda*, 23 June 2023, <https://www.pravda.com.ua/eng/news/2023/06/23/7408154/>.
- 97 Julian E. Barnes, Eric Schmitt, and Thomas Gibbons-Neff, "Russia Overcomes Sanctions to Expand Missile Production, Officials Say," *New York Times*, 14 September 2023, <https://www.nytimes.com/2023/09/13/us/politics/russia-sanctions-missile-production.html>.
- 98 Bohdan Bernatskyi, "Are EU Sanctions against Russia Enforceable?" *Visegrad Insight*, 6 July 2023, <https://visegradinsight.eu/eu-sanctions-russia-ukraine/>.
- 99 "The Fog of Sanctions," Thomson Reuters, 2022, <https://www.thomsonreuters.com/en-us/posts/wp-content/uploads/sites/20/2022/07/Russia-Sanctions-White-Paper-2022.pdf>.
- 100 Ramy Inocencio, Justine Redman, and Tucker Reals, "North Korea Provides Russia Artillery for the Ukraine War as U.S. Hands Kyiv Ammunition Seized from Iran," CBS News, 5 October 2023, <https://www.cbsnews.com/news/ukraine-war-russia-north-korea-artillery-us-gives-kyiv-siezed-iran-ammunition/>.
- 101 Vivian Salama, "Russia Is Again Turning to North Korea to Replenish Ammunition Supplies," *Wall Street Journal*, 3 August 2023, <https://www.wsj.com/articles/russia-is-again-turning-to-north-korea-to-replenish-ammunition-supplies-d79a5318>.
- 102 United States Institute of Peace, "U.S. Warns Companies about Iran's Drone Program," *The Iran Primer*, 13 June 2023, <https://iranprimer.usip.org/blog/2023/jun/13/us-warns-companies-about-iran%E2%80%99s-drone-program>.

Convincing countries to support such measures is difficult, however, and poses diplomatic challenges and economic costs for the companies involved.<sup>103</sup>

Stronger coercive measures could be combined with positive inducements and support for border control. A model to consider could be the Sanctions Assistance Missions that were established by European countries and the United States in the early 1990s to monitor and enforce UN Security Council sanctions against former Yugoslavia. Customs officials and other technical staff were assigned to assist border officials in states neighboring Serbia, including Albania, Bulgaria, Hungary, and Romania, helping to verify shipping manifests and prevent the use of falsified documents.<sup>104</sup> The system allowed the participating governments to increase their capacity to monitor and enforce cross-border trade, thereby enhancing the implementation of the arms embargo and other sanctions against the Belgrade regime.

Stemming the flow of prohibited goods through the countries bordering Russia will require keen sensitivity to the concerns and motivations of the relevant countries. For the Central Asian states, financial and security considerations are paramount, and country-specific approaches are required. U.S. and European diplomats are engaging with officials of Kazakhstan and other neighboring countries to find ways of gaining their cooperation.<sup>105</sup> The challenge is to help these countries stay on the right side

of Russia while encouraging and assisting them in closing channels of sanctions evasion.

China poses special challenges and has larger interests in relation to Russia. China has increased its exports to Russia but it is most interested in acquiring cheap energy supplies.<sup>106</sup> Chinese companies have not increased their investment in Russia and the government has announced restrictions on certain Russian banks.<sup>107</sup> China has found ways of helping Russia evade sanctions and stand up to the West,<sup>108</sup> but it has been wary of becoming involved in the war directly. It may be motivated in part by a desire to avoid pressure from Western countries.

## INVESTING IN INVESTIGATIONS

**RECOMMENDATION 3:** Sanctioning countries should invest more heavily in sanctions monitoring and enforcement. They need to document and verify all relevant transactions. This will require adding staff and institutional resources for the major sanctions and export control enforcement entities as well as providing them with greater investigatory and enforcement capability.

One of Russia's approaches to sanctions evasion is to issue fabricated end-use certificates and false or misleading documentation about cargo content. In these arrangements,<sup>109</sup> the company claims to be shipping harmless civilian products rather than military-related

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103 Camille Gijs, Jakob Hanke Vela, and Nicolas Camut, "Russia Is Getting Better at Evading Western Sanctions on Electronics, US Official Says," *Politico*, 13 June 2023, <https://www.politico.eu/article/russia-better-evading-western-sanctions-electronics-war-ukraine/>.

104 United Nations Security Council, *Letter Dated 24 September 1996, S/1996/776*, pars. 33 and 34. See the discussion of the Sanctions Assistance Missions in David Cortright and George A. Lopez, *The Sanctions Decade: Assessing UN Strategies in the 1990s* (Boulder, CO: Lynne Rienner Publishers, 2000), 68–70.

105 Marie Dumoulin, "Steppe Change: How Russia's War on Ukraine Is Reshaping Kazakhstan," ECFR, 14 April 2023, <https://ecfr.eu/publication/steppe-change-how-russias-war-on-ukraine-is-reshaping-kazakhstan/>.

106 Agathe Demarais, "Why China Hasn't Come to Russia's Rescue: Their 'No Limits' Partnership Has Been an Economic One-Way Street," *Foreign Affairs*, 26 June 2023, <https://www.foreignaffairs.com/china/why-china-hasnt-come-russias-rescue>.

107 Jo Harper, "China Imposes Limits on Russian Banks," *Dw.Com*, 21 June 2023, <https://www.dw.com/en/china-imposes-limits-on-russian-banks/a-65968580>.

108 Brian Bushard, "China Helping Russia's War with Ukraine with Military Aid—Violating Sanctions—Reports Show," *Forbes*, 4 February 2023, <https://www.forbes.com/sites/brianbushard/2023/02/04/china-helping-russias-war-with-ukraine-with-military-aid-violating-sanctions-reports-show/?sh=39ee5fc26fb9>.

109 Grauwde and Cherviak, "Report: Where Does Russia Get Its Microchips?"

components.<sup>110</sup> False certifications can be used to bypass the price cap on Russian oil as well.<sup>111</sup>

Restricting these practices will require more intrusive international monitoring and investigation of shipments to and from Russia. The chances of detecting these practices can be improved by requiring additional documentation, with certified statements made mandatory for both sellers and purchasers for all sanctioned products and oil sales. Enforcement of the oil price cap currently requires only a document from Russia declaring that it has sold the oil at the designated price. Requiring similar documentation from the buyer would provide an additional basis for price verification.

More rigorous tracking is also needed on the condition and location of tankers that transport Russian oil. Satellite and radar monitoring and drone surveillance are capable of identifying and following tankers and detecting illegal transportation practices. The United States and European states could assign patrol boats and naval forces to interdict and prevent sanctions violations. This approach was used during the international sanctions against Iraq and Yugoslavia and is part of the U.S.-sponsored Proliferation Security Initiative.

To obtain and verify all the relevant transactions, the sanctioning countries need to invest more heavily in sanctions monitoring and enforcement. This will require adding staff and institutional resources for the major sanctions and export control enforcement entities as well as providing them with greater investigatory and enforcement capability, including the Office of Foreign Assets Control in the U.S. Treasury, the U.S. Department of Commerce's Bureau of Industry and Security,<sup>112</sup> and

the European Union's International Special Envoy for the Implementation of EU Sanctions.<sup>113</sup>

Improved monitoring also involves new approaches to sharing information and data. Currently investigators examining sanctions compliance need to merge different data sets from multiple sources such as customs declarations and financial reports. Steps should be taken to improve compatibility and access to necessary data.<sup>114</sup> This can be done through requesting more trade documents from Russia's energy buyers, sharing relevant information between sanctions-focused agencies within the governments of the sanctioning countries' coalition, and following up on the ongoing investigations done by independent think tanks, media, and governmental entities within Ukraine, which are tracking sanctions' violators globally.<sup>115</sup>

Several nongovernmental groups and think tanks are involved in research projects to track compliance with the Russia sanctions.<sup>116</sup> NGOs, academic institutions, civil society networks, and investigative media are helping to identify relevant agents and illicit technology transfers on land and sea. Governments should support and coordinate with these groups, without interfering with or attempting to control their research.

As noted above, the United States and allies could strengthen sanctions monitoring and enforcement in other countries, especially in Central Asia, by following the model of the Sanctions Assistance Missions. The offer to provide resources to these countries for border monitoring and customs control could serve as an

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110 "Web of Secret Chip Deals Allegedly Help U.S. Tech Flow to Russia," Bloomberg, 15 March 2023, <https://www.bloomberg.com/news/features/2023-03-15/secret-chip-deals-allegedly-help-us-technology-flow-to-russia-despite-sanctions>.

111 Sarah Anne Aarup, Sergey Panov, and Douglas Busvine, "China Secretly Sends Enough Gear to Russia to Equip an Army," *Politico*, 27 July 2023, <https://www.politico.eu/article/china-firms-russia-body-armor-bullet-proof-drones-thermal-optics-army-equipment-shanghai-h-win/>.

112 "Departments of Justice, Commerce and Treasury Issue Joint Compliance Note on Russia-Related Sanctions Evasion and Export Controls," 2 March 2023, <https://www.justice.gov/opa/pr/departments-justice-commerce-and-treasury-issue-joint-compliance-note-russia-related>.

113 "The Yermak-McFaul Sanctions Group Developed a New Document on Increasing the Effectiveness of Sanctions against Russia," Official Website of the President of Ukraine, 22 November 2022, <https://www.president.gov.ua/en/news/sankcijna-grupa-yermaka-makfola-napracyuvala-novij-dokument-79393>.

114 Romandash, "How to Get Away with Sanctions, Russian-Style."

115 Allyson Versprille, "IRS Working with Ukraine to Track Russian Crypto Sanctions Evaders," Bloomberg.com, 11 May 2023, <https://www.bloomberg.com/news/articles/2023-05-11/irs-chainalysis-working-with-ukraine-to-track-russian-crypto-sanctions-evaders#xj4y7vzkg>.

116 These include the International Working Group on Russian Sanctions, Kyiv School of Economics, Economists for Ukraine, Yale School of Management, Atlantic Council, and Correctiv among others.

incentive for cooperating to prevent the shipment of military technology to Russia.

In the United States and other countries, those who violate sanctions are subject to criminal prosecution. This has not been the case for the European Union, but steps are underway now to criminalize the circumvention of EU measures. Until now sanctions compliance has been the responsibility of individual member states, but in summer 2023, the EU Council published a draft law on criminalizing violations of EU sanctions. The new law allows for the confiscation of proceeds from sanctions' violations and calls for joint law enforcement coordination among member states. At the time of this writing, the law is under consideration in the European Parliament.<sup>117</sup> Criminalization of sanctions' circumvention action is crucial to improving compliance.

The measures proposed here—tightening export controls, imposing stronger licensing and documentation requirements, strengthening border controls, improving customs monitoring—are technically feasible and could be implemented if the sanctioning governments are willing to commit the necessary resources. The financial costs will be considerable, but they would be far less than the terrible price in lives of prolonged war. Stronger sanctions that further reduce Russian revenues and constrict its arms supply are worth the investment and, if successful, could hasten an end to the war.

## PRESSURING VIOLATORS

**RECOMMENDATION 4:** Sanctioning countries should work with civil society to publicize the misbehavior of, and apply more pressure on, scofflaw companies, calling them to account in the court of public opinion. Negative media coverage could be seen as a form of naming and shaming, a means of

pressuring companies to comply with an emergent global norm against aggression.

If diplomacy and incentives are not sufficient to dissuade companies and countries from facilitating trade with Russia, pressures may be necessary. The United States and other states are taking measures to clamp down on companies that are violating sanctions by denying them access to Western financing and markets.<sup>118</sup> The United States has imposed such measures on Kyrgyz companies over their role in sanctions evasion schemes,<sup>119</sup> and it has warned Turkish companies of the same if they continue helping Russia bypass sanctions.<sup>120</sup>

The European Union does not apply secondary sanctions as a matter of policy, but is taking steps to apply pressures on entities that facilitate trade with Russia in violation of EU sanctions. The new law under consideration will criminalize sanctions circumvention and authorize stronger enforcement measures. The European Union has also adopted a new mechanism that identifies “high-risk” countries known for violating sanctions and prohibits them from purchasing dual-use goods.

Pressure also can be applied by publicizing the misbehavior of scofflaw companies and calling them to account in the court of public opinion. Negative media coverage could be seen as a form of naming and shaming, a means of pressuring companies to comply with an emergent global norm against aggression.

Civil society groups are usually better suited than governments at these approaches. Current examples are the #BoycottRussia and #Leave Russia campaigns, which sponsor online platforms and generate social media exposure of companies that violate sanctions or continue to do business with Russia. Soon after the full-scale invasion, the Yale School of Management developed a list of 1,000 companies that announced their voluntary withdrawal

117 Crowell & Moring LLP, “EU Considers Adding More Teeth to Sanctions Enforcement with Adoption of Draft Law Criminalizing Sanctions Evasion,” n.d., <https://www.crowell.com/en/insights/client-alerts/eu-considers-adding-more-teeth-to-sanctions-enforcement-with-adoption-of-draft-law-criminalizing-sanctions-evasion>.

118 Ana Swanson, “Russia Sidesteps Western Punishments, with Help from Friends,” *New York Times*, 31 January 2023, <https://www.nytimes.com/2023/01/31/business/economy/russia-sanctions-trade-china-turkey.html>.

119 AFP, “U.S. Sanctions More Than 120 Russian, Kyrgyz Firms,” *Moscow Times*, 20 July 2023, <https://www.themoscowtimes.com/2023/07/20/us-sanctions-more-than-120-russian-kyrgyz-firms-a81915>.

120 Jared Malsin, “U.S. Warns Turkish Businesses against Work with Sanctioned Russians,” *Wall Street Journal*, 22 August 2022, <https://www.wsj.com/articles/u-s-warns-turkish-businesses-against-work-with-sanctioned-russians-11661207916>.

from the Russian economy, but many companies have refused to leave and are part of what Yale Professor Jeffrey Sonnenfeld calls a “hall of shame.”<sup>121</sup> More could be done by international activists to mobilize pressure against companies that violate sanctions or continue to do business in Russia.

Public protests and messaging campaigns can be effective for this purpose. Social media exposure convinced the Danone company to announce a halt to business in Russia.<sup>122</sup> Texas Instruments came under scrutiny when its semiconductor products were found in Russian arms on battlefields in Ukraine.<sup>123</sup> The large oilfield service companies SLB and Baker Hughes also maintained operations in support of Russia initially but later pulled out in the face of public criticisms.<sup>124</sup> Greater pressure and public outcry are needed to force companies to end all forms of direct or indirect involvement in Russia’s war.

During the 1990s, civil society groups such as Global Witness and Action Aid organized campaigns against the purchase of diamonds that were financing civil wars in Angola and other African countries. The groups organized creative protests at corporate gatherings and staged media events that attracted widespread media coverage, forcing De Beers and the diamond industry to halt the purchase of “blood diamonds.”<sup>125</sup> With the recent EU decision to expand sanctions against Russian diamonds, it may be appropriate to organize a similar consumer campaign against the precious stones that are helping to finance spilling blood in Ukraine.

## SQUEEZING FINANCES

**RECOMMENDATION 5:** Sanctioning countries should assert more control over the tankers market by enforcing the price cap and assuring that oil is shipped only in G7-owned ships. Every effort should be made to impede Russian efforts to purchase tankers or build its own, and to block insurance for oil shipments not within the price cap.

Reducing Russia’s energy revenues is the key to the success of sanctions. An important step in that direction is to lower the \$60 per barrel oil price cap. The price should be set at a level that is above the production cost, to provide incentive for Russia to keep producing, but reduces Moscow’s oil revenues. The International Working Group on Russian Sanctions has recommended setting the price at \$30 per barrel.<sup>126</sup>

Another critical factor for the oil trade is maintaining control over the tankers market. The sanctioning coalition can enforce the price cap only if Russia uses tankers that are owned by one of the participating states, as they are now with Greece. Every effort should be made to impede Russian efforts to purchase tankers or build its own, and to block insurance<sup>127</sup> for oil shipments not within the price cap.<sup>128</sup>

To incentivize cooperation by tanker owners and partially compensate for lower revenues resulting from the price cap, European states should consider offering a sanctions compliance subsidy to shipping companies that reliably cooperate with the energy revenue measures. This could be funded with seized Russian assets. The subsidy could

121 Michael Hiltzik, “Here’s the ‘Hall of Shame’ of Companies That Haven’t Left Russia,” *Los Angeles Times*, 17 March 2022, <https://www.latimes.com/business/story/2022-03-17/these-businesses-havent-left-russia>.

122 “Danone,” #LeaveRussia, 19 July 2023, <https://leave-russia.org/danone>.

123 Michael Weiss, “Short Circuit. How Europe Turns a Blind Eye to Russia Smuggling Dual-Use Microchips,” *The Insider*, 21 August 2023, <https://theinsider.com/en/politics/264419>.

124 Ed Davey, “Top US Firms Supplied Equipment to Keep Russian Oil Flowing after Ukraine Invasion,” AP News, 18 July 2023, <https://apnews.com/article/russia-ukraine-oil-slb-baker-hughes-halliburton-6f596774f713dd44d5bd6b7e5011d48a>.

125 Ivor Gaber and Alice Wynne Willson, “Dying for Diamonds: The Mainstream Media and NGOs—A Case Study of Action Aid,” in Wilma de Jong, ed. *Global Activism, Global Media* (London: Pluto Press): 95–109.

126 The International Working Group on Russian Sanctions, *Working Group Paper #14: Using Energy Sanctions to Shorten the War*, 4 September 2023, [https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2023-09/working\\_paper\\_14\\_-\\_using-energy-sanctions\\_09-04-23.pdf](https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2023-09/working_paper_14_-_using-energy-sanctions_09-04-23.pdf).

127 Tom Wilson, Chris Cook, and Ian Smith, “Quarter of Russian Crude Oil Shipments in December Have Used Western Insurance,” *Financial Times*, 28 December 2022, <https://www.ft.com/content/7da74e6f-fba6-4129-8153-3c40d23986b9>.

128 Ingebord Eliassen and Chris Matthews, “EU Sanctions Will Still Allow Half of European-Insured Russian Oil Shipments,” Investigate Europe, 14 October 2022, <https://www.investigate-europe.eu/en/posts/eu-sanctions-will-still-allow-half-of-european-insured-russian-oil-shipments>.

be tied to the requirement for shippers to certify purchase at the fixed price.

In the financial sector, steps should be taken to extend sanctions on the major banks in Russia that have not been targeted yet, especially the Gazprom Bank, a key channel for payments for Russian energy exports. Many European and other international banks still operate in Russia, including the Austrian Raiffeisen Bank International, the Italian UniCredit, and the American Citigroup. Only one large international bank, Societe Generale from France, has exited completely.<sup>129</sup> Pressure should be applied on Raiffeisen and other international banks to set deadlines for their complete withdrawal from Russia. The Kremlin has adopted new measures to prevent banks from leaving, which means they will likely have to accept financial losses.<sup>130</sup> The cost is necessary, however, and can be explained to customers and shareholders as a sacrifice to save lives in Ukraine.

## MESSAGING STRATEGIES

**RECOMMENDATION 6:** Governments in the sanctioning coalition should collaborate with civil society actors, business executives, artists, and communications professionals to develop public messaging and communications strategies on the moral imperative and political and economic benefits of defunding Russia's war machine.

Concerns about public image and company branding were factors that motivated the large exit of international companies from Russia.<sup>131</sup> Businesses that did not stop operations in Russia experienced a drastic fall in stock prices. Some have had their assets seized by the Kremlin. This reinforces the message that trading with Russia

means paying a high price, not only in public opinion, but in market performance.

Officials in the United States and other sanctioning countries should be more proactive in reinforcing the message that sanctions are an essential element in the global effort to counter Russian aggression. This message could be delivered in major addresses and media outreach to international business audiences, government officials, and members of Congress and other legislatures. This could be combined with parallel messaging to Russian business and financial elites that sanctions relief will begin, and they will be able to recover their assets and re-engage with global markets, when the Kremlin agrees to end the war and withdraw its troops.

Governments in the sanctioning coalition should collaborate with civil society actors, business executives, artists, and communications professionals to develop public messaging and communications strategies on the moral imperative and political and economic benefits of defunding Russia's war machine. The Ukrainian government and Ukraine-affiliated NGOs and civil society movements have launched various social media campaigns to convey these messages.<sup>132</sup> They should be amplified and replicated by other governments and civil society coalitions across Europe, North America, and beyond. For example, Poland launched a billboard campaign across the country in support of more sanctions on Russia.<sup>133</sup>

Governments, corporations, and civil society groups can do more to reinforce the call for stronger measures to isolate the war makers in the Kremlin, while expressing support for Ukraine.

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## Conclusion

It is too early to judge whether sanctions will be able to contribute to a just peace in Ukraine. Sanctions have not reversed Russian aggression, but they have imposed substantial costs that are mounting. Given that some of the tougher restrictions by the Western states have been imposed only recently, it is likely that the Kremlin will face increasing pressures and impediments to continued aggression.

It is clear, however, that sanctions have many gaps that limit their effectiveness. Russia has been able to exploit these weaknesses and has devised multiple schemes for minimizing sanctions impacts and maintaining revenues and access to weapons technology.

This report identifies several recommendations for action that the United States, the European Union, and other sanctioning countries can take to close the loopholes and tighten the pressures on Russia's war-making capacity.

In all these efforts we urge greater cooperation, including regular dialogue, with private sector companies that have exited from the Russian market and encourage others to do the same. We also urge greater efforts in civil society to shame individuals and companies that cooperate with Russia's war economy.

Sanctions on their own cannot stop the war, but they can limit Russia's revenues and reduce its military capacities. In conjunction with the courageous resistance of the Ukrainian people and with wider campaigns of global public pressure and effective international diplomacy, economic pressures can help to end the conflict and reverse Russian aggression. Such economic pressure can also serve as a deterrent against other potential future invasions by Russia or other countries.

## Recommendations

### **Strengthen the sanctions on energy exports**

by increasing documentation requirements on buyers of Russian oil, lowering the price cap, and maintaining tighter control of the tankers that transport the oil.

- Establish a system of more rigorous monitoring and control of tankers carrying Russian oil, including the use of naval patrols, to prevent sanctions violations and illegal transshipment of oil at sea.

### **Extend financial restrictions to additional**

**banks** that continue to operate in Russia, especially Western banks that maintain branches in the country.

### **Enhance investigative and enforcement mea-**

**asures** against sanctions circumvention, targeting companies and countries that are responsible for transferring sanctioned goods to Russia. Impose secondary measures against companies that continue to profit from sanctions evasion.

- Establish new approaches to sharing information on sanctions violations, merging data sets from multiple sources to improve compatibility and user access.
- Increase cooperation with independent investigative agencies and think tanks to facilitate research on sanctions circumvention.

### **Develop plans for Sanctions Assistance Mis-**

**sions** in countries on Russia's periphery, establishing customs support missions as an inducement for improved monitoring of exports to Russia.

### **Engage with communications specialists and**

**civil society groups** to encourage media and social action campaigns against companies that profit from doing business with Russia.

### **Avoid measures that create humanitarian**

**hardships** for vulnerable populations in Russia or that impede the work of Russians who oppose the war.



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