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Title

Framing and detecting EU targeted sanctions evasion and circumvention techniques by designated Russian individuals and entities

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Abstract

The enforcement of EU restrictive measures is deeply fragmented since it mainly relies on national competent authorities often lacking adequate operational capabilities. The activities related to asset tracing are currently very limited, as well as the start of joint investigations or criminal prosecutions. This paper will discuss the preliminary results of a large-scale analysis of the firms controlled by Russian sanctioned entities in European countries. It will shed light on (a) where (in which countries and economic sectors) these firms operate; (b) how these firms are controlled, through which connections and intermediary jurisdictions; (c) the change observed in the ownership or control structure which may constitute circumvention practices. The analysis is carried out under the project KLEPTOTRACE, co-funded by European Commission, ISF police.

Introduction

Following the annexation of Crimea in 2014, deemed illegal, and the full-scale invasion of Ukraine in 2022, which undermined Ukrainian territorial integrity, the European Union, the United States, and several Western countries, including EU member states with communitarian sanctioned packages and in some case their national distinct additions, have imposed extensive economic sanctions on the Russian Federation. These sanctions aim to exert political and economic pressure on Russian Federation, intending to deter the aggression and penalize unlawful actions.

International economic sanctions serve as tools of political and economic pressure, utilized by states and international organizations against other states, groups, individuals, or entities. Over the last thirty years, the approach to international economic sanctions has evolved significantly. The 1990s saw a critical re-evaluation of sanctions, following the humanitarian impact of the embargo on Iraq post its Kuwait invasion. This led to a shift towards more targeted sanctions, designed to primarily affect the political elites responsible for the condemned actions while minimizing the impact on the general population. This transition, from broad 'sanctions of mass disruption' to 'smart sanctions', has shaped subsequent sanction strategies (Drezner, 2011; Hufbauer & Oegg, 2000).

Since then, this targeted approach has largely persisted, up until Russia's recent large-scale invasion of Ukraine. This event prompted the European Union to impose sweeping and pervasive measures, restricting trade in a wide array of goods and services crucial to both the Russian military and economy. Simultaneously, the targeted sanctions approach has been maintained. Since 2014, and intensifying in 2022, several Western countries have implemented specific restrictive measures, such as freezing assets and economic resources of sanctioned individuals and entities.

The sanction lists target individuals who have materially or politically supported Russia's invasion of Ukraine, including military leaders, political figures, and key players in the Russian oil and gas industry. This group also encompasses the "oligarchs," a term referring to those who gained significant wealth with Russia's shift to a market economy and the privatization of major economic sectors after the Soviet Union's dissolution. But the criteria for these targeted sanctions are wide-ranging. They are designed to address various forms of support for the Russian invasion, encompassing those who materially or financially aid the aggression, those who benefit from activities linked to the Russian government, and those who attempt to undermine or circumvent European sanctions. For instance, in EU regulations, recent updates to these criteria focus on preventing the profiteering from forced ownership transfers of EU companies' Russian subsidiaries, reflecting the EU's strategic approach to foreign policy and security. Theoretically, these criteria could encompass a broad spectrum of individuals, with also the possibility to keep in the sanction list persons after their death if their assets continue to pose a threat to Ukraine's integrity or contribute to military aggression against Ukraine (European Commission 2023).

The sanctions imposed by European Union to sanctioned entities and individuals take two primary forms, similarly to the one imposed by other Western countries:

1. Asset freezes, which entail both the freezing of funds and economic resources held by the targeted individuals and a prohibition on European entities providing additional funds or resources to them.
2. Travel restrictions, barring the sanctioned individuals from entering or transiting through the EU by any means of transportation.

Since designated entities, which can be natural or legal persons, may often operate through a network of companies under their control, these companies should also be regarded as listed, even if not directly mentioned in the sanction lists by various international organizations and member states. This broad interpretation is essential for the effective implementation of sanctions.

This expansive approach to asset freezing extends beyond the directly sanctioned individuals to encompass companies under their ownership or control is a concept known as "sanctioned by extension". The delineation of control and ownership is a subject of ongoing debate. Despite guidelines from the European Union (Council of the European Union, 2022, p. 23), interpretations among European economic operators vary. This variance is compounded by different guidelines and interpretations from other sanctioning bodies, like the American Office of Foreign Assets Control (OFAC).

For European economic operators, the task of identifying assets linked directly or indirectly to sanctioned entities is intricate. The "sanctioned by extension" principle, coupled with the fact that not all affected entities are explicitly named in the sanctions lists, poses considerable compliance risks for businesses operating within European and American markets. Furthermore, the absence of a unified European authority for tracking and freezing the assets of sanctioned subjects complicates the process. Each EU member state is responsible for independently enforcing these restrictive measures, leading to application challenges due to disparities in the information and operational capabilities of individual national authorities, which in turn impact their ability to trace and freeze the assets of sanctioned individuals (Olsen & Kjeldsen, 2023).

The identification of entities linked to sanctioned individuals is critical for two primary reasons. First, it ensures the effectiveness of sanctions. Second, it enables a state to recognize which economic entities are affected by the foreign policy strategies, crucial for safeguarding strategic sectors that, if impacted, could harm the community itself.

This need for precise identification is increasingly acknowledged by European institutions and sanction-imposing bodies. It leads to enhanced efforts in asset identification and freezing, imposition of stricter conditions to prevent violation and circumvention, and development of mechanisms to protect strategic companies or assets from sanctions' adverse effects. These efforts aim to uphold foreign policy objectives while mitigating unintended economic impacts, especially when strategic companies fall under the control of sanctioned entities.

In addressing this issue, the EU has strived for greater legislative coordination. For the first time, it has expanded the list of EU crimes under Article 82 of the Treaty on the Functioning of the European Union (TFEU) to include the violation of restrictive measures, and it has proposed a directive to define punishable conduct and related penalties. This proposal is a significant step toward ensuring compliance and enforcing sanctions more effectively.

However, the proposed directive does not offer a clear definition of violation, evasion, and circumvention of sanctions. Instead, it provides examples of violation and circumvention conduct that member states must penalize. This lack of clarity can pose challenges in the directive's application and enforcement, necessitating further clarification and guidance to ensure its effectiveness in sanction implementation.

The absence of significant case studies in courts regarding sanctions evasion leaves a gap in jurisprudence, making it challenging to define specific conduct as a violation of sanctions. Therefore, currently, such conduct is addressed at an abstract level in legislative proposals, with criteria that are often broad and vague. This lack of concrete guidelines hinders the effective monitoring and identification of potential violations.

This study aims to bridge the existing research gaps on this topic:

1. Understanding the extent among European countries of current sanction packages related to the invasion of Ukraine issued by two main sanction-imposing bodies, the EU, and the US OFAC.
2. Identifying instances where control over assets meant to be frozen has been covertly altered or disguised, providing practical case studies to distinguish what constitutes sanction evasion.

The structure of the study is as follows: the first section reviews key references for understanding the scope of sanctions against Russia and their impact. It then presents the proposed definition of sanctions evasion

and circumvention. The aim is to provide a framework for identifying potential profiles of behaviour that could be considered sanctions evasion, particularly in the context of targeted sanctions. The second section describes the digital evidence collection methodology used to understand the extent to which European countries are exposed to the sanctions packages related to the invasion of Ukraine, and to analyse cases that could be considered as sanctions evasion. The third section presents the results and the fourth section draws conclusions.

Literature review and problem formulation

The literature examining the impact of economic sanctions increasingly focuses on quantifying their effects, particularly on the Russian economy. Studies predominantly assess the impact of sanctions on Russia's GDP. The approach typically involves modeling Russian GDP growth based on pre-sanction economic variables and comparing it to actual GDP growth (IMF 2015; Porshakov et al. 2015; Shirov, Yantovskii, and Potapenko 2015; Tuzova and Qayum 2016). Estimates are less certain for the second wave of sanctions following the 2022 full-scale invasion. Beyond GDP, Mamonov and Pestova (2021) identified significant adverse effects of sanctions on Russian real interest rates and corporate external debt immediately after the first wave in 2014 and three years later in 2017.

Despite the growing body of literature on economic sanctions, and particularly its impact on the Russian economy, there remains a paucity of studies specifically focused on comprehensively understanding the reach of targeted sanctions in the countries imposing those sanctions, meaning the level of exposure that those economies have towards the entities that they designate.

The existing research on the effects of sanctions on entities under the control of sanctioned individuals or entities falls short in reconstructing the full spectrum of companies influenced by these sanctions. Those studies have highlighted that sanctioned companies experience significant reductions in operational income, asset value, and workforce (Ahn and Ludema, 2020), and face more substantial stock price drops compared to non-sanctioned entities (Bremus and Hüttel, 2022), or the presence of a noted decrease in performance among non-sanctioned supply chain companies, indicating a contagion effect (Sun et al., 2022). Some studies highlight unintentional effects, such as the strengthening of targeted Russian firms due to internal resource reallocation (Keerati, 2022) and the insulation of strategic companies recognized by the Russian government, which mitigates the impact of sanctions (Ahn and Ludema, 2020). While these studies shed light on the economic and operational impacts at the firm level, they lack a comprehensive analysis of the entire network affected by targeted sanctions. This shortfall indicates a crucial need for more extensive research to understand the full scope and effectiveness of these sanctions.

The literature does not adequately address the extent to which companies outside the jurisdiction under sanction are exposed to these lists and, consequently, the repercussions of prohibitions by sanctioning bodies, for their security foreign policy.

There is a notable gap also in understanding and defining the specific conduct related to sanction evasion, that is the intentional efforts to circumvent the effects of sanctions by violating the prohibitions set by the sanctioning jurisdiction. In this respect, the main reference to consider should be deemed clearly in the official documentation provided by European Commission. In the wake of Ukraine's full-scale invasion, the European Commission has intensified efforts to ensure the effectiveness of its sanctions system. This effort focuses on distinguishing between legitimate and illegitimate actions under the sanction regime.

A violation is a direct breach of the rules set by European sanctions. Examples include providing funds or resources to those who are sanctioned, or not freezing the assets of sanctioned individuals or entities promptly, or allowing sanctioned individuals to travel through EU territories, as well as, engaging in banned transactions with certain states or entities. Circumvention is more subtle, involving actions that indirectly

thwart the objectives of sanctions while maintaining an appearance of legitimacy. This includes the hiding assets that should be frozen, or misrepresenting who truly owns or benefits from certain funds or resources, or not reporting assets under sanctions to the relevant authorities or refusing to cooperate with authorities in verifying compliance.

By clarifying which actions constitute violation and circumvention, the European Commission seeks to effectively enforce its sanctions and prevent any undermining of its objectives. But from its abstract elements, without defining with concrete examples and court cases, it remains abstract the consideration of sanctions evasion and the need for case studies helped to better frame specific conduct in a more specific and granular way.

This lack of comprehensive coverage and detailed analysis in the literature points to the need for further studies. Such research should aim to map the full range of entities indirectly affected by sanctions and to delineate the behaviours constituting sanction evasion. This would provide a more holistic view of the sanctions' reach and effectiveness and help in formulating strategies to address and mitigate the identified gaps and challenges.

The proposed paper aims to shed light on critical aspects of sanctions circumvention and evasion, particularly in the context of the Russian-Ukrainian conflict.

The goal is to map the geographical distribution of assets held by entities sanctioned due to the Russian-Ukrainian conflict and identify the economic sectors in which these entities are primarily invested. This understanding is crucial for several reasons: It helps to comprehend the European economic exposure to Russia, which is vital for identifying vulnerabilities in the European economic system regarding Russian influence and estimating the consequences of current and future European sanction policies. The insights gained will assist in the more uniform application of restrictive measures. It aids European economic operators, especially banks, in compliance, particularly concerning the "sanctions by extension" mechanism.

But specifically, investigating how ownership structures change in response to sanctions is essential to reason on what is to be considered sanction violation or circumvention, so to accurately defining these phenomena in European legislation, and to understand the main pattern involved in those potential cases of violation, so to inform strategies to prevent sanction evasion effectively.

Methods

The study uses digital evidence, consisting in a large dataset of corporate records from an international data provider to understand which are the companies under the control of sanctioned entities in Europe and to understand the changes in those corporate networks of sanctioned entities after sanctions were imposed. The collection and analysis of digital evidence pose significant challenges, including navigating complex corporate data structures and applying specialized queries based on a deep understanding of potentially relevant connections with sanctioned entities.

Indeed, as reported by the European Commission, if the listed person is deemed to own or control a non-listed entity, it can be presumed that the control also extends to the assets of that entity, and that any funds or economic resources made available to that entity would reach or benefit the listed person (European Commission 2023). It cannot be ruled out that funds or economic resources might be made indirectly available to listed persons via an entity which they neither own nor control (e.g. but is acting as an intermediary). But in the case of the present study, the companies considered to be under the control of sanctioned entities (listed as of December 2021) are the one who have shareholding or directorship links with the sanctioned entities as of December 2021, therefore few months before the invasion of large-scale invasion of Ukraine. The rationale behind this approach is to identify corporate links that existed prior to the Russian

invasion of Ukraine and the subsequent escalation of sanctions by the EU, OFAC and other global bodies. Following the invasion, many sanctioned individuals and entities were motivated to divest ownership interests or relinquish management roles, sometimes as a facade, to circumvent these sanctions.

By adopting this methodology, the study aims to provide a comprehensive analysis of the connections between European entities and the persons designated in the context of the Ukrainian invasion. The identification process was based on the following stages:

Data collection of sanctioned individuals. Detailed information on individuals listed in the consolidated EU and OFAC sanctions lists was extracted. This included names, aliases, positions held, and biographical details. A standardization process across both sources ensured consistency.

Identification of sanctioned individuals as shareholders and/or directors of companies. Using the Orbis corporate dataset from Bureau van Dijk, supplemented by analysis from other corporate information sources, potential matches between sanctioned individuals and shareholder and director profiles in the same corporate database were identified. Identification was conducted using partial matching techniques (i.e., fuzzy matching) to account for potential matches obscured by different transliterations from various alphabets. A mixed manual and automated verification process was then implemented to ascertain matches that could be reliably linked to sanctioned individuals. Specifically, where insufficient demographic information, such as age or date of birth, was available to confirm a match, the following rules were applied: profiles were considered verified if they were linked to companies where other designated individuals were also identified.

Reconstruction of ownership and control links of sanctioned individuals. Once the sanctioned individuals were identified among the profiles of directors and shareholders/partners in corporate datasets, their direct and indirect connections with companies registered in Europe were reconstructed. To manage computational complexity, only shareholdings of at least 1% of the company's capital were considered. This process revealed both shareholdings and direct and indirect administrative roles exerted over European companies, allowing for the identification of a complex network of influence and control. Four possible types of links were identified:

- a. **Direct shareholding link:** This type of link occurs when a sanctioned subject directly holds shares in European companies.
- b. **Indirect shareholding link:** An indirect shareholding link exists when the sanctioned subject owns shares in a company through an intermediate entity (e.g., a holding company). Here, the sanctioned subject is not the direct shareholder of the company but holds shares in another entity, which in turn owns shares in the European company under examination. This type of link is less direct but can still significantly influence the target company through the chain of ownership.
- c. **Direct administrative link:** This refers to a sanctioned subject who directly holds an administrative or managerial role in the European company. The sanctioned individual could be a member of the Board of Directors, an executive, or occupy a key position in corporate management. Their role implies active and direct participation in the operational and strategic decisions of the European company.
- d. **Indirect administrative link:** In this type, the sanctioned subject holds a role on the Board of Directors in a company that owns, directly or indirectly, shares in the European company. The sanctioned individual, while not having a direct managerial role in the European company, can exercise influence or control through their position in the intermediate company. This type of link is more complex and, like the indirect shareholding link, can involve several levels of intermediation.

For each link, a control percentage was derived to summarize the degree of control exerted by the sanctioned subject over the European enterprise. The control percentage synthesizes the minimum share of ownership

held by the sanctioned subject. For shareholding links, the control percentage represents the minimum percentage of shares owned by the sanctioned subject in the ownership chain leading directly or indirectly to the company. For administrative links, it refers to the share held by the entity in which the sanctioned subject has an administrative role.

To analyze potential sanctions evasion or circumvention activities, we conducted a comparative study of the ownership structures of entities related to sanctioned persons as of December 2021 and September 2022. This comparison aimed to detect any shifts in ownership during this timeframe. Our focus was on connections not embedded in highly intermediated chains within the corporate network, facilitating easier reconstruction of these changes.

The following typologies of changes in ownership structure are observed: simple replacement, i.e. cases where the ownership structure is the same as before the sanctions, except that the shares held by a designated entity are transferred entirely to another person or divided among several persons; disappearance and structural changes, i.e. disappearance and structural changes, i.e. cases where the designated entity disappears from the ownership structure, resulting in changes in the complexity, size and fragmentation of the structure; dilution of ownership, i.e. where the sanctioned entity remains in the ownership structure but its control is significantly reduced so that it is no longer the beneficial owner of the company.

These categorizations help in identifying potential sanction circumvention tactics and provide a clearer understanding of the implications of these ownership changes in the context of EU regulations.

Results

The analysis identified 342 sanctioned entities as of December 2022, with connections to 9,866 European entities in December 2021. Of these, 136 entities are directly listed on the European Union's sanctions list, while 255 are sanctioned by OFAC. The methodology employed successfully revealed links, including those through complex equity chains.

TABLE 1
Sanctioned entities linked to european companies, by sanction list

Sanction List	Percentage of sanctioned entities in Europe
EU	136 out 1,792 sanctioned entities (7.6%)
US OFAC	255 out 2,313 sanctioned entities (11.0%)

This network of corporate shareholdings and administrative links involves 9,866 European companies, predominantly through indirect relationships as administrators. Most of these European companies are part of corporate groups or networks of shareholdings, often multi-level, where the sanctioned entities play administrative roles. Specifically, of the 9,866 European companies, 9,507 are linked to sanctioned entities through a chain of intermediary companies where the sanctioned entities hold administrative roles. Concurrently, in 1,695 of these 9,866 companies, there also exists an indirect shareholding link with the sanctioned entities. In these cases, the sanctioned entities hold shares in companies which, in turn, own stakes in European companies.

Therefore, most links that sanctioned entities have with European companies are indirect, although there are also instances of direct shareholdings in 272 European companies, and in 215 cases the sanctioned entities directly hold an administrative role in European companies. Table 2 summarizes the types of links between sanctioned entities and European companies.

TABLE 2
Types of links between sanctioned entities and European companies

Tipo di relazione	Totale	EU	OFAC
Number of links			
Administrative link	43,929	16,761	39,219
<i>Direct only</i>	245	191	96
<i>Indirect only</i>	43,615	16,551	39,069
<i>Direct and indirect</i>	69	19	54
Shareholding link	2,374	61	2,358
<i>Direct only</i>	240	16	229
<i>Indirect only</i>	2,092	39	2,087
<i>Direct and indirect</i>	42	6	42
Number of companies			
Administrative link	9,772	8,998	8,536
<i>Direct only</i>	170	128	88
<i>Indirect only</i>	9,507	8,855	8,414
<i>Direct and indirect</i>	45	15	34
Shareholding link	1,967	50	1,962
<i>Direct only</i>	233	11	228
<i>Indirect only</i>	1,695	36	1,695
<i>Direct and indirect</i>	39	3	39

Regarding the significance of shareholding control, of the 9,866 European companies linked to sanctioned entities, 1,871 have control exceeding 50% at all levels of the shareholding chain by the sanctioned entities. This level of control has significant influence, making these companies subject to the same sanctions as the ‘sanctioned by extension’ criteria. For 1,328 of these 1,871 companies, control originates from entities on the OFAC sanctions list, while 1,090 are controlled by entities on the EU list. Additionally, in 819 companies, the shareholding link with sanctioned entities exceeds 25% (but remains below 50%), with 589 linked to entities designated by the European Union and 703 by OFAC-designated entities, indicating substantial, albeit not total, control.

For most European companies with connections to sanctioned entities, these connections involve shareholdings of less than 5% but more than 1%. These minor links suggest that the sanctioned entities do not exert significant decision-making influence over the companies. However, the lack of clarity in defining control in the European approach and operational difficulties in determining it necessitate caution in establishing economic relationships with these entities.

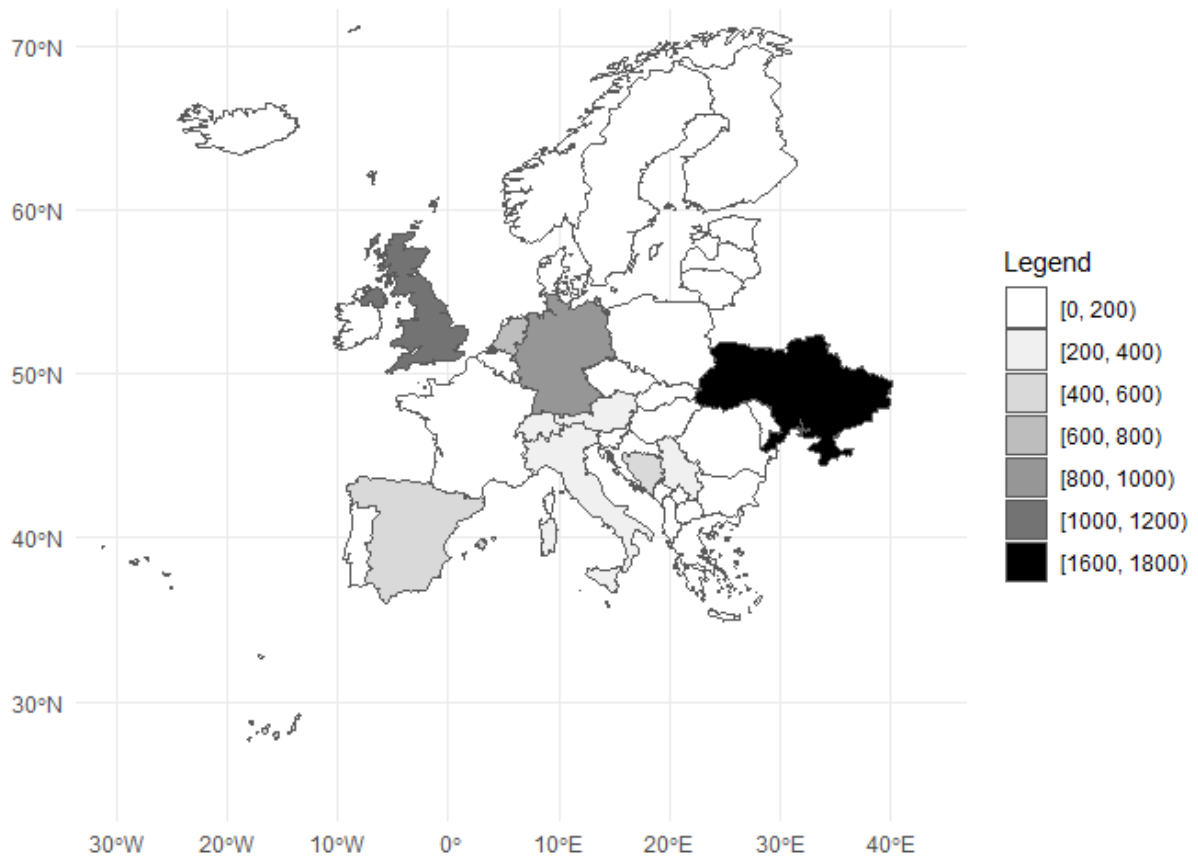
TABLE 3
Types of links with European companies by significance of control

By minimum shareholding percentage	Total	EU	OFAC
Number of links			
Greater than 50%	6,403	2,079	5,309
Between 25% and 50%	4,288	1,274	3,827
Between 10% and 25%	4,960	1,277	4,593
Between 5% and 10%	6,882	1,480	6,501
Less than 5%	23,770	10,712	21,347
Number of companies			
Greater than 50%	1,871	1,090	1,328
Between 25% and 50%	819	589	703

Between 10% and 25%	612	507	544
Between 5% and 10%	611	468	592
Less than 5%	7,346	7,099	6,780

Geographically, the analysis reveals a notable concentration of European companies linked to sanctioned subjects in Ukraine, followed by Germany, Austria, the UK, Cyprus, and the Netherlands. These findings confirm and expand upon the observations in the report "Inside the Matrioska" (Nicolazzo, Riccardi, and Bosio 2022). Figure 2 shows the distribution of companies by country.

FIGURE 1
Geographic distribution of European companies linked to sanctioned entities



The financial sector emerges as the one with the highest prevalence of companies linked to sanctioned subjects. Also notable are the wholesale trade and real estate sectors. Table 4 provides a comprehensive view of the primary investment sectors of sanctioned subjects in Europe, indicating their varied interests and investments across different industries.

TABLE 4
Sectoral distribution of companies linked to sanctioned subjects

NACE sector	Total	UE	OFAC
K64- Financial service activities, except insurance and pension funding	1310	1189	1136
G46- Wholesale trade, except of motor vehicles and motorcycles	884	828	811
L68- Real estate activities	494	464	443
M70- Activities of head offices; management consultancy activities	455	391	394
J62- Computer programming, consultancy, and related activities	328	315	309

F41 – Constructions of buildings	253	249	220
N82- Office administrative, office support and other business support activities	207	187	184
D35- Electricity, gas, steam and air conditioning supply	206	204	186
A01- Crop and animal production, hunting, and related service activities	203	201	163
G47- Retail trade, except of motor vehicles and motorcycles	168	150	143

An additional noteworthy aspect in the analysis of links between sanctioned entities and individuals and European companies is the role of international intermediaries. Specifically, countries used as 'holding hubs' by sanctioned subjects to mediate their financial investments, which may harbor attempts at evading international sanctions. Tables 5, 6, and 7 provide a comprehensive overview of the countries mediating links between sanctioned subjects and European companies, divided by the type of link (administrative or shareholding). In counting the links, a country is considered each time it acts as an intermediary in a link, whether in administrative roles or shareholding participation. However, if a country appears multiple times in the same chain of links from a particular subject to a European company, it is counted only once to avoid repetitions and provide a clearer view of its role.

Countries such as Bosnia and Herzegovina and Cyprus emerge as key nodes in this network, hosting most indirect intermediations with European companies. Among non-European jurisdictions, the significant roles of the Virgin Islands and Turkey are notable. Cyprus's role is particularly relevant. Despite its small economy, it frequently appears as a base for investments by sanctioned subjects in Italian companies. This finding is not unexpected, especially considering Cyprus's historical role with Russian oligarchs, often acting as an access point for investments and fund transfers by the Russian elite, or as a jurisdiction for obtaining community passports against monetary investment (the so-called golden visas).

These findings confirm and expand upon the observations in the "Inside the Matrioska" report (Nicolazzo, Riccardi, and Bosisio 2022), which had already noted that, in cases where Russian individuals are not direct owners of European firms, they exercise control through holding companies registered in Cyprus, Germany, the United Kingdom, Austria, and Luxembourg. According to the report, Cyprus acts as an intermediary jurisdiction for about 17% of all Russian shareholdings in Europe, and Germany for about 12%. The first non-EU countries are the British Virgin Islands and the Cayman Islands, but they represent only about 2% of all intermediate links. Cyprus is a significant transit port for many investments from Russia to Europe.

Understanding these links not only provides insights into the investment dynamics of sanctioned subjects but also highlights the complexity of geopolitical and economic relationships in Europe, where sanctions and restrictive measures intertwine with national interests and transnational investment strategies.

TABLE 5
Significance of jurisdictions mediating shareholding and administrative links

Jurisdictions	Intermediated links	% of total links
Russia	25,182	54.4%
Bosnia and Herzegovina	8,999	19.4%
Cyprus	8,210	17.7%
International	5,414	11.7%
Ukraine	5,000	10.8%
Netherlands	4,495	9.7%
Germany	3,990	8.6%
United Kingdom	3,790	8.2%
Virgin Islands	3,773	8.1%

Turkey	2,741	5.9%
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TABLE 6
Significance of jurisdictions mediating administrative links

Jurisdictions	Intermediated administrative links	% of total administrative links
Russia	24,142	55.0%
Bosnia and Herzegovina	8,530	19.4%
Cyprus	7,768	17.7%
International	5,414	12.3%
Ukraine	4,663	10.6%
Netherlands	4,445	10.1%
Germany	3,840	8.7%
United Kingdom	3,623	8.2%
Virgin Islands	3,588	8.2%
India	2,719	6.2%

TABLE 7
Significance of jurisdictions mediating shareholding links

Jurisdiction	Intermediated shareholding links	% of total shareholding links
Russia	1,040	43.8%
Bosnia and Herzegovina	469	19.8%
Cyprus	442	18.6%
Ukraine	337	14.2%
Switzerland	203	8.6%
Virgin Islands	185	7.8%
United Kingdom	167	7.0%
Germany	150	6.3%
Turkey	118	5.0%
The Bahamas	85	3.6%

The analysis has focused specifically on changes within ownership structures, targeting changes that could be explicitly linked to potential sanctions evasion attempts. Consequently, the analysis is narrowed down to focus only on the most relevant ownership structures and to observe their variations as described.

Of the eight cases examined, five showed changes in ownership that were more complex than a simple change of ownership. It is important to note that our observation lens examines changes that occurred between December 2021 and September 2022, including entities sanctioned in 2022.

The case studies examined show a variety of ways in which companies change ownership, demonstrating different strategies and reasons behind these changes. Many companies controlled by industrialists and businessmen, based in Cyprus and the UK, change their ownership structure, including layers of complexity to hide who really owns them. They transfer shares between different companies and people, making it difficult to trace back to the real owner. This shows how complex and strategic these changes can be.

Case Study 1: Industrialist dealing with complex ownership restructuring in Switzerland

- Sanctioned individual: Industrialist
- Company Location: Switzerland

- Background: Originally, the company was mainly controlled by the sanctioned persons through a Cyprus-based company.
- Change of ownership: In December 2021, a significant restructuring took place. Shares were redistributed to a new configuration involving several Cyprus-based entities. One of these entities was associated with a family member of the original owner, while the others were under the control of trustees, concealing the ultimate beneficial ownership.

Case Study 2: Businessman undergoing strategic restructuring in Cyprus

- Sanctioned individual: Businessman
- Company Location: Cyprus
- Background: The company was originally majority owned by an offshore investment company linked to a sanctioned individual.
- Change in ownership: In March 2022, there was a strategic change in ownership. The previous majority owner was replaced by a new entity, also based in an offshore jurisdiction and linked to a business partner of the original sanctioned entities. This partner is known to keep a low profile, although it is closely linked to the influential circles to which the sanctioned entities belong.

Case Study 3: Industrialist in Cyprus channels funds to Moscow-based organisation

- Sanctioned individual: Industrialist
- Company Location: Cyprus
- Background: The company was originally wholly owned by a sanctioned individual.
- Change in ownership: In July 2022, the ownership was strategically redirected to a Moscow-based organisation and two other Russian entities. The ownership was concealed under layers of entities and individuals with undisclosed details.

Case Study 4: UK businessman disguises control of his holding company

- Sanctioned Individual: Businessman
- Company Location: United Kingdom
- Background: The company was wholly controlled by the sanctioned individual through a holding company.
- Change of ownership: In May 2022, control was transferred to another entity, which subsequently underwent management and ownership changes, resulting in a lack of transparency regarding the current shareholders.

Case Study 5: Industrialist in the United Kingdom dealing with a complex restructuring of a business partner

- Sanctioned Individual: Industrialist
- Company Location: United Kingdom
- Background: The company was wholly owned by a fund, which in turn was wholly owned by a sanctioned individual.
- Change of ownership: In July 2022, the ownership underwent a complex shuffle, passing through various entities and individuals, and ultimately ending up with a manager who had been associated with the entities since 2016.

Case study 6: Simple political asset transfer in the Czech Republic

- Sanctioned individual: Politician
- Company Location: Czech Republic

- Background: Initially controlled by a sanctioned individual with a majority shareholding, which increased over time.
- Change of ownership: In March 2022, full ownership was transferred to a related individual.

Case study 7: Politician simply transfers assets to family members in Ukraine

- Sanctioned individual: Politician
- Company Location: Ukraine
- Background: Wholly controlled by a sanctioned individual until at least September 2021.
- Change of ownership: In January 2022, control was split between two family members, changing ownership within the family.

Case study 8: Politician's simple transfer of assets to business partner in Ukraine

- Sanctioned individual: Politician
- Company Location: Ukraine
- Background: Wholly controlled by a sanctioned individual.
- Change of ownership: In February 2022, the shares were transferred to a related individual who also served as the company's director.

In some cases, such as in Ukraine, Russian-occupied territories and the Czech Republic, the sanctioned individuals, mostly related to politicians, have kept the ownership within the family or close networks. These changes are more straightforward and highlight the role of family and trust in business.

All these different strategies and situations illustrate how the ability to conceal ownership can lead to different strategies in relation to the profile of sanctioned persons. But they may also suggest that the pattern of concealment may change in relation to the jurisdictions involved, meaning that the same patterns may be more common for sanctioned entities investing in some jurisdictions than others.

Understanding these changes is important for understanding how to target assets under the control of sanctioned entities and ensure that the sanctions regime is achieving its intended goals.

Discussion and conclusion

An effective mapping of the connections and interests that sanctioned Russian entities have in Europe serves multiple purposes. In the geopolitical and national security sphere (within a global context), it helps to understand overall European economic exposure to designated entities. This understanding is crucial for identifying vulnerabilities in the European economic system regarding Russian influence and for estimating the consequences of present and future European sanction policies.

Until now, scientific research on sanctions against Russia has almost exclusively focused on their economic impact on Russia, neglecting the study of individual European states' economic exposure to the Russian establishment. Furthermore, no study has yet investigated the interests of designated entities in Europe, beyond individual case studies of a primarily journalistic nature, which illustrate some examples of Russian control of companies, assets, or properties located in Italy.

On a general level, the analysis has identified jurisdictions that are involved in the investment strategies of sanctioned subjects and their cross-relations with European states and the global financial system.

A significant percentage of the identified European companies is connected to sanctioned subjects with control percentages that make them subject to sanctioning measures through the 'sanctions by extension'

mechanism. As a result, such entities are significantly excluded from the economic circuit due to sanctions. This has negative economic effects, especially for those companies that are particularly relevant to the local economy.

Politically, it is therefore necessary that the designation choices consider the potential negative economic impact they can have not only on the target economy of the sanction regime – in this case, Russia – but also on the economic fabric of individual member states, to protect entities that may be considered of strategic interest, without undermining the political and economic intent of the sanctions.

In summary, our results provide a detailed and clarifying picture of the economic and financial dynamics related to sanctions, contributing to a better understanding of the vulnerabilities of the Italian economic system to sanction measures. The findings are particularly useful for informing future political and regulatory decisions, as well as guiding further research in this field.

This study, focusing on changes in ownership structures between December 2021 and September 2022, also contributes to the understanding of potential sanctions evasion tactics. The analysis, narrowed to the most relevant ownership structures, reveals a spectrum of strategies employed by sanctioned entities to obscure and reconfigure their holdings.

Out of eight case studies, five exhibited complex ownership changes beyond simple transfers. These cases highlight diverse methods to camouflage true ownership, especially among industrialists and businessmen in Cyprus and the UK. The common tactic here involves adding layers of complexity, transferring shares among various entities and individuals to obfuscate the ultimate beneficial ownership. This demonstrates the strategic and intricate nature of these ownership changes.

Notably, in jurisdictions like Ukraine and the Czech Republic, sanctioned individuals, often politicians, tend to keep ownership within family networks or close associates. These instances are more straightforward, emphasizing the role of familial trust and networks in business dealings.

The varied strategies across these case studies illustrate how the concealment of ownership can lead to different approaches depending on the profile of the sanctioned persons. It also suggests that patterns of concealment may vary based on the jurisdictions involved, indicating that certain patterns may be more prevalent in some regions than others.

Understanding these shifts in ownership is vital for effectively targeting assets under the control of sanctioned entities and ensuring the efficacy of the sanctions regime. The insights from these case studies not only shed light on the complex maneuvers used to evade sanctions but also underscore the need for robust and sophisticated monitoring tools in sanction enforcement.

The study's findings offer valuable insights into the dynamics of ownership changes among sanctioned entities and highlight the challenges faced in tracking and combating sanction evasion strategies. This underscores the importance of continuous vigilance and adaptation in regulatory approaches to ensure the integrity and effectiveness of international sanction regimes.

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