



Ruble Rumble

Offensive and Defensive Measures to Defeat Russia in the Economic Domain

John Hardie and Peter Doran

Foreword by Juan C. Zarate and Elaine K. Dezenski

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Foreword

Russia's unprovoked and barbaric war on Ukraine has been met with a coordinated financial and economic campaign against Russia by the United States and most major economies around the world. The domain of economic and financial power is now front and center as a core dimension of the confrontation with Russia.

Though there has been much focus on the recent sanctions response, this confrontation with Russia has been underway for many years, stoked by Russian aggression, kleptocracy, and malicious activity through both state and non-state actors. Indeed, the Kremlin, Russian oligarchs, and state-sanctioned militants and hackers have been attacking the West for years — promoting rampant money laundering, ransomware attacks, corruption, and theft. Russia has used the energy sector and other facets of its economy as a sword and shield in any confrontation with its neighbors. Russia is waging hybrid warfare.

The Russian invasion and illegal annexation of Crimea in 2014, and the 2022 invasion of Ukraine — along with the sanctions and asset hunts imposed in response — have served to reveal clearly the economic and financial dimensions of this conflict.

As the fighting in Ukraine drags on, the economic and financial measures intended to weaken Russia's ability to wage war will become an even more important part of the Western response. Western weapons and Ukrainian courage have allowed Kyiv to defend itself and retake large swathes of territory. But prevailing in the economic domain will require a sustained, concerted, and strategic effort from the West. Striking the delicate balance of allowing Russia to supply oil and gas and other necessary goods to global markets while reducing the Kremlin's revenues is a key design of the current sanctions regime, and it is a difficult balance to maintain.

Washington and its allies have powerful economic tools at their disposal. The most important global currencies and countries are aligned in the financial isolation of



Ukraine's President Volodymyr Zelensky delivers a statement at the start of the first plenary session of the NATO summit in Madrid, Spain, on June 29, 2022. (Photo by Gabriel Bouys/AFP via Getty Images)

Russia. European economies have untethered from Russian energy dependencies and have imposed significant sanctions and trade restrictions. The alternate markets willing to do business with Russia, like China and India, are negotiating deep discounts and are wary of getting too close to the taint of Russian atrocities and sanctions evasion. And many in the private sector have divested, departed, and distanced themselves because the reputational and illicit financial risks of doing business in or through Russia are simply too high.

Washington has maintained a delicate bipartisan consensus on the need to wield such tools aggressively to isolate the Russian economy — and a core group of large democratic economies have followed suit. At least for now, there is a broad inclination to rely on non-kinetic tools of economic statecraft and coercion rather than force.

To maximize the leverage of an economic and financial pressure campaign, more aggressive offensive and defensive measures are necessary. This requires a recognition that the economic and financial domain is now an arena of direct conflict with Russia. Sanctions and other measures should be wielded as part of a concerted strategy to undermine Moscow's war efforts and economy for the long term — not simply as tools to react to the latest Russian aggression or malign activity. With sufficient political will and a strengthened

coalition, the United States can wear down the Russian war machine and hamstring its ability to harness malign finance to destabilize democratic governments and evade sanctions and export controls.

The stakes could not be higher. Russia seeks not only to alter its western border but to undermine the U.S.-led world order. Russian victory in Ukraine would reinforce the instincts for impunity for all revisionist, authoritarian regimes. A Russian economic counter-offensive against the West could hobble transparent and open trade, embed corruption in governments worldwide, and compromise free elections. If allowed to evade sanctions and create new channels of economic and financial activity, Russia could enable an alliance of financial rogues connected by their desire to undermine the U.S.-led financial and commercial order.

A message of deterrence to others must also be sent. Indeed, countries that are tempted to mimic Russia's use of brutal force to achieve expansionist goals of territorial domination and national identity (China, for example) need to see the painful economic and financial effects of isolation.

This monograph highlights essential steps the West should take to tighten the screws on Russia's economy and federal budget. It is time to expand the sanctions campaign against the Russian financial sector, including by targeting Moscow's alternative to the SWIFT messaging system. Targeting sanctions evasion must expose and close front companies, shadow fleets, and rogue entities — and the enabling intelligence services — that facilitate Russian illicit activity. Washington also needs to increase pressure on Russia's energy sector, most notably by increasing diversity of supply and delivery, reducing dependence on Russian nuclear exports, and adjusting the oil price-cap mechanism to ensure its effective implementation. More and more, the Russian economy needs to be isolated for its malign activities. Third countries, financial centers, and the

private sector need to understand the real risks of doing business with and depending on Russia.

At the same time, the West must also redouble its fight against the malign financial and commercial activity Russia and its proxies use to influence democratic countries, weaponize corruption, support rogue regimes, and evade sanctions and export controls. The United States must continue to improve financial transparency, including by properly regulating key enablers of malign finance by Russia and other threat actors. The Treasury and Commerce departments will need to be adequately equipped to lead this fight. Finally, Western democracies must help bring potential allies back into the fold — convincing India, Turkey, and the United Arab Emirates, among others, that economic ties with the West are worth more than risky ventures and backroom dealings with Moscow.

If Washington and its allies can maintain global consensus and harness the formidable tools at their disposal, they can help defeat the Kremlin's aggression in Ukraine and severely diminish its capacity to wield malign influence worldwide. Doing so will ultimately weaken Russia's capabilities, while reinforcing the strength of Western sanctions and the U.S.-backed financial and economic order.

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Introduction

In its size, scope, and brutality, Russia's full-scale invasion of Ukraine that began on February 24, 2022, has far surpassed any conflict in Europe since the Second World War. Wars like this were not supposed to happen in Europe — at least, not anymore.

For Russia and the United States, the invasion has accelerated a transition from *competition* to *confrontation*. In this clash, the financial and economic domain is a pivotal battlefield. Sanctions and export controls offer the West a powerful sword with which to bleed Russia's economy and war machine. Those are the offensive components of the evolving economic conflict. The defensive side of this economic battle will require the West to disrupt the illicit or covert financial flows — what this monograph calls “malign finance” — that Moscow and its agents employ to wield influence in foreign countries, exploit corruption, support rogue regimes, and dodge Western sanctions and export controls.

The United States enjoys unique leverage in the economic and financial arena, thanks to the dollar's status as the world's premier reserve currency and America's central role in the global financial system. What it lacks is the will to use that leverage to the fullest if it is to truly deprive Russia of the resources required to wage its war of imperial conquest.

After Moscow's first invasion of Ukraine and annexation of Crimea in 2014, the Obama administration and Western allies imposed after-the-fact costs on Russia, mainly via sanctions. These limited punitive measures failed to convince the Kremlin to reverse course. Ahead of Russia's 2022 invasion, a U.S.-led Western coalition sought to use the threat of harsher economic punishment to deter Putin. This, too, failed.

As the war has progressed, the logic of the Western sanctions campaign has shifted: The Biden administration now embraces the methods and rationale of economic war, as classically defined — that is, denying Moscow the means to wage war in the

first place. The results so far have been mixed. Russia's economy is hurting but resilient, and the Kremlin can still fund its war.

“The United States and its allies must wage a more aggressive economic conflict against Russia with maximum vigor.”

The United States and its allies must wage a more aggressive economic conflict against Russia with maximum vigor. Hundreds of Russian banks are not yet on the sanctions blacklist. Treasury has granted far too many exceptions and exemptions to the financial sanctions in place. The department needs to enforce more stringently the sanctions that prohibit third parties, such as Chinese entities, from doing business with Russia. Washington has not forced third parties to sever ties with SPFS, Russia's alternative to the SWIFT international financial messaging system. Nor has Washington designated Russia as a jurisdiction of primary money laundering concern. The West has also refrained from imposing sanctions on Russia's lucrative civil nuclear industry.

Most notably, Western nations have imposed a cap on the price of most Russian oil exports, but the price ceiling is too high to truly squeeze the Kremlin's coffers, and Russia's top customers can simply ignore the cap by employing non-Western shipping firms and related service providers. Finally, although many Western firms exited the Russian market last year, a number are still doing business in Russia.

To wage high-impact economic warfare against Russia, the U.S. government needs to step up the intensity and tempo of punitive measures across a range of agencies, especially the departments of Treasury and Commerce. Congress will have to provide these agencies with the budgets, tools, and legal authorities to prosecute the conflict more aggressively and effectively. Washington must also close key regulatory loopholes that facilitate malign finance by Russia and other hostile actors. These measures will not only help protect Western societies from Russian malign finance but will also boost the

impact of Western sanctions and export controls, which are currently failing to prevent Moscow from acquiring sensitive goods needed by Russia's defense industry.

The first part of this monograph examines how the United States can sharpen its sanctions "sword" to cut the sinews of war that enable Moscow to continue its aggression in Ukraine and threaten other neighbors. The second part focuses on the West's "shield" against Russian malign finance. Each part concludes with detailed recommendations for the executive branch, Congress, and America's allies.

The United States enjoys tremendous advantages in the economic and financial domain. Washington and its allies must now find the political will to use that leverage to deprive Moscow of the resources to continue its war of aggression. Such measures alone may not defeat Russia on the battlefield, but they can help tip the balance in a crucial domain.

Waging Economic War Against Russia

Following Moscow's illegal annexation of Crimea in 2014 and subsequent invasion of Ukraine's Donbas region, the United States and its allies imposed economic and financial sanctions. The Obama White House initially identified two objectives for its sanctions strategy against Russia. The first was to impose economic costs on Moscow for breaking its post-Cold War peace with Europe. The second was to incentivize Russia to withdraw from Ukraine and return "its military forces to their original bases."¹ The

United States and its transatlantic allies subsequently sanctioned many individuals and entities responsible for destabilizing Ukraine, curbed the access of some state-owned Russian companies to Western financial markets, imposed restrictions on high-technology exports for oil exploration and production, and barred exports of military and some dual-use equipment to Russia.² While these sanctions achieved their first goal (imposing costs), they failed in their second (ending the Russo-Ukrainian war). This failure ultimately set the stage for today's conflict.

For its part, Congress responded to Putin's first invasion of Ukraine and broader malign activity by endowing the executive branch with powerful new economic tools. Major sanctions legislation included the Ukraine Freedom Support Act of 2014, the Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014, and the Countering Russian Influence in Europe and Eurasia Act of 2017 (passed as part of the Countering America's Adversaries Through Sanctions Act, or CAATSA). These laws authorized, and in many cases mandated, sanctions against not only malign individuals but also important economic entities and sectors.

However, successive administrations failed to implement these laws to their full potential. Washington did achieve some success in using CAATSA sanctions to deter foreign countries from buying Russian arms.³ But many authorities went underutilized, such as CAATSA Section 228, which requires sanctions against any individual or entity that "materially violates, attempts to violate, conspires to violate, or causes a violation of" Russia-related sanctions.⁴ Numerous persons in Russia — not

1. The White House, Press Release, "Fact Sheet: Ukraine-Related Sanctions," March 17, 2014. (<https://obamawhitehouse.archives.gov/the-press-office/2014/03/17/fact-sheet-ukraine-related-sanctions>)

2. For an overview of the original sanctions and their application, see: Cory Welt, Rebecca M. Nelson, Kristin Archick, and Dianne E. Rennack, "U.S. Sanctions on Russia," *Congressional Research Service*, January 18, 2022. (<https://sgp.fas.org/crs/row/R45415.pdf>)

3. In August 2018, A. Wess Mitchell, then assistant secretary of state for European and Eurasian affairs, testified that the "chilling effect" from CAATSA Section 231 had caused Moscow to lose "\$8 to \$10 billion in ... arms deals." Assistance Secretary of State for European and Eurasian Affairs A. Wess Mitchell, *Testimony Before the Senate Committee on Foreign Relations*, August 21, 2018. (<https://www.govinfo.gov/content/pkg/CHRG-115shrg40552/html/CHRG-115shrg40552.htm>)

4. See: Matthew Zweig and John Hardie, "Senate Republicans Offer Biden a Deal on the Nord Stream 2 Pipeline," *Foundation for Defense of Democracies*, September 24, 2021. (<https://www.fdd.org/analysis/2021/09/24/senate-republicans-deal-on-nord-stream-2>)

to mention China, Iran, North Korea, and elsewhere — qualify for such sanctions but were never designated.

Meanwhile, Putin harbored far more dangerous ambitions. The first public signs that Putin was preparing to expand the Russo-Ukrainian war emerged in the spring of 2021, when Russia amassed forces along Ukraine's border before ultimately pulling some of them back.⁵ Months later, Russia's military again deployed near Ukraine and in Crimea — and this time, Putin was prepared to invade. As Russia's military build-up progressed through the fall and winter, Washington sounded the alarm that Moscow was planning a new, far larger invasion of Ukraine.⁶

Seeking to deter Putin, Washington threatened that a Russian invasion would trigger “high-impact economic measures that we have refrained from pursuing in the past.”⁷ President Joe Biden publicly warned that Russia would “pay a heavy price” via “swift and severe” sanctions should Putin expand his war of aggression.⁸ The Europeans also pledged

that “any further military aggression against Ukraine will have massive consequences and severe cost in response.”⁹ Specifically, the allies threatened sanctions against major Russian banks as well as far-reaching export controls that would target Russia's dependence on Western technology, components, and equipment in sectors such as defense, aerospace, and high-technology.¹⁰ Biden also vowed to “bring an end” to Moscow's controversial Nord Stream 2 pipeline, intended to bring Russian gas to Germany.¹¹

These warnings marked an important evolution in Western sanctions policy toward Russia. Previously, the United States and its allies had mainly wielded sanctions as a reactive tool aimed at reversing Russian bad behavior, such as its 2014 invasion of Ukraine or its possession of an illegal chemical weapons program.¹² The White House was now employing the threat of sanctions proactively, as a means of deterrence. Washington had already dabbled in this space via a 2018 executive order that authorized tough sanctions in the event of Russian interference

5. Mykola Bielieskov, “The Russian and Ukrainian Spring 2021 War Scare,” *Center for Strategic and International Studies*, September 2021. (<https://www.csis.org/analysis/russian-and-ukrainian-spring-2021-war-scare>)

6. Shane Harris, Karen DeYoung, Isabelle Khurshudyan, Ashley Parker, and Liz Sly, “Road to war: U.S. struggled to convince allies, and Zelensky, of risk of invasion,” *The Washington Post*, August 16, 2021. (<https://www.washingtonpost.com/national-security/interactive/2022/ukraine-road-to-war/>)

7. Secretary of State Antony J. Blinken, U.S. Department of State, *Remarks to the Press*, December 1, 2021. (<https://www.state.gov/secretary-antony-j-blinken-at-a-press-availability-at-the-nato-ministerial>)

8. Matthew Lee, Aamer Madhani, and Frank Jordans, “Biden issues new warning to Russia over invading Ukraine,” Associated Press, January 20, 2022. (<https://apnews.com/article/joe-biden-vladimir-putin-moscow-russia-europe-7e06c808f644679afcf64f66bc83792>); The White House, Press Release, “Readout of President Biden's Call with President Vladimir Putin of Russia,” February 12, 2022. (<https://www.whitehouse.gov/briefing-room/statements-releases/2022/02/12/readout-of-president-bidens-call-with-president-vladimir-putin-of-russia>)

9. “Russia Ukraine: EU warns Moscow of ‘severe cost’ of aggression,” *BBC* (UK), December 17, 2021. (<https://www.bbc.com/news/world-europe-59677675>)

10. Andrea Shalal, “SWIFT off Russia sanctions list, state banks likely target -U.S., EU officials,” *Reuters*, February 11, 2022. (<https://www.reuters.com/world/europe/swift-off-russia-sanctions-list-state-banks-likely-target-us-eu-officials-2022-02-11>); The White House, “Background Press Call by Senior Administration Officials on Russia Ukraine Economic Deterrence Measures,” *Remarks to the Press*, January 25, 2022. (<https://www.whitehouse.gov/briefing-room/statements-releases/2022/01/25/background-press-call-by-senior-administration-officials-on-russia-ukraine-economic-deterrence-measures>)

11. “If Russia invades Ukraine, there will be no Nord Stream 2, Biden says,” *Reuters*, February 8, 2022. (<https://www.reuters.com/business/energy/if-russia-invades-ukraine-there-will-be-no-nord-stream-2-biden-says-2022-02-07>)

12. See, for example: U.S. Department of State, Office of the Spokesperson, Fact Sheet, “Second Round of Chemical and Biological Weapons Control and Warfare Elimination Act Sanctions on Russia,” August 2, 2019. (<https://2017-2021.state.gov/second-round-of-chemical-and-biological-weapons-control-and-warfare-elimination-act-sanctions-on-russia/index.html>)

in U.S. elections.¹³ But America had never employed those authorities against significant economic targets.

Unfortunately, Putin was undeterred. Western threats failed to prevent his expanded invasion of Ukraine. On February 24, 2022, Russian missiles began striking targets across Ukraine, and Russia's first military convoys followed soon after. The second, more deadly phase of the Russo-Ukrainian war had begun.

To its credit, the Biden administration made good on its threats, even as the U.S. intelligence community assessed that Ukraine would be quickly overrun.¹⁴ In concert with allies, the United States sanctioned hundreds of Russian elites, along with their families and associated entities, and levied sanctions on most of Russia's major banks as well as numerous other Russian companies. Washington and its allies also imposed stringent controls on the export of microelectronics and other sensitive goods, aiming to kneecap Russia's defense industrial base and high-tech sector. Germany froze Nord Stream 2.¹⁵

Then the Western alliance went further. Washington banned U.S. imports of Russian oil, liquefied

natural gas, and coal.¹⁶ Other U.S. allies imposed similar measures or pledged to do so.¹⁷ Importantly, the United States and its G7 allies froze roughly \$300 billion of the Russian government's foreign currency reserves, halving its over \$600 billion war chest, which Moscow hoped would enable Russia to withstand sanctions.¹⁸ What is more, these actions led over 1,000 Western companies to voluntarily halt or curtail their business operations in Russia for fear of damaging their reputations or running afoul of future sanctions.¹⁹

Dialing Up the Economic War Against Russia

As the war dragged on, the Biden administration's public messaging regarding sanctions shifted. Rather than focusing on deterrence, the administration emphasized its efforts to "undermine [Moscow's] ability to wage its illegal war," as Treasury Secretary Janet Yellen put it in September 2022.²⁰ This transition was significant. The United States is now attempting to wage economic warfare as classically defined, namely the employment of "coercive economic

13. Executive Order 13848, "Imposing Certain Sanctions in the Event of Foreign Interference in a United States Election," September 12, 2018. (<https://trumpwhitehouse.archives.gov/presidential-actions/executive-order-imposing-certain-sanctions-event-foreign-interference-united-states-election>)

14. U.S. Senate Committee on Armed Services, "Hearing to Receive Testimony on Worldwide Threats," May 10, 2022, page 79. (https://www.armed-services.senate.gov/imo/media/doc/22-40_05-10-2022.pdf)

15. Cory Welt, "Russia's Invasion of Ukraine: Overview of U.S. Sanctions and Other Responses," *Congressional Research Service*, April 22, 2022. (<https://crsreports.congress.gov/product/pdf/IN/IN11869/7>)

16. The White House, Press Release, "United States Bans Imports of Russian Oil, Liquefied Natural Gas, and Coal," March 8, 2022. (<https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/08/fact-sheet-united-states-bans-imports-of-russian-oil-liquefied-natural-gas-and-coal>)

17. UK Department for Business, Energy & Industrial Strategy, Prime Minister's Office, 10 Downing Street, The Rt Hon Kwasi Kwarteng MP, and The Rt Hon Boris Johnson MP, Press Release, "UK to phase out Russian oil imports," March 8, 2022. (<https://www.gov.uk/government/news/uk-to-phase-out-russian-oil-imports>); Australian Department of Foreign Affairs and Trade, Press Release, "Russia – Extension of sanctions on Russia to prohibit the import into Australia of Russian oil and other energy products," March 11, 2022. (<https://www.dfat.gov.au/news/news/russia-extension-sanctions-russia-prohibit-import-australia-russian-oil-and-other-energy-products>); Leila Fadel and Rob Schmitz, "European Union leaders agree to ban 90% of Russian oil by the end of 2022," *NPR*, March 31, 2022. (<https://www.npr.org/2022/05/31/1102097085/european-union-leaders-agree-to-ban-90-of-russian-oil-by-the-end-of-2022>)

18. "Sanctions have frozen around \$300 bln of Russian reserves, FinMin says," *Reuters*, March 13, 2022. (<https://www.reuters.com/article/ukraine-crisis-russia-reserves-idUSL5N2VG0BU>)

19. Jeffrey Sonnenfeld et al., "Yale CELI List of Companies Leaving and Staying in Russia," *Yale School of Management*, accessed March 14, 2023. (<https://www.yalerussianbusinessretreat.com>)

20. U.S. Department of the Treasury, Press Release, "Treasury Imposes Swift and Severe Costs on Russia for Putin's Purported Annexation of Regions of Ukraine," September 30, 2022. (<https://home.treasury.gov/news/press-releases/jy0981>)

activity against the economy of a hostile entity or state in order to diminish its military potential.”²¹ So far, however, Western sanctions have not significantly constrained Russia’s ability to prosecute the war.

“The Kremlin can still afford to pay for its war in Ukraine, thanks chiefly to continued revenue from oil exports.”

To be sure, Western sanctions have taken a toll on the Russian economy. In 2022, Russian imports plummeted by almost a quarter.²² Supply shortages proliferated. Consumer spending declined. Business, capital, and population flight all surged, and the Russian government was forced to default on its sovereign debt.²³ Some industries, such as automotive manufacturing, which rely on foreign parts, were hit particularly hard. For the Russian auto market, this resulted in a whopping 60 percent decline in car sales for the year on account of international sanctions.²⁴ Overall, Russia suffered an economic contraction of around 3 percent of its gross domestic product (GDP)

in 2022 and appears set for another poor economic performance in 2023.²⁵ While high energy prices and capital controls allowed Moscow to defy initial projections that its GDP would shrink by as much as 15 percent,²⁶ Russia’s long-term economic outlook looks inescapably gloomy.

Nevertheless, the Kremlin can still afford to pay for its war in Ukraine, thanks chiefly to continued revenue from oil exports. Russia banked an estimated \$218 billion from oil exports in 2022, a 20 percent increase over the previous year, along with \$138 billion from natural gas.²⁷ Although Moscow’s budget surplus vanished as oil prices fell from their highs during the spring and summer,²⁸ Russia continues to rake in petrodollars. A January 2023 assessment calculated that Russia will still earn an estimated \$211 billion from fossil fuel exports this year despite an EU ban on most imports of Russian oil.²⁹ The International Monetary Fund predicts the Russian economy will return to positive GDP growth this year, at 0.3 percent.³⁰ At a meeting with top military officials in December, Putin vowed that the Russian Armed Forces would have

21. Tor Egil Følrand, “The History of Economic Warfare: International Law, Effectiveness, Strategies,” *Journal of Peace Research*, Volume 30, Number 2, May 1993. (<https://journals.sagepub.com/doi/10.1177/00223433930300002003>)

22. Central Bank of the Russian Federation, Monetary Policy Report, “Сдержанный спрос в условиях неопределенности [Restrained demand amid uncertainty],” Issue 4 (40), November 8, 2022. (https://www.cbr.ru/about_br/publ/ddkp/longread_4_40)

23. For a review of how Western sanctions have impacted the Russian economy, see: Jeffrey Sonnenfeld and Steven Tian, “Actually, the Russian Economy Is Imploding,” *Foreign Policy*, July 22, 2022. (<https://foreignpolicy.com/2022/07/22/russia-economy-sanctions-myths-ruble-business>)

24. “Russian Car Sales Down 58.8% in 2022 as Sanctions Hit Industry Hard,” *Reuters*, January 12, 2023. (<https://www.reuters.com/business/autos-transportation/russian-car-sales-down-588-2022-aeb-2023-01-12>)

25. Alexander Marrow, “Russia’s more gradual economic contraction to extend into 2023,” *Reuters*, December 2, 2022. (<https://www.reuters.com/markets/russias-more-gradual-economic-contraction-extend-into-2023-2022-12-02>)

26. “Russia’s GDP to fall 15% this year on Ukraine-linked sanctions -IIF,” *Reuters*, March 10, 2022. (<https://www.reuters.com/markets/rates-bonds/russias-gdp-fall-15-this-year-ukraine-linked-sanctions-iif-2022-03-10>)

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

28. “Russia’s Budget Surplus Is Nearly Erased as War in Ukraine Drags On,” *Bloomberg*, October 12, 2022. (<https://www.bloomberg.com/news/articles/2022-10-12/russia-s-budget-surplus-is-nearly-erased-as-ukraine-war-drag-on>)

29. Lauri Myllyvirta, Hubert Thieriot, Jan Lietava, Andrei Ilas, and Meri Pukarinen, “EU Oil Ban and Price Cap are Costing Russia EUR 160 mn/day, But Further Measures Can Multiply the Impact,” *Centre for Research on Energy and Clean Air*, January 11, 2023. (<https://energyandcleanair.org/publication/eu-oil-ban-and-price-cap-are-costing-russia-eur160-mn-day-but-further-measures-can-multiply-the-impact>)

30. “IMF predicts Russian economy to rebound in 2023,” *The Bell* (Russia), February 4, 2023. (<https://thebell.io/en/imf-predicts-russian-economy-to-rebound-in-2023>)

“no limitations” on its budget.³¹ It remains to be seen if this is true.

Likewise, although the Biden administration has claimed export controls have crippled Russia’s defense industrial base,³² these claims appear premature. To be sure, Western export controls have made it more difficult for Russian companies to procure certain key inputs, such as microelectronics. Pre-2022 Western export controls had already caused problems for Russia’s defense industrial base, and the post-invasion restrictions may pose an increasing challenge for Moscow. They may have already undermined production to a degree. But Russia continues to manufacture equipment ranging from tanks to missiles,³³ likely thanks to its pre-war component stocks and ongoing success in circumventing Western export controls. In fact, as the second part of the report will cover in greater depth, Russia appears to have imported *more* semiconductors and electronic integrated circuits in 2022 than it did in 2021.

Washington and its allies are at a critical decision point. They can either maintain their current approach, which has thus far failed to deny Russia the ability to wage war, or they can redouble their efforts to undermine Russia’s economy and war machine. To achieve this, Western policymakers must expand

sanctions against two important drivers of Russia’s economy and federal budget: the financial and energy sectors. The West also needs to improve its ability to counter Russian illicit procurement schemes (which this monograph covers in the “Countering Russian Malign Finance” section).

Moscow’s financial planners have provided the West with a map explaining how to squeeze the Kremlin’s cashflow. Russia’s 2023 federal budget includes several fundamental assumptions. First, it predicts Russia will run a deficit of 2 percent of GDP with Urals crude selling at just over \$70 a barrel.³⁴ Second, it assumes annual inflation will remain below 5.5 percent.³⁵ Third, the budget assumes Russia’s GDP will fall by around 1 percent for the year.³⁶ All three represent vulnerabilities the West should exploit.

The Financial Sector

The Russian financial sector has been a key target of Western sanctions. In addition to freezing \$300 billion of the Russian Central Bank’s foreign currency holdings, many of Russia’s state-owned and private firms lost their ability to raise foreign cash and access Western markets. Sanctions on dealings in Russian sovereign debt forced Russia into default.³⁷ Treasury also imposed full or partial sanctions on most of Russia’s top banks, representing over 80 percent of all

31. “Putin Pledges Unlimited Spending to Ensure Victory in Ukraine,” *Bloomberg*, December 21, 2022. (<https://www.bloomberg.com/news/articles/2022-12-21/putin-vows-no-limit-in-funds-to-ensure-army-s-victory-in-ukraine>)

32. U.S. Department of State, Office of the Spokesperson, Fact Sheet, “The Impact of Sanctions and Export Controls on the Russian Federation,” October 20, 2022. (<https://www.state.gov/the-impact-of-sanctions-and-export-controls-on-the-russian-federation>)

33. See: John Hardie, “Estimating Russia’s Kh-101 Production Capacity,” *FDD’s Long War Journal*, December 16, 2022. (<https://www.longwarjournal.org/archives/2022/12/estimating-russias-kh-101-production-capacity.php>)

34. Darya Korsunskaya, “Analysis: Russia may hike taxes as military spending, oil price weigh on budget,” *Reuters*, January 15, 2023. (<https://www.reuters.com/markets/europe/russia-may-hike-taxes-military-spending-oil-price-weigh-budget-2023-01-13>); Russian Federation Office of the President, “Подписан закон о федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов [The law on the federal budget for 2023 and for the planning period of 2024 and 2025 was signed],” December 5, 2022. (<http://kremlin.ru/acts/news/70001>)

35. Russian Federation Executive Office of the President, Press Release, “Подписан закон о федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов [The law on the federal budget for 2023 and for the planning period of 2024 and 2025 was signed],” December 5, 2022. (<http://kremlin.ru/acts/news/70001>)

36. Iwona Wiśniewska, “Russia’s ‘war’ budget for 2023–2025,” *Centre for Eastern Studies*, December 12, 2022. (<https://www.osw.waw.pl/en/publikacje/analyses/2022-12-12/russias-war-budget-2023-2025>)

37. Giulia Morpurgo and Libby Cherry, “Russia Slips Into Historic Default as Sanctions Muddy Next Steps,” *Bloomberg*, June 26, 2022. (<https://www.bloomberg.com/news/articles/2022-06-26/russia-defaults-on-foreign-debt-for-first-time-since-1918>)

Russian banking sector assets.³⁸ The European Union cut them off from Belgium-based SWIFT, which provides international financial messaging services vital to banks.³⁹

Still, the Kremlin has managed to blunt the impact of these blows. In part, this reflects Russia's efforts since 2014 to make its financial sector more resilient and less dependent on the West, including by reducing foreign borrowing, diversifying reserves, and strengthening Russia's domestic banking sector. Russia's financial technocrats also reacted adroitly to the 2022 sanctions through rapid rate hikes and effective capital controls, both of which have since been eased. Most important, Russia's continued energy exports enable it to accumulate additional foreign reserves.⁴⁰

If Washington is going to fully constrain the Kremlin's economy and war machine, more must be done to intensify pressure on the Russian financial sector. For one thing, hundreds of Russian financial institutions remain undesignated and connected to SWIFT. The most notable example is state-owned Gazprombank,

Russia's third-largest, which pays the wages of some Russian troops in Ukraine.⁴¹

While Treasury has imposed debt and equity restrictions on Gazprombank and sanctioned its board members,⁴² the bank is not subject to full blocking sanctions. Nor has Treasury even barred U.S. financial institutions from maintaining correspondent or payable-through accounts for the bank. (A correspondent account is an account established by a bank to handle financial transactions for another financial institution. A payable-through account is a correspondent account permitting the foreign financial institution's customers to engage in banking activities.) In order to allow Gazprombank to continue processing energy-related transactions, Western policymakers have refrained from imposing these measures, despite Ukrainian pleas.⁴³

This needs to change. Treasury could fully sanction Gazprombank while accommodating these concerns by issuing a license exempting limited energy-related transactions. Treasury has already issued a similar license granting exemptions for six other top Russian banks, including Russia's two largest, Sberbank and

38. U.S. Department of the Treasury, Press Release, "U.S. Treasury Announces Unprecedented & Expansive Sanctions Against Russia, Imposing Swift and Severe Economic Costs," February 24, 2022. (<https://home.treasury.gov/news/press-releases/jy0608>); U.S. Department of the Treasury, Press Release, "U.S. Treasury Escalates Sanctions on Russia for Its Atrocities in Ukraine," April 6, 2022. (<https://home.treasury.gov/news/press-releases/jy0705>); U.S. Department of the Treasury, Press Release, "Targeting Key Sectors, Evasion Efforts, and Military Supplies, Treasury Expands and Intensifies Sanctions Against Russia," February 24, 2023. (<https://home.treasury.gov/news/press-releases/jy1296>)

39. Council of the European Union, Press Release, "Russia's military aggression against Ukraine: EU bans certain Russian banks from SWIFT system and introduces further restrictions," March 2, 2022. (<https://www.consilium.europa.eu/en/press/press-releases/2022/03/02/russia-s-military-aggression-against-ukraine-eu-bans-certain-russian-banks-from-swift-system-and-introduces-further-restrictions>); Council of the European Union, Press Release, "Russia's aggression against Ukraine: EU adopts sixth package of sanctions," June 3, 2022. (<https://www.consilium.europa.eu/en/press/press-releases/2022/06/03/russia-s-aggression-against-ukraine-eu-adopts-sixth-package-of-sanctions>)

40. "Working Group Paper #4: Strengthening Financial Sanctions Against the Russian Federation," *International Working Group on Russian Sanctions*, June 22, 2022. (<https://fsi.stanford.edu/working-group-sanctions>)

41. Heorhiy Shabayev, Natalie Sedletska, and Kyrylo Ovsyaniy, "Investigation: Free From Western Sanctions, A Russian Bank Helps Fund The Invasion Of Ukraine," *Radio Free Europe/Radio Liberty*, June 28, 2022. (<https://www.rferl.org/a/ukraine-gazprombank-sanctions-funds-russia-war-soldiers-wages/31920143.html>)

42. U.S. Department of the Treasury, Press Release, "Announcement of Treasury Sanctions on Entities Within the Financial Services and Energy Sectors of Russia, Against Arms or Related Materiel Entities, and those Undermining Ukraine's Sovereignty," July 16, 2014. (<https://home.treasury.gov/news/press-releases/jl2572>); U.S. Department of the Treasury, Press Release, "U.S. Treasury Announces Unprecedented & Expansive Sanctions Against Russia, Imposing Swift and Severe Economic Costs," February 24, 2022. (<https://home.treasury.gov/news/press-releases/jy0608>); U.S. Department of the Treasury, Press Release, "U.S. Treasury Takes Sweeping Action Against Russia's War Efforts," May 8, 2022. (<https://home.treasury.gov/news/press-releases/jy0771>)

43. Dan De Luce, "Too big to sanction? A large Russian bank still operates freely because it helps Europe get Russian gas," *NBC News*, June 18, 2022. (<https://www.nbcnews.com/news/world/big-sanction-big-russian-bank-still-operates-freely-global-economy-hel-rcna34123>)

VTB Bank, as well as the Central Bank. The number of exemptions seems excessive, but Treasury has twice extended the license, most recently in November.⁴⁴ The current license expires in May 2023.⁴⁵

At the same time, Treasury could do more to ensure that its current sanctions achieve their full potential. For example, VTB Bank announced in September that it had become the first Russian bank to offer RMB-denominated money transfers to China without using SWIFT, from which the bank was disconnected the previous March.⁴⁶ Executive Order 14024, the authority Treasury used to impose full blocking sanctions against VTB Bank in February 2022,⁴⁷ authorizes the department to sanction any individual or entity determined “to have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of” VTB Bank.⁴⁸ In other words, Treasury has legal grounds to designate any Chinese entity that transacts with

VTB Bank, including its Shanghai subsidiary, which in December 2020 integrated into the China National Advanced Payment System.⁴⁹

In conjunction with designating more Russian banks and cutting them off from SWIFT, the United States should also target Russia’s alternative to SWIFT, known as SPFS.⁵⁰ Moscow began developing SPFS in 2014, concerned that Russian banks could be cut off from SWIFT. The system launched in 2017. According to Russia’s Central Bank, SPFS had 331 users as of January 2022 and 338 by early March 2022, including a small number of foreign banks, many of them subsidiaries of Russian banks.⁵¹ The central bank subsequently stopped publishing the user list, but its chairwoman said last April that SPFS had 360 users, including 52 institutions from 12 countries, 13 of which had joined in 2022. She said it was handling almost 30 percent of Russia’s payment messaging volume,⁵² up from one-fifth in 2021.⁵³

44. “U.S. allows some Russian energy-related transactions until Dec. 5,” *Reuters*, June 14, 2022. (<https://www.reuters.com/business/energy/us-allows-some-russian-energy-related-transactions-until-dec-5-2022-06-14>); “U.S. to allow some Russian energy-related transactions until next May,” *Reuters*, November 10, 2022. (<https://www.reuters.com/markets/us-allow-some-russian-energy-related-transactions-until-next-may-2022-11-10>)

45. U.S. Department of the Treasury, Office of Foreign Assets Control, General License No. 8E, “Authorizing Transactions Related to Energy,” December 15, 2022. (https://home.treasury.gov/system/files/126/russia_gl8e.pdf)

46. “Russia’s VTB launches transfers in Chinese yuan bypassing SWIFT,” *Reuters*, September 6, 2022. (<https://www.reuters.com/markets/currencies/russias-vtb-launches-transfers-chinese-yuan-bypassing-swift-2022-09-06>)

47. U.S. Department of the Treasury, Press Release, “U.S. Treasury Announces Unprecedented & Expansive Sanctions Against Russia, Imposing Swift and Severe Economic Costs,” February 24, 2022. (<https://home.treasury.gov/news/press-releases/jy0608>)

48. Executive Order 14024, “Blocking Property With Respect To Specified Harmful Foreign Activities of the Government of the Russian Federation,” April 15, 2021. (<https://home.treasury.gov/system/files/126/14024.pdf>)

49. VTB Bank, Press Release, “ВТБ получил прямой доступ к национальной системе внутренних платежей Китая CNAPS [VTB received direct access to China’s national domestic payment system CNAPS],” December 15, 2020. (Archived version available at: <https://web.archive.org/web/20220114094236/https://www.vtb.ru/o-banke/press-centr/novosti-i-press-relizy/2020/12/2020-12-15-vtb-poluchil-pryamoy-dostup-k-natsionalnoy-sisteme-vnutrennikh-platezhey-kitaya-cnaps>)

50. Matthew Zweig and John Hardie, “Time to Sanction Russia’s Alternative to SWIFT,” *Foundation for Defense of Democracies*, March 7, 2022. (<https://www.fdd.org/analysis/2022/03/07/time-to-sanction-russias-alternative-to-swift>)

51. Central Bank of the Russian Federation, “Перечень пользователей СПФС Банка России [List of SPFS users of the Bank of Russia],” accessed February 15, 2023. (Archived version available at: <https://web.archive.org/web/20220128235305/http://www.cbr.ru/PSystem/mes/perechen-pol-zovateley-spfs-banka-rossii>); Central Bank of the Russian Federation, “Перечень пользователей СПФС Банка России [List of SPFS users of the Bank of Russia],” accessed February 15, 2023. (Archived version available at: <https://web.archive.org/web/20220307024658/http://www.cbr.ru/PSystem/mes/perechen-pol-zovateley-spfs-banka-rossii>)

52. “The Central Bank of the Russian Federation hid the list of participants in the Financial Message Transmission System [ЦБ РФ скрыл список участников Системы передачи финансовых сообщений],” *Interfax* (Russia), April 19, 2022. (<https://www.interfax.ru/business/835664>)

53. Benjamin Curry and Korrena Bailie, “Should Russia Be Removed From SWIFT?” *Forbes*, February 25, 2022. (<https://www.forbes.com/advisor/personal-finance/swift-russia-ukraine-war>)

To undercut Russia's ability to use SPFS as an alternative to SWIFT, the Biden administration could bar any financial institution connected to SPFS and above a certain capitalization threshold from using correspondent or payable-through accounts in the United States. Treasury could also use its authorities under Section 311 of the USA PATRIOT Act to require U.S. financial institutions to reject transactions that directly or indirectly utilize SPFS.⁵⁴ The message should be clear: Foreign financial institutions cannot do business with America while simultaneously undermining U.S. sanctions on Russia.

Finally, Treasury should use its authority under Section 311 of the USA PATRIOT Act to designate Russia as a jurisdiction of primary money laundering concern (PMLC), as the United States did to Iran and North Korea. This measure would require U.S. banks to apply enhanced due diligence measures or obligate them to restrict or halt their financial transactions with Russian persons. It would also discourage non-U.S. banks from doing business with Russia. Thus, a PMLC designation would not only help counter Russian illicit finance but would also increase pressure on Russia's financial system and economy. Indeed, a PMLC designation is an important building block in any comprehensive sanctions program.⁵⁵

Energy Sector

Nuclear

Civil nuclear energy represents one of the few sectors in which Russia boasts a position as a leading power. State-owned Rosatom supplies, services, and builds reactors in countries across the globe, earning Russia both substantial revenue and influence.

Since its 2022 invasion of Ukraine, Russia's exports of nuclear fuel and technology have surged, thanks to increased exports to China, Hungary, Turkey, and India.⁵⁶ In December, Rosatom's CEO boasted that despite Western pressure, the company would earn \$10 billion in export revenue in 2022, around 15 percent more than the year prior. He said Rosatom's "portfolio of foreign orders for 10 years ahead is stable at the level of \$200 billion."⁵⁷

In addition to bolstering Russia's economy and geopolitical leverage, Rosatom also directly aids Moscow's war effort. A Rosatom subsidiary claims ownership of Ukraine's Russian-occupied Zaporizhzhia Nuclear Power Plant,⁵⁸ where Russian personnel have abused Ukrainian workers and endangered nuclear safety and security.⁵⁹ Rosatom also may be working to help sanctioned Russian defense manufacturers

54. Matthew Zweig and John Hardie, "Time to Sanction Russia's Alternative to SWIFT," *Foundation for Defense of Democracies*, March 7, 2022. (<https://www.fdd.org/analysis/2022/03/07/time-to-sanction-russias-alternative-to-swift>)

55. Matthew Zweig and John Hardie, "Consider Designating Russia as a Jurisdiction of Primary Money Laundering Concern," *Foundation for Defense of Democracies*, May 20, 2022. (<https://www.fdd.org/analysis/2022/05/20/russia-jurisdiction-primary-money-laundering>)

56. Darya Dolzikova, "Atoms for Sale: Developments in Russian Nuclear Energy Exports," *Royal United Services Institute*, February 14, 2023. (https://static.rusi.org/RUSI-Russian-Exports-final-web_0.pdf); Jonathan Tirone, "Russia's Grip on Nuclear-Power Trade Is Only Getting Stronger," *Bloomberg*, February 14, 2023. (<https://www.bloomberg.com/news/features/2023-02-14/russia-s-grip-on-nuclear-power-trade-is-only-getting-stronger>)

57. "Russia's Rosatom sees 2022 exports growth at 15% - report," *Reuters*, December 25, 2022. (<https://www.reuters.com/business/energy/russias-rosatom-sees-2022-exports-growth-15-report-2022-12-26>)

58. "Putin asserts control over Ukraine nuclear plant, Kyiv disagrees," *Reuters*, October 5, 2022. (<https://www.reuters.com/world/europe/zaporizhzhia-plant-operate-under-russian-supervision-after-annexation-ria-2022-10-05>); Jonathan Tirone, "Russia Forcing Ukraine Workers Into Rosatom After Nuclear Theft," *Bloomberg*, September 30, 2022. (<https://www.bloomberg.com/news/articles/2022-09-30/russia-forcing-ukraine-workers-into-rosatom-after-nuclear-theft>)

59. Joe Parkinson and Drew Hinshaw, "'The Hole': Gruesome Accounts of Russian Occupation Emerge From Ukrainian Nuclear Plant," *The Wall Street Journal*, November 18, 2022. (<https://www.wsj.com/articles/russian-occupation-of-nuclear-plant-turns-brutal-with-accusations-of-torture-and-beatings-11668786893>)

acquire foreign-made components, *The Washington Post* reported in January.⁶⁰

Ukraine, along with the European Commission and some EU members, has advocated sanctioning Rosatom, including in February during the run-up to the 10th round of EU sanctions against Russia.⁶¹ But the European Union has refrained from targeting Rosatom, declining even to designate individual Rosatom executives.⁶² The White House has similarly weighed sanctioning Rosatom but so far has yet to designate the company in its entirety,⁶³ instead targeting a few of its subsidiaries.⁶⁴

This cautious approach stems from Western dependence on Rosatom. In 2021, around a fifth of the European Union's uranium imports came from Russia, worth about \$223 million. Bulgaria, the Czech Republic, Finland, Hungary, and Slovakia operate a total of 18 nuclear power plants that rely on technologies, services, and fuel provided by Russia's state-owned Rosatom.⁶⁵ In August, Hungary's nuclear regulator granted a license for construction of two new Russian-built reactors at the country's Paks Nuclear Power Plant.⁶⁶ The United

States, meanwhile, purchased roughly 14 percent of its uranium and 28 percent of its enrichment services from Russia in 2021.⁶⁷

Ending Western reliance on Rosatom will no doubt be difficult, but it is necessary. As FDD's Andrea Stricker and Anthony Ruggiero have argued, Washington, in coordination with European allies, should lead a multi-year campaign to curtail Western dependence on Rosatom and squeeze Russia's nuclear export revenue.⁶⁸

This effort would have two concurrent prongs: First, the United States should work with allies and industry to support alternatives to Russian nuclear exports. In parallel, the United States should sanction Rosatom under Executive Order 14024. This would bar U.S. persons from doing business with the company and would threaten sanctions against foreign persons who continue to do so. At the same time, Treasury will need to build in substantial wind-down periods, which may need to be as long as several years for purchases of Russian nuclear fuel and services. This approach would allow the United States to begin restricting a significant source of Kremlin revenue while sending a

60. Catherine Belton, "Russia's state nuclear company aids war effort, leading to calls for sanctions," *The Washington Post*, January 20, 2023. (<https://www.washingtonpost.com/world/2023/01/20/rosatom-ukraine-war-effort-sanctions/>)

61. Sarah Anne Aarup and Susannah Savage, "Ukraine makes last-ditch appeal for EU sanctions to target Russia's nuclear industry," *Politico*, February 22, 2023. (<https://www.politico.eu/article/vladimir-putin-volodymyr-zelenskyy-russia-war-ukraine-in-last-ditch-appeal-for-eu-sanctions-to-target-nuclear-industry>)

62. Leonie Kijewski and Jacopo Barigazzi, "EU Commission scratches Russia nuclear sanctions plans," *Politico*, February 16, 2023. (<https://www.politico.eu/article/rosatom-russia-ukraine-volodymyr-zelenskyy-vladimir-putin-eu-executive-scratches-russia-nuclear-sanctions-plans>)

63. Ari Natter, Nick Wadhams, and Saleha Mohsin, "U.S. Weighs Sanctions on Russian Uranium Supplier Rosatom," *Bloomberg*, March 9, 2022. (<https://www.bloomberg.com/news/articles/2022-03-09/u-s-weighs-sanctions-on-russian-nuclear-power-supplier-rosatom>)

64. U.S. Department of State, Office of the Spokesperson, Fact Sheet, "The United States Takes Sweeping Actions on the One Year Anniversary of Russia's War Against Ukraine," February 24, 2023. (<https://www.state.gov/the-united-states-takes-sweeping-actions-on-the-one-year-anniversary-of-russias-war-against-ukraine>)

65. Sigrid Melchior, Pascal Hansens, Harald Schumann, and Maria Maggiore, "Russia's multi-million euro nuclear exports untouched by EU sanctions," *Investigate Europe* (Germany), October 7, 2022. (<https://www.investigate-europe.eu/en/2022/russias-multi-million-euro-nuclear-exports-untouched-by-eu-sanctions>)

66. "Hungary licenses two new reactors at Paks nuclear plant," *Reuters*, August 26, 2022. (<https://www.reuters.com/business/energy/hungary-licenses-two-new-reactors-paks-nuclear-plant-2022-08-26>)

67. Steven Mufson, "The U.S. imports uranium from Russia. What if sanctions end that?" *The Washington Post*, January 21, 2023. (<https://www.washingtonpost.com/business/2023/01/21/uranium-imports-russia-nuclear/>); U.S. Energy Information Administration, "2021 Uranium Marketing Annual Report," May 2022, pages 21 and 45. (<https://www.eia.gov/uranium/marketing/pdf/2021%20UMAR.pdf>)

68. Andrea Stricker and Anthony Ruggiero, "Ending Global Reliance on Russia's Nuclear Energy Sector," *Foundation for Defense of Democracies*, February 3, 2023. (<https://www.fdd.org/analysis/2023/02/03/ending-global-reliance-on-russias-nuclear-energy-sector>)

strong market signal to the Western nuclear industry: invest in non-Russian alternatives.⁶⁹

Oil

Reducing Russia's energy export revenue is essential to waging a successful economic war against the Kremlin. Money from these sales is vital for the Russian economy, federal budget, and — less directly — the Kremlin's war machine. Oil and gas accounted for around two-thirds of the country's export revenue and 40 percent of Russia's federal budget last year.⁷⁰

Since the February 2022 invasion of Ukraine, Russia's oil export revenue has helped insulate it from sanctions. As mentioned previously, Russia banked an estimated \$218 billion from oil exports in 2022, a 20 percent increase over the previous year.⁷¹ This influx of cash helped Moscow defend the ruble and replenish its hard currency reserves. As long as Moscow can maintain considerable oil export revenue, it can continue to fund the war.

The price of oil is key. In recent years, the Russian government balanced its budget, including military and social expenditures, based on the expectation of \$40-45 for a barrel of crude. However, wars are

expensive: In 2022, Moscow spent almost 4.7 trillion rubles (roughly \$172.5 billion using the 2021 purchasing power parity exchange rate) on national defense, 1.2 trillion (\$44 billion) more than planned. Russia's Finance Ministry projects Moscow will spend 1.4 trillion rubles (\$51.4 billion) more than originally expected in 2023.⁷²

Moscow's 2023 federal budget assumes Russia will face a deficit of 2 percent of GDP with Urals crude selling for an average of just over \$70 per barrel.⁷³ As the price drops below that mark, the Kremlin must tap its remaining foreign reserves or borrow to cover the difference. In December, Russia's finance minister admitted that reduced oil export earnings may drive Moscow's budget deficit deeper than the 2 percent projected in Russia's 2023 budget.⁷⁴

Fearing public blowback from a sudden price shock, Western leaders have taken a cautious approach to Russia oil sanctions. During the summer of 2022, when gasoline prices reached significant highs, many G7 leaders feared that existing oil supplies would be insufficient to offset a dramatic loss of Russian production without significantly increasing global oil prices.

69. Ibid.

70. Lyubov Romanova, "Минфин ждет долю доходов бюджета от продажи нефти и газа в 2022 году выше 40% [The Ministry of Finance expects the share of budget revenues from the sale of oil and gas in 2022 to be above 40%]," *Vedomosti* (Russia), June 20, 2022. (<https://www.vedomosti.ru/economics/articles/2022/06/20/927599-minfin-byudzheta-prodazhi-nefti>). For an assessment of the pre-2022 impact of energy exports on Russia's federal budget, see: Vitaly Yermakov and James Henderson, "The New Deal for Oil Markets: Implications for Russia's Short-Term Tactics and Long-Term Strategy," *The Oxford Institute for Energy Studies*, April 2020. (<https://www.oxfordenergy.org/publications/the-new-deal-for-oil-markets-implications-for-russias-short-term-tactics-and-long-term-strategy>)

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

72. "Расходы на национальную оборону в этом году вырастут на треть [National defense spending to rise by a third this year]," *Vedomosti* (Russia), September 23, 2022. (<https://www.vedomosti.ru/economics/articles/2022/09/23/942188-rashodi-natsionalnuyu-oboronu>); Russian Federation Ministry of Finance, "Бюджет для граждан [Budget for citizens]," page 14. (https://minfin.gov.ru/common/upload/library/2023/01/main/BDG_23-25.pdf). This monograph uses the purchasing power parity exchange rate rather than the market exchange rate because the former offers a more accurate, though still imperfect, means of gauging Russia's defense spending. See: Michael Kofman and Richard Connolly, "Why Russian Military Expenditure Is Much Higher Than Commonly Understood (As Is China's)," *War on the Rocks*, December 16, 2019. (<https://warontherocks.com/2019/12/why-russian-military-expenditure-is-much-higher-than-commonly-understood-as-is-chinas>)

73. Darya Korsunskaya, "Analysis: Russia may hike taxes as military spending, oil price weigh on budget," *Reuters*, January 15, 2023. (<https://www.reuters.com/markets/europe/russia-may-hike-taxes-military-spending-oil-price-weigh-budget-2023-01-13>)

74. Darya Korsunskaya, "Oil price cap may widen Russia's 2023 budget deficit, says FinMin," *Reuters*, December 27, 2022. (<https://www.reuters.com/markets/oil-price-cap-may-widen-russias-2023-budget-deficit-says-finmin-2022-12-27>)

Together with the G7, EU, and Australia, Washington's preferred solution to date has been to "cap" the price of Russia's *maritime* — rather than pipeline — oil shipments, which account for 70 percent of Russia's oil sales.⁷⁵ The Biden administration pitched the cap as a way to reduce Russian oil revenues while keeping Russian supplies on the market to avoid a price spike. Starting on December 5, 2022, the coalition partners banned the provision of various services that facilitate seaborne shipments of Russian crude, including insurance and shipping, which are dominated by European companies. A similar policy took effect with respect to petroleum products on February 5, 2023.⁷⁶ Third-country buyers are exempted from the bans if the oil was bought at or below an artificial cap set by the G7, although the coalition partners themselves continue to eschew maritime imports of Russian oil.⁷⁷

After the cap was introduced, the reported discount on Urals crude deepened by around \$10, although it has since receded somewhat.⁷⁸ The Biden administration has trumpeted these larger discounts to insist the price cap has succeeded, giving Russia's remaining customers leverage with which to negotiate steeper discounts on Russian oil.⁷⁹

In truth, the European Union's ban on imports of Russian oil is likely what deserves the credit, along with the broader decline in global oil prices since last year.

The price-cap mechanism's chief contribution has been in helping Russian oil stay on the market, avoiding a spike in prices. Indeed, the Biden administration has even urged leading Switzerland-based commodity traders to ditch their reluctance to dealing with Russian oil.⁸⁰ Although it advertised the cap as a way both to cut Kremlin revenues and avoid a supply crunch, the administration has, in practice, prioritized the latter goal over the former.⁸¹

Key flaws undermine the price cap's ability to deprive Moscow of substantial revenue. Even a well-constructed price cap mechanism would present challenges, particularly in enforcement and preventing Russia from exploiting opportunities for arbitrage. But the United States and its allies are undercutting their plan's chances of success.

First, the G7 set the price ceiling too high. Some countries, including Ukraine, pushed for a cap of \$30-40 per barrel, which would be well below the price Moscow needs to balance its budget but above Russia's estimated average cost of production (excluding taxes). However, the European Union, with the Biden administration's blessing, ultimately settled on a \$60 ceiling. At the time, a barrel of Urals crude was going for approximately \$62, and it fell to an average of \$49.56 in February 2023, per Russian government

75. Jan Strupczewski, "EU split on Russian oil price cap level, talks to resume Thursday," *Reuters*, November 23, 2022. (<https://www.reuters.com/business/energy/g7-looking-russian-oil-price-cap-65-70-per-barrel-eu-diplomat-2022-11-23>)

76. European Commission, Press Release, "Ukraine: EU and G7 partners agree price cap on Russian petroleum products," February 4, 2023. (https://ec.europa.eu/commission/presscorner/detail/en/IP_23_602)

77. U.S. Department of the Treasury, "Preliminary Guidance on Implementation of a Maritime Services Policy and Related Price Exception for Seaborne Russian Oil," September 9, 2022. (https://home.treasury.gov/system/files/126/cap_guidance_20220909.pdf); UK Treasury, Office of Financial Sanctions Implementation, "UK Maritime Services Prohibition and Oil Price Cap: Industry Guidance," March 2023. (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1134398/5_Feb_OPC_Updated_OFSI_Guidance_FINAL.pdf)

78. John van Schaik and Gary Peach, "Discounts Widen on Russian Oil," *Energy Intelligence*, December 8, 2022. (<https://www.energyintel.com/00000184-eee1-ddba-a3b6-ffe96c560000>)

79. Jenni Reid, "Biden advisor says oil price cap is working as Russia takes economic hit," *CNBC*, January 13, 2023. (<https://www.cnbc.com/2023/01/13/biden-advisor-says-oil-price-cap-is-working-as-russia-takes-economic-hit.html>)

80. David Sheppard, Derek Brower, and James Politi, "US taps big trading houses to help move price-capped Russian oil," *Financial Times* (UK), March 9, 2023. (<https://www.ft.com/content/36c5367b-06f9-48e7-9867-20671665c8a7>)

81. David Lawder and Timothy Gardner, "Analysis: G7 Russian oil price cap evolves from revenue squeeze to market anchor," *Reuters*, December 6, 2022. (<https://www.reuters.com/business/energy/g7-russian-oil-price-cap-evolves-revenue-squeeze-market-anchor-2022-12-06>)

figures.⁸² In other words, the cap is now well above the reported market price of Urals crude.

As of late January 2023, Russia had around \$45 billion in reserves of Chinese RMB, the only foreign currency remaining in Russia's reserves that is still available to Moscow following Western sanctions. So long as Urals crude trades at around \$50 per barrel, Russia has enough RMB to cover its budget shortfall for three years, according to Bloomberg Economics. A Citigroup estimate projected the RMB reserves will last 2.5 years with Urals crude at that price. Bloomberg predicts that Moscow will burn through its RMB stash this year if Urals sells at an average of \$25 per barrel, while Citigroup puts the price at \$35.⁸³ The West should aim to push the price cap on Russian crude down to that range.

The Biden administration and the European Union have promised to regularly review the price-cap

mechanism to ensure it reduces Moscow's revenue.⁸⁴ But although the coalition initially agreed to hold the first review in March,⁸⁵ the administration has resisted lowering the ceiling.⁸⁶ The administration should reverse course and press for a substantially lower cap, as Kyiv has advocated.⁸⁷ In coordination with Congress, the administration should also revisit its stance on using secondary sanctions to compel Russia's top customers to comply with the price cap.

To ensure Russia's oil customers respect that lower price, the G7 will need to address the price cap's second key weakness: lack of teeth. China, India, and Turkey, the top purchasers of Russian oil, are not part of the price-cap coalition. Moscow and its customers have found alternatives to Western insurance, reinsurance, shipping, and other services.⁸⁸ A large "shadow fleet" of tankers purchased by opaque offshore entities, believed

82. "Average Urals oil down twofold to \$49.56/bbl in February — Finance Ministry," *TASS* (Russia), March 1, 2023. (<https://tass.com/economy/1583177>)

83. "Sanctions-Proof Yuan to Putin's Rescue After Oil Cap Hits Budget," *Bloomberg*, January 23, 2023. (<https://www.bloomberg.com/news/articles/2023-01-24/sanctions-proof-yuan-to-putin-s-rescue-after-oil-cap-hits-budget>)

84. State Department Chief Economist Emily Blanchard, *Remarks to the Press*, December 2, 2022. (<https://www.justthetrealnews.com/exec-depts/state-department/dcfpc-on-the-record-hybrid-briefing-by-state-department-chief-economist-dr-emily-blanchard-100pm>); "Council Regulation (EU) 2022/2367 of 3 December 2022 amending Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine," *Official Journal of the European Union*. (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2022:3111:FULL&from=EN>)

85. U.S. Department of the Treasury, Press Release, "Readout: Deputy Secretary Adeyemo's Meeting with Price Cap Coalition Deputies," January 20, 2023. (<https://home.treasury.gov/news/press-releases/jy1203>)

86. Laurence Norman and Andrew Duehren, "G-7 Opposes Lowering Russian Crude Price Cap From \$60 a Barrel," *The Wall Street Journal*, March 15, 2023. (<https://www.wsj.com/articles/g-7-opposes-lowering-russian-crude-price-cap-from-60-a-barrel-586ecc30>)

87. "Ukraine says it's time to review price cap on Russian oil," *Reuters*, January 19, 2023. (<https://www.reuters.com/business/energy/ukraine-says-its-time-review-price-cap-russian-oil-2023-01-19>)

88. "How Russia dodges oil sanctions on an industrial scale," *The Economist* (UK), January 29, 2023. (<https://www.economist.com/finance-and-economics/2023/01/29/how-russia-dodges-oil-sanctions-on-an-industrial-scale>). See also: Nidhi Verma and Jonathan Saul, "Exclusive-Russian oil tankers get India safety cover via Dubai company," *Reuters*, June 22, 2022. (<https://www.reuters.com/article/ukraine-crisis-india-certification-idAFL8N2Y8474>); Nidhi Verma, "Indian refiners becoming wary of buying Russian oil as EU sanctions loom - sources," *Reuters*, November 16, 2022. (<https://www.reuters.com/business/energy/indian-refiners-becoming-wary-buying-russian-oil-eu-sanctions-loom-sources-2022-11-16>); "Turkey recognizes Russian insurance for shipping by vessels, India also for the most part - dep minister," *Interfax* (Russia), November 29, 2022. (<https://interfax.com/newsroom/top-stories/85506>); David Sheppard, Chris Cook, and Polina Ivanova, "Russia assembles 'shadow fleet' of tankers to help blunt oil sanctions," *Financial Times* (UK), December 2, 2022. (<https://www.ft.com/content/cdef936b-852e-43d8-ae55-33bcbbb82eb6>)

to include an estimated 600 vessels and counting,⁸⁹ ferries much of Russia's oil to buyers around the world.⁹⁰

If Russia's customers do not use Western services to get the oil, then they face no obligation to abide by the G7's price ceiling. At least some Russian oil shipments to China and India appear to be selling for prices well above the cap.⁹¹

To address this problem, Senators Chris Van Hollen (D-MD) and Pat Toomey (R-PA) introduced legislation in September 2022 that would have authorized sanctions against foreign individuals or entities that knowingly facilitate shipments of Russian oil sold above the price cap.⁹² However, this effort died on the vine during the last Congress. The Biden administration ruled out the use of such measures, arguing it enjoyed enough participation from global service providers to enforce the scheme.⁹³ The administration must drop its reluctance to impose secondary sanctions against Russia's oil customers. The gloves need to come off. While the Van Hollen-Toomey legislation did not proceed last year, the new Congress has a compelling reason to try again.

At the same time, Washington and its allies should begin laying the groundwork for a plan B to the oil

price cap. The most straightforward solution would be to target Russia with an Iran-style secondary sanctions regime designed to reduce Russian oil exports. Admittedly, this could risk a supply shock under certain market conditions. Washington should address this underlying supply challenge by encouraging U.S. and other non-Russian producers to pump more oil. This will take time to bear fruit. Still, bringing more oil production online will ultimately help reduce dependence on Russia, providing the United States and its allies with more flexibility to reduce Russian oil exports. Unfortunately, the Biden administration has discouraged domestic production and damaged U.S. relations with the Saudis, undermining Washington's ability to persuade Riyadh to loosen the taps.

Washington could also take a page from its Iran sanctions playbook and develop a mechanism to restrict Russia's ability to access the hard currency it earns from oil exports. For example, such a regime could require Russia's oil customers to deposit part or all of their payments into special escrow accounts denominated in the local currency of certain countries. Moscow would be permitted to use these funds only to purchase trade goods.⁹⁴ This regime would need to be rigorously enforced given that it would come with ample opportunities for sanctions evasion,

89. Julia Horowitz, "A mysterious fleet is helping Russia ship oil around the world. And it's growing," *CNN*, March 1, 2023. (<https://www.cnn.com/2023/03/01/business/russia-oil-shadow-fleet/index.html>)

90. Serene Cheong, "Russian Oil Logistics in Chaos Ahead of Looming Sanctions," *Bloomberg*, October 22, 2022. (<https://www.bloomberg.com/news/articles/2022-10-23/russian-oil-logistics-in-chaos-with-weeks-until-sanctions-bite>); Ali Asad Zulfikar and Alex Longley, "Russia's Shadow Oil Tanker Fleet Becomes Everyone Else's Problem," *Bloomberg*, February 18, 2023. (<https://www.bloomberg.com/news/articles/2023-02-18/russia-s-shadow-oil-tanker-fleet-becomes-everyone-else-s-problem>)

91. Tania Babina et al., "Assessing the Impact of International Sanctions on Russian Oil Exports," *Social Science Research Network*, February 22, 2023. (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4366337); "Russian Oil Gets More Pricey as Pool of Asian Buyers Expands," *Bloomberg*, March 8, 2023. (<https://www.bloomberg.com/news/articles/2023-03-08/russian-oil-gets-more-pricey-as-pool-of-asian-buyers-expands>); Muyu Xu and Florence Tan, "India jostles with China for April ESPO crude from Russia, prices jump," *Reuters*, March 9, 2023. (<https://www.reuters.com/business/energy/india-jostles-with-china-april-espo-crude-russia-prices-jump-2023-03-09>)

92. Office of Senator Chris Van Hollen, Press Release, "Van Hollen, Toomey File Russia Secondary Sanctions Amendment to NDAA," September 29, 2022. (<https://www.vanhollen.senate.gov/news/press-releases/van-hollen-toomey-file-russia-secondary-sanctions-amendment-to-ndaa>)

93. According to Treasury's Deputy Assistant Secretary Catherine Wolfram. See: Muyu Xu, "APPEC U.S. Official Rules Out Secondary Sanctions for Russian Oil Price Cap," *Reuters*, September 26, 2022. (<https://www.reuters.com/business/energy/appec-us-official-rules-out-secondary-sanctions-russian-oil-price-cap-2022-09-26>)

94. Matthew Zweig and John Hardie, "How to Target Russian Oil Exports Without Upending Global Energy Markets," *The National Interest*, April 22, 2022. (<https://nationalinterest.org/feature/how-target-russian-oil-exports-without-upending-global-energy-markets-201926>)

as demonstrated by Iran's \$20 billion gas-for-gold scheme in Turkey.⁹⁵

Finally, whereas the oil cap would target Russia's present-day cashflow, more can be done to restrict Russia's revenue from future oil and gas exports. Corporate flight has hit Russia's energy sector particularly hard. ExxonMobil, Shell, BP, and field service providers such as Halliburton, Schlumberger, and Baker Hughes, among others, have all withdrawn from Russia.⁹⁶ In response, Russian energy firms have scrambled to partner with non-Western companies.⁹⁷ This is where the White House's application of its powers under CAATSA could be most useful if deployed now. Section 225 enables the executive branch to sanction foreign firms that invest in Russian deepwater, Arctic offshore, or shale oil projects.⁹⁸

U.S. sanctions are a powerful disincentive to foreign companies that might backfill recently departed Western firms. Such investments potentially represent billions of dollars in future investment into the Russian economy that policymakers can deny to the Kremlin, along with the many more billions in revenue that such projects could produce over their lifetime.

Next Steps to Squeeze Russia's Economy and Budget

The following recommendations synthesize the arguments made above to offer actionable ways the United States and its allies can further undermine Russia's economy and deplete the Kremlin's coffers.

Sanction More Russian Banks

While Treasury has sanctioned most of Russia's big banks, hundreds of Russian financial institutions remain undesignated. They include Gazprombank, Russia's third-largest bank. Treasury and America's Western allies should methodically work their way down the list. Where possible, they should also eliminate sanctions exemptions with respect to Russian banks.

Enforce Secondary Sanctions

Treasury should rigorously enforce its secondary sanctions targeting Russian banks and other entities, particularly when it comes to transactions involving China or other U.S. adversaries. If presented with the choice between halting business with Russia and losing access to the U.S. financial system, most major firms will choose the former. But to be effective, secondary sanctions must be enforced. Failure to do so would undermine their credibility and efficacy.

Target Russia's Alternative to SWIFT

Washington could bar U.S. financial institutions from providing correspondent or payable-through accounts to foreign financial institution connected to SPFS and above a certain capitalization threshold. Treasury could also wield its authorities under Section 311 of the USA PATRIOT Act to obligate U.S. financial institutions to reject transactions that directly or indirectly utilize SPFS. Legislation introduced last year would direct Treasury to sanction any Chinese financial institution that uses SPFS or China's Cross-border Interbank Payment System to clear, verify, or settle a transaction with any Russian or Russian-controlled financial institution. Under the

95. Jonathan Schanzer, "The Biggest Sanctions-Evasion Scheme in Recent History," *The Atlantic*, January 4, 2018. (<https://www.theatlantic.com/international/archive/2018/01/iran-turkey-gold-sanctions-nuclear-zarrab-atilla/549665>)

96. Jeffrey Sonnenfeld et al., "Yale CELI List of Companies Leaving and Staying in Russia," *Yale School of Management*, accessed March 14, 2023. (<https://www.yalerussianbusinessretreat.com>)

97. See, for example: Malte Humpert, "Russia's Novatek to Use Closer Ties with UAE to Secure Key Technology for Arctic LNG Project," *High North News* (Norway), October 17, 2022. (<https://www.highnorthnews.com/en/russias-novatek-use-closer-ties-uae-secure-key-technology-arctic-lng-project>)

98. U.S. State Department, Bureau of Energy Resource, "CAATSA/CRIEEA Section 225 Public Guidance," accessed February 15, 2023. (<https://www.state.gov/caatsa-crieea-section-225-public-guidance>)

bill, Treasury could choose between imposing full blocking sanctions or barring the Chinese financial institution from using U.S. correspondent or payable-through accounts.⁹⁹

Designate Russia as a Jurisdiction of Primary Money Laundering Concern

Treasury should levy a PMLC designation against Russia, using its authority under Section 311 of the USA PATRIOT Act. In addition to helping counter Russian illicit finance, this measure would increase pressure on the country's financial system and economy by discouraging non-U.S. banks from doing business with Russia.

Curtail Western Dependence on Rosatom and Squeeze Russia's Nuclear Export Revenue

As FDD's Andrea Stricker and Anthony Ruggiero have argued, the United States should work with allies and industry to identify and support alternatives to Rosatom. At the same time, Washington should designate Rosatom under Executive Order 14024 but provide ample wind-down periods. This approach can begin reducing Russian nuclear export revenue and send a strong market signal to industry to invest in alternatives, while avoiding harm to Western companies and economies.

Address Weaknesses in the Oil Price Cap

At present, the price ceiling is too high to squeeze Moscow's federal budget. The G7 coalition should

lower the price ceiling to \$30-40 per barrel at most. Working with its G7 allies, Washington should also establish a secondary sanctions regime to give the mechanism teeth. Otherwise, the oil sanctions regime cannot prevent the likes of China and India from using non-Western services to procure Russian oil at a price above the cap.

Prepare a 'Plan B' for Russia Oil Sanctions

The United States and its allies should not put all their eggs in the price-cap basket. Instead, they should work now to develop a back-up plan in case the price cap proves unable to deny the Kremlin substantial revenue. This could take the form of an Iran-style secondary sanctions regime to reduce Russian oil exports as much as possible. In addition, the United States and its allies should consider developing a sanctions mechanism designed to restrict Moscow's access to hard currency by requiring Russia to keep its oil export revenue in special escrow accounts. Washington should also encourage domestic production of oil to reduce Russia's share of global supply and make tougher sanctions against Russian oil more feasible.

Deter Investment in the Russian Energy Sector

Washington should wield secondary sanctions to deter investment in Russia's energy sector. The threat of sanctions under CAATSA Section 225 can help deter non-Western countries from helping Russia compensate for the departure of Western firms.

⁹⁹. Office of Senator Marco Rubio, Press Release, "Rubio, Colleagues Introduce Bill to Prevent Russia-China Financial Coordination," March 17, 2022. (<https://www.rubio.senate.gov/public/index.cfm/2022/3/rubio-colleagues-introduce-bill-to-prevent-russia-china-financial-coordination>)

Countering Russian Malign Finance

In addition to squeezing Russia's economy, Washington and its allies also need to counter Moscow's efforts to sow division in the West and dodge Western sanctions. This issue's importance has only grown following Russia's 2022 invasion of Ukraine, as the Kremlin now has an even greater motivation both to undermine the West and to evade sanctions.

As then Assistant Secretary of the Treasury Marshall Billingslea testified in 2018, "Russia has spent decades developing complex and resilient networks to raise, transfer, hide, and obscure the origin and movement of" illicit funds. Billingslea further underscored that compared to "other countries subject to broad U.S. sanctions," Russia represents a "unique" challenge in terms of "the sophistication and scale of its malign activity," the size of its "economy and resource base," and its "integrat[ion] into the global economy and international financial system."¹⁰⁰

The West has only recently started to inoculate itself against Russia's way of financial warfare. Washington and its allies now must attack this problem with renewed urgency. First and foremost, this means building on hard-won momentum in improving transparency in the international financial system, including in the United States, which has taken some important steps in recent years but still needs to close various legal loopholes that facilitate malign finance. The West also must address key avenues for malign finance, including the growing exploitation of decentralized finance and cryptocurrency. The United States and key allies will also need to employ a mix of carrots and sticks to ensure cooperation from countries otherwise unwilling or unable to counter Russian malign finance within their jurisdictions.

Russia's Way of Financial Warfare

Although it uses overt military force to intervene in Ukraine and elsewhere within Russia's "near abroad," Moscow prosecutes its war against the West chiefly through non-kinetic or covert means. Malign finance — defined here as illicit or licit covert financial flows that advance strategic objectives — plays a key part in this shadow war.

In recent years, policymakers have increasingly paid attention to rooting out Russians' ill-gotten wealth stashed in the West. But the challenge is much broader. Russia has long employed opaque financial schemes to facilitate corruption in addition to so-called "active measures" to subvert or otherwise influence foreign countries. Moscow uses similar methods to support various rogue regimes and circumvent Western sanctions and export controls. Russian malign financial activity appears to have increased since 2014 as the U.S.-Russia confrontation has intensified and the West has imposed more sanctions.

Moscow's efforts in this space borrow heavily from its experience during the Soviet era, when the KGB established covert financial networks to fund operations abroad and pilfer Western technology. Russia has adapted these methods to fit modern financial and geopolitical realities. It also employs a new, more diverse cast of characters, comprising both state and non-state agents and proxies. These include Russia's special services, state-controlled banks and companies, wealthy businessmen, professional money launderers, and organized crime syndicates. Ostensibly private actors engaging in malign financial activity sometimes do so under state instruction, but they often act on an entrepreneurial basis in the service of the Kremlin.

¹⁰⁰. Assistant Secretary of the Treasury Marshall Billingslea, *Testimony Before the Senate Committee on Foreign Relations*, August 21, 2018. (<https://www.govinfo.gov/content/pkg/CHRG-115shrg40552/html/CHRG-115shrg40552.htm>)

Facilitating Malign Influence

In 2016, 51 members of the European Parliament sounded the alarm about the proliferation of Russian malign finance inside the EU. As an example, they noted that “over \$200 million of illicit proceeds” from the infamous tax fraud uncovered by Russian lawyer Sergei Magnitsky had been “laundered through Europe,” some of it “used to influence European politics, media, and civil society.”¹⁰¹ The parliamentarians understood that money not only represents the sinews of war but can also be a weapon of influence.

Active Measures

The KGB used the term “active measures” to denote covert or deniable efforts to subvert or otherwise influence a target country. Often conducted via proxies or front organizations, these operations ranged from spreading disinformation to blackmailing or corrupting foreign elites to conducting assassinations and sponsoring coups. Active measures became “the heart and soul of Soviet intelligence,” as a senior KGB defector put it. Russia today runs these operations at a pace rivaling that of the Cold War,¹⁰² often facilitated by malign finance.

Supporting Friendly or Subversive Actors

A 2022 U.S. intelligence review found that Russia had covertly transferred at least \$300 million to politicians, officials, and political parties in over two dozen countries since 2014. Moscow is planning to transfer hundreds of millions of dollars more, the report warned, noting that some funds had likely gone

undetected. As the report explained, Russian entities pay in both fiat and digital currency as well as cash and lavish gifts, funneling money through anything from shell companies and state-owned enterprises to think tanks and organized crime groups.¹⁰³

Much of this activity focuses on Russia’s neighbors. For example, Russia’s Federal Security Service, or FSB, allegedly funneled tens of millions of dollars from Russian companies to Moldovan politicians in recent years in a campaign to pull the country back into Russia’s orbit. Companies owned by Russian businessman Igor Chaika, the son of a senior Russian official, served as fronts through which Moscow funneled money to pro-Russia political parties ahead of Moldova’s 2021 elections, according to Treasury. The FSB allegedly also brokered a 2020 deal in which an influential Russian-allied Moldovan politician transferred his controlling stake in a company running Chisinau’s airport to a Russian billionaire who heads a Gazprom subsidiary.¹⁰⁴

Western European countries are also vulnerable. For example, leaked WhatsApp messages appear to suggest that Russia in 2015 bankrolled a little-known Eurosceptic named Thierry Baudet. Through a think tank he established, Baudet helped collect the 300,000 signatures needed to force a non-binding Dutch referendum on the EU-Ukraine Association Agreement. The referendum rejected the association agreement, to Moscow’s delight. Baudet subsequently converted his think tank into a pro-Russia political

101. Andrew Rettman, “Dirty Russian money buying influence in EU, MEPs warn,” *EUobserver* (Belgium), December 13, 2016. (<https://euobserver.com/foreign/136262>)

102. Mark Galeotti, “Chapter 14: Active Measures: Russia’s Covert Global Reach,” *Russia’s Global Reach: A Security and Statecraft Assessment*, Ed. Graeme P. Herd (Garmisch-Partenkirchen, Germany: George C. Marshall European Center for Security Studies, 2021), page 118. (<https://www.marshallcenter.org/en/publications/marshall-center-books/russias-global-reach-security-and-statecraft-assessment/chapter-14-active-measures-russias-covert-global-reach>)

103. Edward Wong, “Russia Secretly Gave \$300 Million to Political Parties and Officials Worldwide, U.S. Says,” *The New York Times*, September 13, 2022. (<https://www.nytimes.com/2022/09/13/us/politics/russia-election-interference.html>)

104. Catherine Belton, “Russia’s security service works to subvert Moldova’s pro-Western government,” *The Washington Post*, October 28, 2022. (<https://www.washingtonpost.com/world/2022/10/28/russia-fsb-moldova-manipulation/>); U.S. Department of the Treasury, Press Release, “Treasury Targets Corruption and the Kremlin’s Malign Influence Operations in Moldova, October 26, 2022. (<https://home.treasury.gov/news/press-releases/jy1049>)

party that won a plurality of seats in the 2019 Dutch parliamentary election.¹⁰⁵

The United States is not immune, either. In 2017, for example, members of Congress highlighted an apparent Russian scheme to funnel tens of millions of dollars through a Bermuda-registered shell company to fund U.S. environmental groups opposed to hydraulic fracking.¹⁰⁶ This alleged scheme mirrored Russia's backing of anti-fracking non-governmental organizations (NGOs) in Europe to "maintain European dependence on imported Russian gas," in the words of NATO's secretary-general.¹⁰⁷

“Kremlin-linked superrich businessmen are key assets in Moscow’s malign financial toolkit.”

Kremlin-linked super rich businessmen are key assets in Moscow’s malign financial toolkit. As the *New Yorker’s* Joshua Yaffa has reported, many oligarchs finance the Kremlin’s “black ledger,” or “money that does not go through the budget but is needed by the state, to finance elections and support local political figures, for example.” They receive taxpayer money through state procurement orders and return off-the-books cash the Kremlin can spend as it sees fit.¹⁰⁸ These businessmen, acting at Moscow’s direction or on an entrepreneurial

basis, use their wealth and international networks to acquire strategic assets and facilitate influence operations in foreign countries.

In 2018, Russia-linked businessmen, along with Russian intelligence, sought to use malign finance to derail North Macedonia’s accession to NATO. Ahead of a referendum that paved the way for NATO accession, Russia launched a campaign to inflame Greek and Macedonian nationalist opposition. Russian intelligence officers allegedly sought to supply funds to protesters in northern Greece, bribe Greek officials, and cultivate influence with local authorities and bishops through Moscow-linked organizations. A Kremlin-linked Greece-based billionaire allegedly paid at least \$350,000 — some of it in cash, some via financial institutions — to Macedonian politicians, members of newly founded nationalist organizations, and soccer hooligans who staged violent protests in front of parliament.¹⁰⁹

Other important players are U.S.-sanctioned Russian billionaire Oleg Deripaska and Western-sanctioned businessman Konstantin Malofeev. U.S. authorities have accused both men of serving as Kremlin influence agents in a host of countries.¹¹⁰ Ahead of Montenegro’s 2016 parliamentary elections, Deripaska allegedly bankrolled a scheme that funneled money to the

105. Josh Rudolph and Thomas Morley, “Covert Foreign Money: Financial loopholes exploited by authoritarians to fund political interference in democracies,” *GMF Alliance for Securing Democracy*, August 2020, pages 85-86. (<https://securingdemocracy.gmfus.org/wp-content/uploads/2020/08/ASD-Covert-Foreign-Money.pdf>)

106. Reps. Lamar Smith and Randy Weber, *Letter to Treasury Secretary Steve Mnuchin*, June 29, 2017. (https://republicans.science.house.gov/sites/republicans.science.house.gov/files/documents/06_29_2017%20CLS%20%26%20Weber%20-%20Mnuchin.pdf)

107. Keith Johnson, “Russia’s Quiet War Against European Fracking,” *Foreign Policy*, June 20, 2014. (<https://foreignpolicy.com/2014/06/20/russias-quiet-war-against-european-fracking>)

108. Joshua Yaffa, “Putin’s Shadow Cabinet and the Bridge to Crimea,” *The New Yorker*, May 29, 2017. (<https://www.newyorker.com/magazine/2017/05/29/putins-shadow-cabinet-and-the-bridge-to-crimea>)

109. Josh Rudolph and Thomas Morley, “Covert Foreign Money: Financial loopholes exploited by authoritarians to fund political interference in democracies,” *GMF Alliance for Securing Democracy*, August 2020, pages 97-99. (<https://securingdemocracy.gmfus.org/wp-content/uploads/2020/08/ASD-Covert-Foreign-Money.pdf>)

110. U.S. Senate Select Committee on Intelligence, “Russian Active Measures Campaigns and Interference in the 2016 U.S. Election, Volume 5: Counterintelligence Threats and Vulnerabilities,” August 18, 2020, pages 33 and 153-169. (https://www.intelligence.senate.gov/sites/default/files/documents/report_volume5.pdf); U.S. Department of the Treasury, Press Release, “U.S. Treasury Designates Facilitators of Russian Sanctions Evasion,” April 20, 2022. (<https://home.treasury.gov/news/press-releases/jy0731>)

country's pro-Russia opposition, the Democratic Front, aiming to derail Montenegro's NATO accession.¹¹¹ In addition, the Russian military intelligence directorate, commonly known as the GRU, orchestrated a separate plot, allegedly masterminded by Malofeev, to install a Democratic Front government.¹¹² These efforts failed, and Montenegro joined NATO in 2017.

Kremlin-connected banks and companies are also important conduits for Russian malign finance. For example, Sberbank's Sarajevo branch was suspected of facilitating a money laundering scheme in which a Russian pharmaceutical firm acquired a majority share of Bosnia's biggest pharmaceutical company.¹¹³ In 2014, Kremlin-connected banks gave France's far-right party National Front and its fundraising arm over €11 million in loans, at least partly to "thank" National Front for its efforts to legitimize Russia's annexation of Crimea. Two years later, a Dutch company owned by Lukoil, Russia's largest private oil company, paid off a \$1.4 million debt owed by a top advisor to pro-Russia Czech President Miloš Zeman. Journalists later revealed that Zeman's party got over half its donations from employees of firms controlled by a Swiss lawyer

who helped manage a \$2 billion offshore slush fund linked to Putin.¹¹⁴

Malign Finance and the 'Information Weapon'

Malign finance can facilitate what the editor-in-chief of Russian propaganda outlet RT has called Russia's "information weapon."¹¹⁵ These operations often involve front organizations or proxies. For instance, Moscow reportedly funneled at least €1.5 million to over 40 pro-Russian NGOs in Estonia, Latvia, and Lithuania from 2012 to 2015. Latvian authorities said the NGOs, roughly two-thirds of which had connections to pro-Kremlin political parties, were "used as the agents of informational influence," tasked with promulgating "messages that favor Russian interests." In 2017, investigative journalists revealed that Moscow secretly controlled and funded *Baltnews*, a Russian-language outlet focused on the Baltic states.¹¹⁶

Sometimes, the Russians simply funnel money to friendly local journalists. For instance, Macedonian counterintelligence warned that Russian operatives had offered money to Macedonian media outlets to spread "information and disinformation" supporting

111. U.S. Department of the Treasury, Press Release, "Treasury Targets Russian Operatives over Election Interference, World Anti-Doping Agency Hacking, and Other Malign Activities," December 19, 2018. (<https://home.treasury.gov/news/press-releases/sm577>); Simon Shuster, "Exclusive: Russian Ex-Spy Pressured Manafort Over Debts to an Oligarch," *Time*, December 29, 2018. (<https://time.com/5490169/paul-manafort-victor-boyarkin-debts>)

112. Mark Galeotti, "Controlling Chaos: How Russia Manages Its Political Warfare in Europe," *European Council on Foreign Relations*, August 2017, page 9. (https://ecfr.eu/wp-content/uploads/ECFR228_-_CONTROLLING_CHAOS1.pdf); Christo Grozev, "Balkan Gambit: Part 2. The Montenegro Zugzwang," *Bellingcat*, March 25, 2017. (<https://www.bellingcat.com/news/uk-and-europe/2017/03/25/balkan-gambit-part-2-montenegro-zugzwang>)

113. Martin Vladimirov et al., "Russian Economic Footprint in the Western Balkans: Corruption and State Capture Risks," *Center for the Study of Democracy*, July 25, 2018, page 48. (<https://csd.bg/publications/publication/russian-economic-footprint-in-the-western-balkans-corruption-and-state-capture-risks>); "Fishy Transactions from Russia via Sberbank," *Center for Investigative Reporting*, September 14, 2016. (<https://www.cin.ba/en/sberbanka-za-sumnjive-transakcije-iz-rusije>)

114. Josh Rudolph and Thomas Morley, "Covert Foreign Money: Financial loopholes exploited by authoritarians to fund political interference in democracies," *GMF Alliance for Securing Democracy*, August 2020, pages 74-75 and 84. (<https://securingdemocracy.gmfus.org/wp-content/uploads/2020/08/ASD-Covert-Foreign-Money.pdf>);

115. EU East StratCom Task Force, "Chief Editor: RT Is Like 'A Defence Ministry,'" *EUvsDisinfo*, January 15, 2018. (<https://euvsdisinfo.eu/chief-editor-rt-is-like-a-defence-ministry>)

116. Josh Rudolph and Thomas Morley, "Covert Foreign Money: Financial loopholes exploited by authoritarians to fund political interference in democracies," *GMF Alliance for Securing Democracy*, August 2020, pages 86-87 and 91-92. (<https://securingdemocracy.gmfus.org/wp-content/uploads/2020/08/ASD-Covert-Foreign-Money.pdf>)

Russian interests.¹¹⁷ Bulgarian authorities levied similar accusations in July 2022.¹¹⁸

Other operations employ more sophisticated methods. During Sweden's 2018 elections, for instance, Russia likely amplified and covertly funded far-right websites that quickly grew to become some of the most widely shared in Sweden. At least six websites drew ad revenue from seemingly unrelated buyers who ultimately traced back to companies controlled by an online auto-parts store owned by Russian and Ukrainian businessmen. The far-right Sweden Democrats achieved more social media reach than any other party that year, helping propel them to a record 18 percent of the vote.¹¹⁹

The Russians often use virtual currency to facilitate information operations. Russia's Internet Research Agency troll farm funds its activities at least in part through cryptocurrency.¹²⁰ The troll farm used illicit cryptocurrency transactions to further its interference campaign before, during, and after the 2016 U.S.

presidential election.¹²¹ In 2021, Treasury revealed that SouthFront, an FSB-directed English-language disinformation website that sought to influence the 2020 U.S. election, also uses cryptocurrency.¹²²

Similarly, GRU operatives have used laundered bitcoin to obscure their identities and sources of funding when purchasing servers, domains, and accounts used in cyber operations, including the 2016 hack targeting the Democratic National Committee. Some of the bitcoin passed through Russia-based cryptocurrency exchange BTC-e,¹²³ through which criminals laundered as much as \$9 billion before the FBI shut it down in 2017.¹²⁴ The FSB allegedly later coerced a BTC-e cofounder into transferring \$450 million in cryptocurrency from a successor exchange called Wex to "an FSB fund."¹²⁵ A prominent former Russia-backed fighter in Ukraine then purchased Wex, likely as a front for a Russian businessman under Western sanctions for helping destabilize Ukraine. The former fighter said Wex would serve as

117. Aubrey Belford et al., "Leaked Documents Show Russian, Serbian Attempts to Meddle in Macedonia," *Organized Crime and Corruption Reporting Project*, June 4, 2017. (<https://www.occrp.org/en/spooksandspin/leaked-documents-show-russian-serbian-attempts-to-meddle-in-macedonia>)

118. Krassen Nikolov, "Bulgarian secret services: Russia pays public figures to spread propaganda," *Euractiv* (Belgium), July 4, 2022. (https://www.euractiv.com/section/politics/short_news/bulgarian-secret-services-russia-pays-public-figures-to-spread-propaganda)

119. Jo Becker, "The Global Machine Behind the Rise of Far-Right Nationalism," *The New York Times*, April 10, 2019. (<https://www.nytimes.com/2019/08/10/world/europe/sweden-immigration-nationalism.html>)

120. U.S. Department of the Treasury, Press Release, "Treasury Sanctions Russia-Linked Election Interference Actors," September 10, 2020. (<https://home.treasury.gov/news/press-releases/sm1118>)

121. John Hardie and Trevor Logan, "U.S. Steps Up Pressure Against Russian Crypto Abuse," *Foundation for Defense of Democracies*, September 30, 2020. (<https://www.fdd.org/analysis/2020/09/30/us-pressure-against-russian-crypto-abuse>)

122. U.S. Department of the Treasury, Press Release, "Treasury Escalates Sanctions Against the Russian Government's Attempts to Influence U.S. Elections," April 15, 2021. (<https://home.treasury.gov/news/press-releases/jy0126>); U.S. Department of the Treasury, "Issuance of Executive Order Blocking Property With Respect To Specified Harmful Foreign Activities Of The Government Of The Russian Federation and related Frequently Asked Questions; Russia-related Designations," April 15, 2021. (<https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20210415>)

123. John Hardie and Trevor Logan, "U.S. Steps Up Pressure Against Russian Crypto Abuse," *Foundation for Defense of Democracies*, September 30, 2020. (<https://www.fdd.org/analysis/2020/09/30/us-pressure-against-russian-crypto-abuse>)

124. Superseding Indictment, *United States v. BTC-E and Vinnik*, CR 16-00227 (N.D. Cal. filed January 17, 2017). (<https://www.justice.gov/usao-ndca/press-release/file/984661/download>). The intensity with which Moscow fought the U.S. extradition of BTC-e co-founder and Russian citizen Alexander Vinnik after his arrest in Greece in 2017 suggests Moscow viewed him as a valuable asset. See: Timothy Lloyd, "US and Russia Spar Over Accused Crypto-Lauderer," *Organized Crime and Corruption Reporting Project*, January 24, 2019. (<https://www.occrp.org/en/investigations/us-and-russia-spar-over-accused-crypto-lauderer>)

125. Andrei Zakharov, "Hunting the missing millions from collapsed cryptocurrency," *BBC* (UK), December 30, 2019. (<https://www.bbc.com/news/world-europe-50821547>)

“a platform for funding” Russian proxies in Ukraine, Moldova, and Georgia.¹²⁶

Exploiting Strategic Corruption

As noted in a 2018 congressional report, “[c]orruption provides the motivation and the means for many of the Kremlin’s malign influence operations.”¹²⁷ Even if initially intended merely for personal gain, it can expand Russian influence and provide avenues to advance regime interests.

It is often said that Russia “exports corruption,” but it may be more accurate to say Moscow *exploits* corruption in places where it already exists. The infamous “Russian Laundromat” in Moldova, a notoriously poor and corrupt state, is a case in point. Operational from 2010 to 2014, the scheme used anonymously owned shell companies based in the United Kingdom, Cyprus, and New Zealand to launder at least \$20.8 billion in mostly Russian black cash, with the help of corrupt Moldovan judges. Multiple prominent Moldovan business and political figures, allegedly including Moldova’s then prime minister, helped implement or blessed the scheme.¹²⁸ From Russia, the funds traveled through banks in

Moldova to a Latvian bank and then throughout the West, ultimately touching 96 countries and some of the world’s largest banks and companies.¹²⁹

While most of the money went toward private or commercial purposes, the scheme also generated *chernaya kassa*, or off-budget, nearly untraceable funds used in covert operations. Moldovan officials reportedly confirmed that the FSB, which often oversees major Russian money laundering schemes through its Economic Security Service’s powerful Department K, ran the laundromat along with a Moldovan oligarch. Moscow allegedly used some of the laundered funds to “further Russian state interests,”¹³⁰ including funneling money to anti-EU parties.¹³¹ A senior Russian official involved in the scheme reportedly admitted that funds were siphoned from state-owned Russian Railways to generate *chernaya kassa*. According to journalist Catherine Belton, that official was “active in the West, creating a network of think tanks and alliances that reached high into the security services in Germany, the British Parliament and the top circles of French politics.”¹³² At least €21,000 went to a pro-Russia Polish think tank co-founded by a former Polish lawmaker subsequently arrested for spying for Russia.¹³³

126. Andrei Zakharov, “‘Морячок’ из ДНР купил биржу криптовалют и начал охоту на ‘сокровища Винника’ [‘Seaman’ from the DNR bought a cryptocurrency exchange and began hunting for ‘Vinnik’s treasures’],” *BBC* (UK), December 5, 2018. (<https://www.bbc.com/russian/features-46444479>)

127. U.S. Senate Committee on Foreign Relations, Majority Staff Report, “Putin’s Asymmetric Assault on Democracy in Russia and Europe: Implications for U.S. National Security,” January 10, 2018, page 157. (<https://www.govinfo.gov/content/pkg/CPRT-115SPRT28110/pdf/CPRT-115SPRT28110.pdf>)

128. Una Hajdari, “Moldova’s Failed Revolution Is Not Over Yet,” *Foreign Policy*, November 22, 2019. (<https://foreignpolicy.com/2019/11/22/moldova-vladimir-plahotniuc-failed-revolution-not-over-yet>); Iurie Sanduța, “Two huge scams. One Moldovan businessman.” *Organized Crime and Corruption Reporting Project*, March 20, 2017. (<https://www.occrp.org/en/laundromat/two-huge-scams-intersect-at-one-moldovan-businessman>)

129. “The Russian Laundromat Exposed,” *Organized Crime and Corruption Reporting Project*, March 20, 2017. (<https://www.occrp.org/en/laundromat/the-russian-laundromat-exposed>)

130. Matthias Williams, “Moldova sees Russian plot to derail money-laundering probe,” *Reuters*, March 15, 2017. (<https://www.reuters.com/article/us-moldova-russia-insight-idUSKBN16M1QQ>)

131. Luke Harding and Nick Hopkins, “How ‘dirty money’ from Russia flooded into the UK – and where it went,” *The Guardian* (UK), March 20, 2017. (<https://www.theguardian.com/world/2017/mar/20/how-dirty-money-from-russia-flooded-into-the-uk-and-where-it-went>)

132. Catherine Belton, *Putin’s People: How the KGB Took Back Russia and Then Took On the West* (New York, NY: Farrar, Straus, and Giroux, 2020), pages 404 and 418.

133. “European Center for Geopolitical Analysis (ECAG),” *Organized Crime and Corruption Reporting Project*, March 20, 2017. (<https://www.occrp.org/en/laundromat/profiles/european-center-for-geopolitical-analysis>)

Malign finance can serve Moscow's geopolitical objectives indirectly by helping Russian actors exert influence, acquire strategic assets, and capture foreign elites through corrupt dealings. In 2021, for example, Bulgarian oligarch Vasil Bozhkov conspired to bribe a former Bulgarian official and a Bulgarian politician to help Moscow influence Bulgarian officials, according to Treasury.¹³⁴ In 2014, a Luxembourg-registered company, chaired by a pro-Kremlin Belgian investment banker who had formed a financial partnership with Western-sanctioned businessman Konstantin Malofeev, acquired several key Bulgarian assets, including defense suppliers and the country's largest telecommunications firm.¹³⁵

Malofeev has put his Balkan connections to use for Moscow. For instance, ahead of the 2014 presidential elections in Republika Srpska, Malofeev's charity fund sponsored a scheme to ensure that pro-Russian President Milorad Dodik retained power.¹³⁶ In 2019, Sofia accused Bulgarian lawmaker Nikolai Malinov, head of a pro-Russia lobby group, of working with Malofeev and his associate Leonid Reshetnikov, a retired senior Russia intelligence officer, to pull Bulgaria back into Moscow's orbit. Malinov allegedly laundered funds for Russian organizations in Bulgaria and accepted payments for transferring state secrets to Russian organizations led by Malofeev and Reshetnikov.¹³⁷ Malinov allegedly

then bribed a Bulgarian judge to allow him to travel to Moscow, where he received an award from Putin.¹³⁸

Malign finance can also facilitate corruption that supports Russian arms sales. In 2016, for example, Western-sanctioned Russian state defense exporter Rosoboronexport reportedly colluded with a Nigerian arms dealer to sell Nigeria two helicopters at an inflated price. Rosoboronexport requested that the payment be made into an account held at the German branch of Russia's VTB Bank, aiming to "make the money flows from [Rosoboronexport's] arms deals as opaque as possible," per an expert on corruption in the global arms trade.¹³⁹

The Energy Weapon

Russia's long history of coercive manipulation of energy exports and prices has rightly received much attention in the West. Less well-understood, however, is Moscow's more subtle practice of using energy companies and exports as tools for strategic corruption and political influence.

Historically, Russia has sometimes structured gas export deals to create opportunities for corruption and political influence through intermediary companies.¹⁴⁰ The best-known example is RosUkrEnergo (RUE), a Swiss-registered intermediary for Russian gas exports to Ukraine, established months before Ukraine's

134. U.S. Department of the Treasury, Press Release, "Treasury Sanctions Influential Bulgarian Individuals and Their Expansive Networks for Engaging in Corruption," June 2, 2021. (<https://home.treasury.gov/news/press-releases/jy0208>); Atanas Tchobanov and Nino Shonia, "New Georgian Lottery Co-Owner Has Bulgarian Crime Links," *Organized Crime and Corruption Reporting Project*, December 14, 2017. (<https://www.occrp.org/en/28-ccwatch/cc-watch-indepth/7402-new-georgian-lottery-co-owner-has-bulgarian-crime-links>)

135. Christo Grozev, "Malofeev's JV Partner Acquiring Strategic Bulgarian Assets: A Risk Analysis," *Christo's blog*, March 26, 2015. (<https://cgrozev.wordpress.com/2015/03/26/malofeevs-jv-partner-acquiring-strategic-bulgarian-assets-a-risk-analysis>)

136. Christo Grozev, "The Kremlin's Balkan Gambit: Part I," *Bellingcat*, March 4, 2017. (<https://www.bellingcat.com/news/uk-and-europe/2017/03/04/kremlins-balkan-gambit-part>)

137. "Russian Oligarch Malofeyev Banned From Bulgaria For 10 Years Over Spy Scandal," *Radio Free Europe/Radio Liberty*, September 11, 2019. (<https://www.rferl.org/a/russian-oligarch-malofeyev-banned-bulgaria-10-years-spy-scandal/30159179.html>)

138. U.S. Department of the Treasury, Press Release, "Treasury Sanctions Corrupt Elites Across Bulgarian Political Spectrum," February 10, 2023. (<https://home.treasury.gov/news/press-releases/jy1264>)

139. Mark Anderson, Khadija Sharife, and Nathalie Prevost, "How a Notorious Arms Dealer Hijacked Niger's Budget and Bought Weapons From Russia," *Organized Crime and Corruption Reporting Project*, August 6, 2020. (<https://www.occrp.org/en/investigations/notorious-arms-dealer-hijacked-nigers-budget-and-bought-arms-from-russia>)

140. "Illicit Influence – Part Two – The Energy Weapon," *GMF Alliance for Securing Democracy and C4ADS*, April 25, 2019. (<https://securingdemocracy.gmfus.org/illicit-influence-part-two-energy-weapon>)

2004 Orange Revolution. Gazprom owned half of RUE, with the rest owned by a Kremlin-connected Ukrainian oligarch and other Ukrainian businessmen, who controlled their stake through an Austrian bank. Moscow reportedly used RUE to funnel cash to advance the Kremlin's interests in Ukraine, allegedly offering Ukraine's then president \$2 billion per year to sign a gas transit agreement favorable to Russia.¹⁴¹

More recently, Lithuanian authorities alleged in 2020 that Gazprom sought to strengthen its position in Baltic energy markets via “loyal intermediaries – businessmen with connections to Gazprom and involved in gas trading schemes via companies registered in Lithuania and abroad.” Gazprom allegedly offered the intermediaries favorable pricing, granting them “a competitive advantage.” In return, they “coordinat[ed] their activities with Russian representatives” and supplied intelligence “on developments in the Baltic States’ gas market.”¹⁴²

Moscow has also used oil companies for malign finance. In October 2018, a longtime aide to the leader of Italy's League party, Deputy Prime Minister Matteo Salvini, met secretly in Moscow with representatives of senior Russian officials. They reportedly discussed funding the party's 2019 European Parliament election campaign, which the aide described as a chance to usher in a “new Europe” that is “close to Russia.” The participants discussed having a Russian energy company sell discounted fuel to the Italian energy company Eni energy company via intermediaries, which would siphon an estimated \$65 million and send

it to the League. The conversation stressed that one of the intermediaries must be a well-known company to avoid “problems” with anti-money laundering rules.¹⁴³

Nuclear contracts can also serve as vehicles for corruption. Earlier this year, Treasury accused former Bulgarian energy minister Rumen Ovcharov, currently serving on the Bulgarian Socialist Party's National Council, of “receiving bribes and other kickbacks in exchange for fixed-price contracts for Russian gas and nuclear fuel and support contracts.” According to Treasury, “nuclear fuel contracts negotiated by Ovcharov proxies overcharged” Bulgaria's nuclear power plant by up to €50 million, “resulting in tens of millions in ill-gotten profits for participants.”¹⁴⁴

Organized Crime

The lawless years that followed the Soviet Union's dissolution unleashed an explosion of organized crime in Russia and other post-Soviet countries. A new breed of gangster-businessmen exploited this opportunity to attain extraordinary wealth and power. Russia-based organized crime (RBOC) groups expanded rapidly into Europe, particularly in key trafficking nodes, money laundering hubs, and areas with significant Russian or other Eurasian expatriate communities. Eventually, they mostly settled into the role of service providers (money laundering, arms and narcotics trafficking, etc.) for criminal clients across the globe. After Putin came to power, the state reasserted control and influence over organized crime. In turn, his regime has increasingly used RBOC groups to advance its interests at home and abroad.¹⁴⁵

141. Karolina MacLachlan, “Corruption as Statecraft: Using Corrupt Practices as Foreign Policy Tools,” *Transparency International*, July 2019, pages 3-6. (https://ti-defence.org/wp-content/uploads/2019/11/DSP_CorruptionasStatecraft_251119.pdf); Mikhail Zygar, *All the Kremlin's Men: Inside the Court of Vladimir Putin* (New York, NY: PublicAffairs, 2016), pages 124-127 and 166-167.

142. Lithuanian State Security Department and Second Investigation Department Under the Ministry of National Defence, “National Threat Assessment 2020,” 2020. (<https://www.vsd.lt/wp-content/uploads/2020/02/2020-Gresmes-En.pdf>)

143. “Read The Full Transcript Of The Italian Far Right And Russia Oil-Deal Meeting,” *BuzzFeed News*, July 10, 2019. (<https://www.buzzfeednews.com/article/buzzfeednews/transcript-lega-russia-oil-deal-meeting>)

144. U.S. Department of the Treasury, Press Release, “Treasury Sanctions Corrupt Elites Across Bulgarian Political Spectrum,” February 10, 2023. (<https://home.treasury.gov/news/press-releases/jy1264>)

145. Mark Galeotti, “Crimintern: How the Kremlin Uses Russia's Criminal Networks in Europe,” *European Council on Foreign Relations*, April 2017. (https://www.ecfr.eu/page/-/ECFR208_-_CRIMINTERM_-_HOW_RUSSIAN_ORGANISED_CRIME_OPERATES_IN_EUROPE02.pdf)

Many of the qualities that make RBOC groups effective criminal service providers in the underworld are also useful to the Putin regime. Russia's security services are alleged to have used RBOC actors to move arms,¹⁴⁶ conduct assassinations,¹⁴⁷ perform basic intelligence activities,¹⁴⁸ and extend influence and support proxies in countries such as Ukraine.¹⁴⁹ Ukrainian intelligence reportedly assesses that Russia's FSB now seeks "control over criminal groups" in territories occupied since February 2022.¹⁵⁰

RBOC groups have become adept at using complex "laundries" to clean and hide dirty money, using both fiat and virtual currency.¹⁵¹ This money is typically "prewashed" in Russia or other post-Soviet countries, then funneled through a labyrinth of front and shell companies (often in countries where the

RBOC group has an established presence), then on to Western countries.¹⁵² In addition to underregulated offshore tax havens, RBOC laundering operations also rely on "large law firms and financial experts, alongside financial and bank institutions," according to a Spanish prosecutor leading the fight against RBOC.¹⁵³ Russian criminals also launder funds through luxury goods, hawala networks, real estate, and industrial entities.¹⁵⁴

RBOC figures sometimes serve as business partners for high-ranking Russian officials. One alleged example is criminal banker Yevgeny Dvoskin, who is reportedly close to the head of the FSB's Department K.¹⁵⁵ Another is Spain-based RBOC figure Alexander Romanov. Spanish authorities have accused him of conducting "activities and investments" on behalf of Alexander

146. For arms to Iran and Syria, see: Catherine Belton, *Putin's People: How the KGB Took Back Russia and Then Took On the West* (New York, NY: Farrar, Straus, and Giroux, 2020), page 446. For arms to Kurds to destabilize Turkey, see: Luke Harding, "WikiLeaks cables: Russian government 'using mafia for its dirty work,'" *The Guardian* (UK), December 1, 2010. (<https://www.theguardian.com/world/2010/dec/01/wikileaks-cable-spain-russian-mafia>)

147. "Have Russian hitmen been killing with impunity in Turkey?" *BBC* (UK), December 13, 2016. (<https://www.bbc.com/news/magazine-38294204>); Fred Burton and Ben West, "A Killing in Vienna and the Chechen Connection," *Stratfor*, January 22, 2009. (<https://worldview.stratfor.com/article/killing-vienna-and-chechen-connection>); "Ukraine Prosecutor Claims FSB, Ex-Partner Of Victim's Wife Behind Kyiv Slaying," *Radio Free Europe/Radio Liberty*, October 9, 2017. (<https://www.rferl.org/a/ukraine-voronenkov-kyiv-slaying-maksakova-tyurin/28782464.html>)

148. Latvian Security Police, "Annual Report for 2017," April 2018, page 9. (Archived version available at: <https://web.archive.org/web/20180903115051/http://dp.gov.lv/en/?rt=documents&ac=download&id=33>); Czech Security Information Service, "Annual Report of the Security Information Service for 2011," August 22, 2012, page 10. (<https://www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/en/ar2011en.pdf>)

149. See, for example: Brian Whitmore, "Putinfellas," *Radio Free Europe/Radio Liberty*, May 3, 2016. (<https://www.rferl.org/a/putinfellas-russia-putin-mafia/27713771.html>); Security Service of Ukraine, *Facebook*, October 26, 2018. (<https://www.facebook.com/1536845479878785/posts/2252959538267372>)

150. Greg Miller and Catherine Belton, "Russia's spies misread Ukraine and misled Kremlin as war loomed," *The Washington Post*, August 19, 2022. (<https://www.washingtonpost.com/world/interactive/2022/russia-fsb-intelligence-ukraine-war>)

151. See, for example: Europol, Press Release, "Spain dismantles top Russian-speaking organised crime network that had infiltrated public institutions," December 17, 2020. (<https://www.europol.europa.eu/media-press/newsroom/news/spain-dismantles-top-russian-speaking-organised-crime-network-had-infiltrated-public-institutions>)

152. Mark Galeotti, *The Vory: Russia's Super Mafia* (New Haven, CT: Yale University Press, 2018), page 197.

153. Ben Judah, "Grinda's War," *The American Interest*, June 12, 2018. (<https://www.the-american-interest.com/2018/06/12/grindas-war>)

154. U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, "International Narcotics Control Strategy Report, Volume II: Money Laundering," March 2021, page 160. (https://www.state.gov/wp-content/uploads/2021/02/21-00620-INLSR-Vol2_Report-FINAL.pdf)

155. Catherine Belton, *Putin's People: How the KGB Took Back Russia and Then Took On the West* (New York, NY: Farrar, Straus, and Giroux, 2020), pages 409-416; Evgenia Pismennaya and Irina Reznik, "The Russian Ex-Con With a Thriving Banking Business in Crimea," *Bloomberg*, April 7, 2016. (<https://www.bloomberg.com/news/articles/2016-04-07/crimea-pays-once-jailed-banker-thrives-after-russian-takeover>)

Torshin, who served as Russia's deputy central bank governor from 2015 to 2018.¹⁵⁶

Moscow has used RBOC money laundering to obscure its connection to funds used for active measures, as noted in a 2022 U.S. intelligence report.¹⁵⁷ Likewise, European counterintelligence reportedly suspect that Russia's GRU has used criminals to buy up property near military installations.¹⁵⁸ In addition to laundering money, Russian intelligence can also "tax" RBOC groups to generate virtually untraceable black cash. For example, the FSB is believed to have used smugglers to collect intelligence on Estonian border patrols and military bases¹⁵⁹ while also taking a cut of the smuggling proceeds.¹⁶⁰

RBOC groups can also serve Russia's strategic interests by ingraining themselves into the socio-economic fabric of foreign countries and corrupting their elites. In Spain, for example, authorities have accused RBOC actors of infiltrating local business and state institutions.¹⁶¹ In addition to benefiting Moscow by weakening

rule-of-law institutions in afflicted countries, the presence of RBOC groups can open other avenues for further Russian influence. For instance, RBOC figures with ties to Russian intelligence may have served as representatives for Lukoil as it pursued business with a Spanish firm in the 2000s; the RBOC group allegedly planned to use the deal to launder money.¹⁶²

Evading Western Sanctions and Export Controls

Facilitating Illicit Procurement for the Russian Defense and Intelligence Sectors

Following Russia's 2022 invasion of Ukraine, the United States and its Western allies expanded their export controls restricting shipments of sensitive dual-use products to Russia (and Belarus). Most notably, the U.S. Commerce Department barred foreign companies from exporting to Russia certain sensitive items produced using U.S.-origin software, technology, or equipment.¹⁶³ The Russian defense industrial base remains reliant on Western technology and components,

156. Esteban Duarte, Henry Meyer, and Evgenia Pismennaya, "Mobster or Central Banker? Spanish Cops Allege This Russian Both," *Bloomberg*, August 8, 2016. (<https://www.bloomberg.com/news/articles/2016-08-09/mobster-or-central-banker-spanish-cops-allege-this-russian-both>)

157. Edward Wang, "Russia Secretly Gave \$300 Million to Political Parties and Officials Worldwide, U.S. Says," *The New York Times*, September 13, 2022. (<https://www.nytimes.com/2022/09/13/us/politics/russia-election-interference.html>)

158. Mark Galeotti, "Gangster Geopolitics: The Kremlin's Use of Criminals as Assets Abroad," *Russia Matters*, January 17, 2019. (<https://www.russiamatters.org/analysis/gangster-geopolitics-kremlins-use-criminals-assets-abroad>)

159. Holger Roonemaa, "These Cigarette Smugglers Are On The Frontlines Of Russia's Spy Wars," *BuzzFeed News*, September 13, 2017. (<https://www.buzzfeednews.com/article/holgerroonemaa/these-cigarette-smugglers-are-on-the-frontlines-of-russias>)

160. Mark Galeotti, "Gangster Geopolitics: The Kremlin's Use of Criminals as Assets Abroad," *Russia Matters*, January 17, 2019. (<https://www.russiamatters.org/analysis/gangster-geopolitics-kremlins-use-criminals-assets-abroad>); Mark Galeotti, "The Kremlin's Newest Hybrid Warfare Asset: Gangsters," *Foreign Policy*, June 12, 2017. (<https://foreignpolicy.com/2017/06/12/how-the-world-of-spies-became-a-gangsters-paradise-russia-cyberattack-hack>)

161. See, for example: Spanish National Police, Press Release, "Detenidas 23 personas en una operación contra una red dedicada al blanqueo de dinero de mafias de origen ruso [23 people arrested in an operation against a network dedicated to money laundering of mafias of Russian origin]," December 16, 2020. (Archived version available at: https://web.archive.org/web/20201216193629/https://www.policia.es/prensa/20201216_1.html); Spanish Civil Guard, Press Release, "La Guardia Civil detiene en Lloret de Mar a 4 personas relacionadas con una red de blanqueo de capitales [The Civil Guard detains 4 people in Lloret de Mar related to a money laundering network]," January 25, 2013. (https://www.guardiacivil.es/en/prensa/historico_prensa/4308.html)

162. Sebastian Rotella, "A Gangster Place in the Sun: How Spain's Fight Against the Mob Revealed Russian Power Networks," *ProPublica*, November 10, 2017. (<https://www.propublica.org/article/fighting-russian-mafia-networks-in-spain>)

163. U.S. Commerce Department, Bureau of Industry and Security, Press Release, "Commerce Implements Sweeping Restrictions on Export Controls to Russia in Response to Further Invasion of Ukraine," February 24, 2022. (<https://bis.doc.gov/index.php/documents/about-bis/newsroom/press-releases/2914-2022-02-24-bis-russia-rule-press-release-and-tweets-final/file>)

particularly microelectronics.¹⁶⁴ If strictly enforced, export controls can undermine Russia's ability to mass-produce things such as precision-guided munitions.

The bad news, however, is that Russia possesses considerable experience and expertise, dating back to the Soviet era, in covertly procuring controlled Western products. Indeed, many Western components found in Russian equipment used in Ukraine were controlled when Russia procured them.¹⁶⁵ U.S. officials say Russian illicit procurement efforts are on the rise.¹⁶⁶ In June, Putin publicly instructed Russia's Foreign Intelligence Service to prioritize support for Russia's "industrial and technological development" and "defence potential," calling this task "especially" vital amid Western "sanctions pressure."¹⁶⁷

These efforts appear to be bearing fruit. Russian customs data indicate that despite an initial drop following the imposition of Western export controls, Russian imports of semiconductors and electronic integrated circuits have rebounded to exceed 2021

levels.¹⁶⁸ One study found that Russia imported at least \$2.6 billion worth of such components from April through October 2022, with around 30 percent of them "made by Western firms whose chips have been found in Russian weapons systems."¹⁶⁹

Malign finance plays a key role in many Russian illicit procurement schemes, helping the perpetrators obscure their true customers and sources of funds. In 2012, for example, the Department of Justice (DOJ) revealed a decade-long scheme to smuggle over \$50 million in export-controlled microelectronics to the FSB and Russian manufacturers of electronic warfare and air and missile defense systems. The conspirators laundered their proceeds using bank accounts and shell companies in over a dozen countries.¹⁷⁰ Around the same time, the FBI reportedly launched a probe into roughly half a dozen U.S.-based companies suspected of being GRU fronts working to steal sensitive items.¹⁷¹ U.S. authorities have revealed a spate of similar illicit procurement schemes in the years since, including in October 2022.¹⁷²

164. James Byrne et al., "Silicon Lifeline: Western Electronics at the Heart of Russia's War Machine," *Royal United Services Institute*, August 8, 2022. (<https://rusi.org/explore-our-research/publications/special-resources/silicon-lifeline-western-electronics-heart-russias-war-machine>)

165. David Gauthier-Villars, Steve Stecklow, Maurice Tamman, Stephen Grey, and Andrew MacAskill, "Special Report-As Russian missiles struck Ukraine, Western tech still flowed," *Reuters*, August 8, 2022. (<https://www.reuters.com/article/ukraine-crisis-russia-missiles-chips/special-report-as-russian-missiles-struck-ukraine-western-tech-still-flowed-idUSL8N2ZJ087>)

166. David Gauthier-Villars, Steve Stecklow, and John Shiffman, "Special Report: How military technology reaches Russia in breach of U.S. export controls," *Reuters*, April 29, 2022. (<https://www.reuters.com/world/how-military-technology-reaches-russia-breach-us-export-controls-2022-04-29>)

167. President Vladimir Putin, Russian Federation Office of the President, *Address to Staff and Veterans of the Foreign Intelligence Service*, June 30, 2022. (<http://en.kremlin.ru/events/president/news/68790>)

168. Sebastian Bienkowski et al., "Effectiveness of U.S. Sanctions Targeting Russian Companies and Individuals," *Free Russia Foundation*, January 30, 2023, pages 47-48. (<https://www.4freerussia.org/wp-content/uploads/sites/3/2023/01/frf-sanctions-web.pdf>)

169. Steve Stecklow, David Gauthier-Villars, and Maurice Tamman, "The supply chain that keeps tech flowing to Russia," *Reuters*, December 13, 2022. (<https://www.reuters.com/investigates/special-report/ukraine-crisis-russia-tech-middlemen>)

170. Trial Transcript, *United States v. Abdullaev et al.*, 1:12-cr-00626-LDH, Document 377 (E.D.N.Y. filed September 24, 2015). (<https://ecf.nyed.uscourts.gov/doc1/123111164424>); Trial Transcript, *United States v. Abdullaev et al.*, 1:12-cr-00626-LDH, Document 407 (E.D.N.Y. filed November 2, 2015), page 1,849. (<https://ecf.nyed.uscourts.gov/doc1/123111291036>); Trial Transcript, *United States v. Abdullaev et al.*, 1:12-cr-00626-LDH, Document 408 (E.D.N.Y. filed November 2, 2015), pages 2,053-2,054. (<https://ecf.nyed.uscourts.gov/doc1/123111291039>)

171. Zach Dorfman, "How Russia stole the night: Inside the illegal market for American night-vision technology," *Yahoo News*, August 31, 2018. (<https://www.yahoo.com/news/russia-stole-night-inside-illegal-market-american-night-vision-technology-090013609.html>)

172. U.S. Attorney's Office for the District of Connecticut, Press Release, "European Nationals and Entities Indicted on Charges of Violating U.S. Laws for Their Attempt to Export a Dual-Use High-Precision Jig Grinder to Russia," October 19, 2022. (<https://www.justice.gov/usao-ct/pr/european-nationals-and-entities-indicted-charges-violating-us-laws-their-attempt-export>); U.S. Department of Justice, Press Release, "Justice Department Announces Charges and Arrests in Two Cases Involving Export Violation Schemes to Aid Russian Military," October 19, 2022. (<https://www.justice.gov/opa/pr/justice-department-announces-charges-and-arrests-two-cases-involving-export-violation-schemes>)

Russian procurement agents frequently seek to circumvent Western export controls by operating behind cut-outs or buying from intermediaries in third countries not subject to such restrictions. In 2020, the Justice Department alleged a Bulgarian front company had helped Russia procure radiation-hardened chips, a vital component in satellites.¹⁷³ More recent schemes have involved front companies or intermediaries in Germany,¹⁷⁴ Qatar,¹⁷⁵ the Baltics,¹⁷⁶ China,¹⁷⁷ and Uzbekistan,¹⁷⁸ to name a few. The Commerce Department and Treasury's Financial Crimes Enforcement Network (FinCEN) have identified numerous other countries, ranging from India and Israel to Turkey and Taiwan, as "common transshipment points."¹⁷⁹

Recently, Treasury, Commerce, and Justice have taken steps to penalize facilitators of Russian illicit procurement. The Biden administration has also sought to promote international awareness and

cooperation through greater information sharing between allies.¹⁸⁰ Still, more must be done to improve U.S. and allied capacity to combat Russian (and other) illicit procurement. Washington and its allies also need to target more aggressively entities in China and elsewhere that facilitate Russian illicit procurement.

Evading Western Sanctions

Russian oligarchs have long sought to dodge Western sanctions by hiding their assets behind shell companies and associates. The U.S. government, in concert with allies, has established the so-called Task Force KleptoCapture and the Russian Elites, Proxies, and Oligarchs (REPO) Task Force to hunt down these hidden assets. Now, as a Treasury Department official warned last year, some sanctioned Russian firms are adopting techniques similar to those used by Russian oligarchs.¹⁸¹ Thwarting these complex schemes will require increased vigilance and resources.

173. U.S. Department of Justice, Press Release, "International Trio Indicted in Austin for Illegal Exports to Russia," December 18, 2020. (<https://www.justice.gov/opa/pr/international-trio-indicted-austin-illegal-exports-russia>)

174. Robert Kim, "Russian Defense Industries Acquired U.S. Technology Through Third-Country Supply Chains," *Kharon*, August 8, 2022. (<https://brief.kharon.com/updates/russian-defense-industries-acquired-us-technology-through-third-country-supply-chains>); "Germany arrests businessman over dual-use exports to Russia," *Associated Press*, May 18, 2021. (<https://apnews.com/article/russia-europe-germany-arrests-global-trade-cb1db843d5dee5271e30a1064767bcb2>)

175. Giuseppe Scarpa, "Droni Usa bloccati a Gioia Tauro. 'Dovevano partire per la Russia' [US drones blocked in Gioia Tauro. 'They had to leave for Russia']," *La Repubblica* (Italy), July 14, 2022. (https://www.repubblica.it/esteri/2022/07/14/news/droni_usa_bloccati_a_gioia_tauro_dovevano_partire_per_la_russia-357720929)

176. U.S. Department of Justice, Press Release, "European Nationals and Entities Indicted on Charges of Violating U.S. Laws for Their Attempt to Export a Dual-Use High-Precision Jig Grinder to Russia," October 19, 2022. (<https://www.justice.gov/usao-ct/pr/european-nationals-and-entities-indicted-charges-violating-us-laws-their-attempt-export>)

177. Robert Kim et al., "Chinese Companies Supply Western Electronics to Firms that Procure for Russian Military Industry," *Kharon*, October 13, 2022. (<https://brief.kharon.com/updates/chinese-companies-supply-western-electronics-to-firms-that-procure-for-russian-military-industry>)

178. U.S. Department of State, Office of the Spokesperson, Fact Sheet, "Targeting Russia's War Machine, Sanctions Evaders, Military Units Credibly Implicated in Human Rights Abuses, and Russian Federation Officials Involved in Suppression of Dissent," June 28, 2022. (<https://www.state.gov/targeting-russias-war-machine-sanctions-evaders-military-units-credibly-implicated-in-human-rights-abuses-and-russian-federation-officials-involved-in-suppression-of-dissent>)

179. U.S. Financial Crimes Enforcement Network and Department of Commerce, Joint Alert, "FinCEN and the U.S. Department of Commerce's Bureau of Industry and Security Urge Increased Vigilance for Potential Russian and Belarusian Export Control Evasion Attempts," June 28, 2022. (<https://www.fincen.gov/sites/default/files/2022-06/FinCEN%20and%20Bis%20Joint%20Alert%20FINAL.pdf>)

180. Phil Mattingly, "US to host top officials from 30 countries in effort to escalate crackdown on Russian defense supply chains," *CNN*, October 7, 2022. (<https://www.cnn.com/2022/10/07/politics/us-russian-defense-supply-chain-crackdown/index.html>)

181. Ben Hall and Katie Martin, "US warns wealthy Russians against shifting assets to evade sanctions," *Financial Times* (UK), March 29, 2022. (<https://www.ft.com/content/88843c3a-b652-4324-85bf-5614fbf1db30>)

In May 2022, for instance, state-owned Sberbank sold companies from its non-financial portfolio, in which the bank has invested heavily, to an obscure, newly established firm in an apparent attempt to shield them from U.S. and UK sanctions. The buyer was JSC New Opportunities, a Moscow-based firm established in late March with just 10,000 rubles (\$136) in authorized capital — Russia’s legal minimum for a non-public joint stock company. Interfax reported that New Opportunities is owned by Tatiana Portnykh, an unknown figure who also owns four similar companies created between April and May 2022, all with 10,000 rubles in authorized capital. But New Opportunities’ file in Russia’s company registry says information on the company’s ownership is restricted pursuant to a law designed to combat sanctions.¹⁸²

A source familiar with Sberbank’s plans for its non-financial portfolio said Sberbank had sold the companies because Western sanctions threaten their business, as they all work with foreign suppliers. The acting CEO of one of the sold companies insisted New Opportunities has no affiliation with Sberbank and therefore is not subject to Western sanctions. However, a Sberbank representative said the bank “will maintain partnerships with” the firms. The risk here: Sberbank may have nominally sold the companies to spare them from sanctions, while planning to regain de jure control over them at a later date.¹⁸³

Supporting Rogue Regimes

Moscow wields malign finance to support allied rogue regimes, often while simultaneously advancing

Russian business interests and political influence in the countries they rule. As with other areas of Russian sanctions evasion, a wide variety of actors support these efforts. These include state enterprises and professional money launderers, who have played key roles in Russian sanctions-evasion schemes in Venezuela and Syria.

Venezuela

Moscow works hard to undermine U.S. sanctions on the regime of dictator Nicolas Maduro, most notably in the oil sector — aiming to support an important regional partner while protecting Russian business interests in Venezuela.

By 2019, U.S. sanctions had crippled Venezuela’s oil exports, the Maduro regime’s chief financial lifeline. State-controlled Russian oil firm Rosneft, mainly through its Swiss-incorporated trading arm Rosneft Trading S.A. (RTSA), stepped in to serve as the chief broker of Venezuelan oil exports. Rosneft took them as repayment for billions of dollars in loans it had issued to Venezuela in recent years. The company also swapped the crude for fuel desperately needed by Venezuela. By August 2019, Rosneft was moving most of Venezuela’s oil exports, helping them rebound from a nadir of 637,000 barrels per day (bpd) in September 2019 to roughly 1 million bpd by the following December, according to TankerTrackers.¹⁸⁴

In February 2020, Treasury designated RTSA, threatening sanctions on foreign persons doing business with it.¹⁸⁵ Shortly thereafter, another Swiss-incorporated Rosneft subsidiary, TNK Trading International S.A. (TTI), took over RTSA’s

182. John Hardie, “Top Russian Bank Launches Apparent Attempt to Evade Sanctions,” *Foundation for Defense of Democracies*, May 27, 2022. (<https://www.fdd.org/analysis/2022/05/27/top-russian-bank-attempt-evade-sanctions>)

183. Ibid.

184. John Hardie, “Treasury Targets Maduro’s Oil Lifeline,” *Foundation for Defense of Democracies*, February 24, 2020. (<https://www.fdd.org/analysis/2020/02/24/treasury-targets-maduros-oil-lifeline>)

185. U.S. Department of the Treasury, Press Release, “Treasury Targets Russian Oil Brokerage Firm for Supporting Illegitimate Maduro Regime,” February 18, 2020. (<https://home.treasury.gov/news/press-releases/sm909>)

Venezuelan cargoes, leading to TTI's designation by Treasury in March 2020.¹⁸⁶

Russia soon shifted its tactics. In late March 2020, Moscow transferred Rosneft's Venezuelan assets as well as its oil services and trading operations to a newly created state-owned firm, Roszarubezhneft, aiming to protect Rosneft from sanctions and to secure sanctions relief for RTSA and TTI.¹⁸⁷ Yet most of Rosneft's Venezuela-based employees reportedly remained in country, and the former Rosneft chief in Venezuela reportedly became the legal representative of a Cyprus-based Roszarubezhneft subsidiary.¹⁸⁸

Reuters later revealed that almost two dozen phantom companies, mostly based in Russia, were chartering vessels to covertly ship Venezuelan oil to Asia. After Treasury tightened sanctions against Venezuelan oil exports in August 2020, those firms became virtually the only customers left on Venezuelan state oil company PdVSA's export schedule by the following October. The websites for 15 of the companies were registered the previous June by Moscow-based OGX Trading, founded in March 2020 by a Russian man with business connections to a Venezuelan woman previously involved in a money-laundering network supporting the Maduro regime. Russian corporate records said the man owned just 1 percent of OGX, with the rest owned by a Dubai-based shell company.¹⁸⁹ None of these individuals or entities have been sanctioned.

Syria

Russia's military backing of the Syrian regime is well-known. But the regime of Bashar al-Assad also benefits from Russian malign finance. For example, Treasury revealed in 2018 that state-owned Russian company Promsyrioimport, in cooperation with Tehran, had orchestrated sanctions-busting deliveries of Iranian oil to Syria, which relies on imports to replace domestic production lost during the ongoing civil war. To help Syria pay Russia for the oil, Iran's central bank, through a front company, allegedly transferred millions of dollars via a Russian bank to a Russia-based company owned by a Syrian national, which then transferred them to Promsyrioimport.¹⁹⁰

Another notable network is that of Mudalal Khuri, a Moscow-based Syrian-Russian banker and professional money launderer with influential connections in both countries. Throughout his career, Khuri has allegedly moved money for various Russian businessmen, organized crime and terrorist groups, and rogue regimes. Khuri's network, which he began operating in the 1990s, apparently comprises several of his family members as well as numerous Russian, Syrian-Russian, Lebanese, and Cypriot nationals.¹⁹¹

Following a 2012 visit to Moscow by Assad's maternal uncle Mohammed Makhoul, whose family until recently constituted the Assad regime's principal financial backer, Khuri allegedly served as Makhoul's

186. U.S. Department of the Treasury, Press Release, "Treasury Targets Additional Russian Oil Brokerage Firm for Continued Support of Maduro Regime," March 12, 2020. (<https://home.treasury.gov/news/press-releases/sm937>); Marianna Parraga, "PDVSA shifts oil cargoes to different Rosneft unit, U.S. threatens action," *Reuters*, February 24, 2020. (<https://www.reuters.com/article/us-venezuela-oil-rosneft/pdvsa-shifts-oil-cargoes-to-different-rosneft-unit-u-s-threatens-action-idUSKCN20I2IH>)

187. Max Seddon and Derek Brower, "Venezuela hails continued Russian support despite Rosneft exit," *Financial Times* (UK), March 28, 2020. (<https://www.ft.com/content/d6604d86-fc4a-4509-b8ff-ebaa6a1e7901>)

188. Alexandra Ulmer and Marianna Parraga, "EXCLUSIVE Russian oil firm shuffles Venezuela assets as sanctions bite," *Reuters*, March 29, 2022. (<https://www.reuters.com/business/energy/exclusive-russian-oil-firm-shuffles-venezuela-assets-sanctions-bite-2022-03-29>)

189. Marianna Parraga, Rinat Sagdiev, and Parisa Hafezi, "Special Report: Phantom oil buyers in Russia, advice from Iran help Venezuela skirt sanctions," *Reuters*, November 10, 2020. (<https://www.reuters.com/article/us-venezuela-oil-exports-special-report/special-report-phantom-oil-buyers-in-russia-advice-from-iran-help-venezuela-skirt-sanctions-idUSKBN27Q295>)

190. U.S. Department of the Treasury, Press Release, "Treasury Designates Illicit Russia-Iran Oil Network Supporting the Assad Regime, Hizballah, and HAMAS," November 28, 2018. (<https://home.treasury.gov/news/press-releases/sm553>)

191. "Assad's Money Men in Moscow," *Global Witness*, July 13, 2020, pages 3-5. (<https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/assads-money-men-in-moscow>)

right-hand man in Russia.¹⁹² The Khuri network helped manage the Makhlof family's business and financial interests, including by stashing at least \$40 million in Moscow real estate for Makhlof family members, most of whom are under Western sanctions.¹⁹³ Khuri network companies have helped the Assad regime move money between Syria, Lebanon, and Russia and facilitated regime procurement, including from Russian entities. The network played a key role in preserving Russian-Syrian banking ties following the imposition of Western sanctions against Syria.¹⁹⁴

While Treasury designated Mudalal Khuri in 2015 and has also sanctioned other parts of his network,¹⁹⁵ many members of his network remain undesignated.¹⁹⁶ The European Union and United Kingdom have not sanctioned any part of the Khuri network.

Notable Problematic Jurisdictions

Some jurisdictions long favored by Russian oligarchs and companies, such as Cyprus, have made considerable efforts to crack down on illicit finance,

Russian or otherwise. But other jurisdictions appear to be going in the wrong direction. Several stand out for their role in helping Russian companies and oligarchs evade Western sanctions and export controls following Moscow's 2022 invasion.

One is Turkey, the only NATO member that refused to join the sanctions campaign against Russia. Long a top destination for Russian tourists and gas, Turkey's importance for Russia has only increased following the invasion. First, Ankara has opened its doors to Russian oligarchs looking to hide their yachts and wealth from Western authorities.¹⁹⁷ Whereas Western firms have fled Russia en masse, many top Turkish companies have maintained or even expanded their presence in Russia or seek to do so.¹⁹⁸

Meanwhile, hundreds of Russian companies have relocated to Turkey or established subsidiaries there to avoid Western restrictions. Russian importers are going through Turkey to buy goods they can no longer get directly from Europe,¹⁹⁹ including microelectronics.²⁰⁰ Trade data indicate Turkey in 2022 exported tens of

192. Ibid., pages 2 and 9.

193. "Assad Henchmen's Russian Refuge," *Global Witness*, November 11, 2019. (<https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/assad-henchmens-russian-refuge>)

194. "Assad's Money Men in Moscow," *Global Witness*, July 13, 2020. (<https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/assads-money-men-in-moscow>)

195. U.S. Department of the Treasury, Press Release, "Treasury Sanctions Networks Providing Support to the Government of Syria, Including For Facilitating Syrian Government Oil Purchases from ISIL," November 25, 2015. (<https://home.treasury.gov/news/press-releases/jl0287>); U.S. Department of the Treasury, Press Release, "Treasury Sanctions Networks Providing Support to the Government of Syria," July 21, 2016. (<https://home.treasury.gov/news/press-releases/jl0526>)

196. For identifying information, see: "Assad's Money Men in Moscow," *Global Witness*, July 13, 2020, pages 5 and 19-20. (<https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/assads-money-men-in-moscow>); "С днем рождения, Фадель! [Happy birthday Fadel!]," *RUSSAR*, August 27, 2020. (<https://www.frussar.com/2020/08/27/s-dnem-rozhdeniya-fadel>); "Общее собрание Благотворительного фонда «РУССАР» 22 декабря 2020 г. [General meeting of the RUSSAR Charitable Foundation December 22, 2020]," *RUSSAR*, December 28, 2020. (<https://www.frussar.com/2020/12/28/obshhee-sobranie-blagotvoritelnogo-fonda-russar-22-dekabrya-2020-g>); "Учредитель Фонда «РУССАР» Малек Хури побывал в Артеке [Founder of the RUSSAR Foundation Malek Khuri visited Artek]," *RUSSAR*, August 8, 2018. (<https://www.frussar.com/2018/08/08/uchreditel-fonda-russar-malek-huri-pobyval-v-arteke>)

197. Elif Ince, Michael Forsythe, and Carlotta Gall, "Russian Superyachts Find Safe Haven in Turkey, Raising Concerns in Washington," *The New York Times*, October 23, 2022. (<https://www.nytimes.com/2022/10/23/world/europe/russian-superyachts-find-safe-haven-in-turkey-raising-concerns-in-washington.html>)

198. "Factbox: Turkish firms holding, buying Russian assets after U.S. warning," *Reuters*, August 26, 2022. (<https://www.reuters.com/business/turkish-firms-holding-buying-russian-assets-after-us-warning-2022-08-26>)

199. Jared Malsin, Anna Hirtenstein, and Andrew Duehren, "The Ukraine War Is Pushing Turkey Closer to Russia," *The Wall Street Journal*, December 24, 2022. (<https://www.wsj.com/articles/the-ukraine-war-is-pushing-turkey-closer-to-russia-11671720774>)

200. See, for example: Steve Stecklow, David Gauthier-Villars, and Maurice Tamman, "The supply chain that keeps tech flowing to Russia," *Reuters*, December 13, 2022. (<https://www.reuters.com/investigates/special-report/ukraine-crisis-russia-tech-middlemen>)

millions of dollars' worth of military-relevant items, including American-made goods, to Russian firms — some of them under sanctions for supporting Moscow's war in Ukraine.²⁰¹

The United Arab Emirates presents similar concerns. The Gulf nation has long been a permissive jurisdiction for illicit finance. Even before Moscow launched its full-scale invasion of Ukraine, the UAE was a burgeoning destination for wealthy Russians and had established a “strategic partnership” with Moscow.²⁰² These trends appear to have accelerated since February 2022, with Russian elites and their money flocking to Dubai, in particular.²⁰³ Dozens of Russian traders have also emigrated to Dubai, some setting up shop under new names.²⁰⁴

India, long a key economic and military-technical partner for Russia, is another country of concern. Total bilateral trade soared to almost \$31 billion in April-November 2022 alone, a nearly 300 percent increase from the previous year.²⁰⁵ Soaring imports of Russian oil made India the top buyer of Russian crude, helping Moscow compensate for reduced Western demand. Following the imposition of the G7's price cap on

Russian oil shipments, the two countries have reportedly settled most oil deals in non-dollar currencies.²⁰⁶

Not only is India a major importer of Russian oil, but the Russians are also looking to Delhi to replace Western products needed to keep key industries running. In November, Reuters revealed that Moscow sent Delhi a list of over 500 products, including parts for aircraft, cars, and trains. The Indian government is keen to oblige to reduce India's trade deficit with Russia, which has ballooned thanks to increased imports of Russian oil. At least some Indian companies, however, are wary of penalties from the West — fears which Washington and its allies must reinforce.²⁰⁷

Finally, Iran and China also pose sanctions enforcement challenges. Since Moscow invaded Ukraine last year, Russia and the Islamic Republic have doubled down on their partnership. In addition to their burgeoning military-technical cooperation, the two rogue regimes are deepening their collaboration on evasion of Western sanctions. Tehran has offered to share with Moscow its decades-long experience in thwarting Western restrictions,²⁰⁸ while Russia continues to facilitate

201. Jared Malsin, “Russia's Ukraine War Effort Fueled by Turkish Exports,” *The Wall Street Journal*, February 3, 2023. (<https://www.wsj.com/articles/russias-ukraine-war-effort-fueled-by-turkish-exports-11675447477>)

202. Russian Federation Office of the President, “Declaration on the strategic partnership between the Russian Federation and the United Arab Emirates,” June 1, 2018. (<http://en.kremlin.ru/supplement/5309>)

203. Pablo Robles, Anton Troianovski, and Agnes Chang, “The New Geography of the Russian Elite,” *The New York Times*, June 17, 2022. (<https://www.nytimes.com/interactive/2022/06/17/world/europe/russia-private-jets.html>)

204. “How Russia dodges oil sanctions on an industrial scale,” *The Economist* (UK), June 29, 2023. (<https://www.economist.com/finance-and-economics/2023/01/29/how-russia-dodges-oil-sanctions-on-an-industrial-scale>)

205. Sudhi Ranjan Sen, Adrija Chatterjee, and Rakesh Sharma, “India's Soaring Russian Oil Imports Render Rupee Trade Futile,” *Bloomberg*, February 13, 2023. (<https://www.bloomberg.com/news/articles/2023-02-14/india-s-soaring-russian-oil-imports-render-rupee-trade-futile?sref=3OIZCXOE>)

206. Nidhi Verma and Noah Browning, “India's oil deals with Russia dent decades-old dollar dominance,” *Reuters*, March 8, 2023. (<https://www.reuters.com/markets/currencies/indias-oil-deals-with-russia-dent-decades-old-dollar-dominance-2023-03-08>)

207. Aditi Shah, Aftab Ahmed, and Gleb Stolyarov, “Exclusive: India asked by sanctions-hit Russia for parts for key sectors,” *Reuters*, November 29, 2022. (<https://www.reuters.com/world/india/india-asked-by-sanctions-hit-russia-parts-key-sectors-sources-2022-11-29>);

“India shared a list of products with Moscow for access to Russian market - minister,” *Reuters*, December 5, 2022. (<https://www.reuters.com/world/india-shared-list-products-with-moscow-access-russian-market-minister-2022-12-05>)

208. See, for example: Matthew Karnitschnig, “Iran teaches Russia its tricks on beating oil sanctions,” *Politico*, November 9, 2022. (<https://www.politico.eu/article/iran-russia-cooperation-dodging-oil-sanctions>)

sanctions-busting schemes generating money for the Islamic regime.²⁰⁹

Although Beijing is careful not to be seen as violating Western sanctions, China is Moscow's key lifeline for imports of dual-use goods needed by Russian defense companies. Customs data indicate Russian imports of microchips and electronic integrated circuits from China (including Hong Kong) jumped from under \$400 million in 2021 to over \$900 million in January-September 2022, accounting for over a third of Russian imports of these products.²¹⁰

Russian firms often circumvent Western export controls by procuring sensitive goods such as microelectronics through China-based traders and shell companies. For example, a December 2022 investigation found that an apparent Hong Kong shell company "shipped at least \$210 million in electronics to Russia since April 1, including at least \$50 million" from U.S. firms.²¹¹

But the problem is not just with obscure China-based firms: Customs records show that state-owned Chinese companies also continue to supply sanctioned Russian defense firms with military and dual-use products, such as navigation equipment and fighter jet parts.²¹²

Next Steps to Counter Russian Malign Finance

For decades, many Western countries turned a blind eye to the risks associated with welcoming dubious funds from Russia. London earned the moniker "Londongrad" for its reputation for swimming in Russian cash. Likewise, strong property rights and relatively lax financial transparency laws made the United States a favorite destination for dirty money, including from Russia.²¹³ Instead of making Russia more like the West through closer financial ties, these connections "offered ideal mechanisms" for laundering Russian money and "extending patronage and building influence," as a 2020 report by the UK Parliament's Intelligence and Security Committee noted.²¹⁴

Moscow's 2014 aggression in Ukraine finally motivated Western policymakers to begin cracking down on dirty Russian money. More broadly, Western leaders have increasingly recognized the national security risks posed by opaque financial flows from abroad. This led Western nations, including the United States, to take important initial steps. Moscow's 2022 full-scale invasion of Ukraine has only expanded Western appetite to target illicit and even licit Russian funds. Washington and its allies should capitalize by pressing for continued progress on financial transparency and

209. U.S. Department of the Treasury, Press Release, "Treasury Targets Oil Smuggling Network Generating Hundreds of Millions of Dollars for Qods Force and Hizballah," May 25, 2022. (<https://home.treasury.gov/news/press-releases/jy0799>); U.S. Department of the Treasury, Press Release, "Treasury Targets Sanctions Evasion Network Generating Hundreds of Millions of Dollars for Qods Force Oil Sales," December 8, 2022. (<https://home.treasury.gov/news/press-releases/jy1151>)

210. Sebastian Bienkowski et al., "Effectiveness of U.S. Sanctions Targeting Russian Companies and Individuals," *Free Russia Foundation*, January 30, 2023, pages 48 and 50. (<https://www.4freerussia.org/wp-content/uploads/sites/3/2023/01/frf-sanctions-web.pdf>). See also: Brian Spegele, "Chinese Firms Are Selling Russia Goods Its Military Needs to Keep Fighting in Ukraine," *The Wall Street Journal*, July 15, 2022. (<https://www.wsj.com/articles/chinese-firms-are-selling-russia-goods-its-military-needs-to-keep-fighting-in-ukraine-11657877403>)

211. Steve Stecklow, David Gauthier-Villars, and Maurice Tamman, "The supply chain that keeps tech flowing to Russia," *Reuters*, December 13, 2022. (<https://www.reuters.com/investigates/special-report/ukraine-crisis-russia-tech-middlemen>). For another example, see: "Millions of Dutch chips end up in Russia despite EU sanctions—NOS/Nieuwsuur investigation," *Euromaidan Press* (Ukraine), January 30, 2023. (<https://euromaidanpress.com/2023/01/30/millions-of-dutch-chips-end-up-in-russia-despite-eu-sanctions-nos-nieuwsuur-investigation>)

212. Ian Talley and Anthony DeBarros, "China Aids Russia's War in Ukraine, Trade Data Shows," *The Wall Street Journal*, February 4, 2023. (<https://www.wsj.com/articles/china-aids-russias-war-in-ukraine-trade-data-shows-11675466360>)

213. John Hardie, "Time to Close the Legal Loopholes that Facilitate Russian Illicit Finance," *The National Interest*, July 12, 2020. (<https://nationalinterest.org/blog/buzz/time-close-legal-loopholes-facilitate-russian-illicit-finance-164568>)

214. UK Parliament Intelligence and Security Committee, "Russia," July 21, 2020, page 15. (<https://assets.documentcloud.org/documents/6999013/20200721-HC632-CCS001-CCS1019402408-001-ISC.pdf>)

by providing relevant government bodies with the tools they need to fight Russian malign finance. The following 13 recommendations identify key areas of focus.

Improve the Beneficial Ownership Registry

The Corporate Transparency Act, passed in 2021, required shell companies to disclose their beneficial owners to Treasury — the biggest victory for financial transparency since the post-9/11 USA PATRIOT Act. Treasury is now working to finalize related regulations and stand up the registry.²¹⁵ However, a draft rule proposed by FinCEN could undermine the law's efficacy by unnecessarily complicating access to the database. And FinCEN's draft form, which reporting companies will use to submit information on their beneficial owners, would seemingly allow respondents to simply claim they cannot determine all their beneficial owners.²¹⁶

FinCEN should redress these shortcomings. Washington should then go further by making the registry open to the public. The European Union's experience has demonstrated how an open-access registry can empower civil society to uncover malign finance in a timely manner.²¹⁷

Regulate the 'Enablers' of Russian Malign Finance

Russia's malign financial ecosystem relies on an army of lawyers, accountants, investment advisors, service providers, real estate agents, PR firms, and other enablers who launder the money and reputations of bad actors. Historically, many of these enablers have been located in the West, including the United States. Treasury took a good first step with its May 2022 ban on the provision of accounting, trust and corporate formation, and management consulting services to persons located in Russia,²¹⁸ and the European Union and United Kingdom imposed similar measures.²¹⁹ But more can be done.

The United States is one of the few countries that exempts non-bank enablers, such as lawyers and accountants, from rules designed to counter illicit finance. Whereas banks and most other financial institutions must conduct anti-money laundering (AML) due diligence and report suspicious activity to the U.S. government, these enablers face no such obligation. This contravenes international standards set by the Financial Action Task Force, the intergovernmental body that works to counter illicit finance.²²⁰

215. U.S. Financial Crimes Enforcement Network, "Beneficial Ownership Information Reporting Rule Fact Sheet," September 29, 2022. (<https://www.fincen.gov/beneficial-ownership-information-reporting-rule-fact-sheet>)

216. The FACT Coalition, Press Release, "FACT Coalition Urges Treasury Department To Make Critical Improvements to Draft Regulation to Implement Landmark Corporate Transparency Act," February 15, 2023. (<https://thefactcoalition.org/fact-coalition-urges-treasury-department-to-make-critical-improvements-to-draft-regulation-to-implement-landmark-corporate-transparency-act>)

217. The bloc's anti-money laundering rules required member states to make their beneficial ownership registries open to the public, but a November 2022 court ruling reversed that decision, dealing a major blow to corporate transparency and efforts to counter malign finance. See: Maíra Martini, "Enforcing sanctions against Russian kleptocrats just got harder," *Politico*, January 3, 2023. (<https://www.politico.eu/article/opinion-maira-martini-russia-sanctions-enforcing-accountability-european-union>)

218. U.S. Department of the Treasury, Press Release, "U.S. Treasury Takes Sweeping Action Against Russia's War Efforts," May 8, 2022. (<https://home.treasury.gov/news/press-releases/jy0771>)

219. European Commission, Press Release, "Russia's war on Ukraine: EU adopts sixth package of sanctions against Russia," June 3, 2022. (https://ec.europa.eu/commission/presscorner/detail/en/ip_22_2802); UK Department for Business & Trade, Department for International Trade, and Export Control Joint Unit, Guidance, "Supplying professional and business services to a person connected with Russia," February 7, 2023. (<https://www.gov.uk/government/publications/professional-and-business-services-to-a-person-connected-with-russia/professional-and-business-services-to-a-person-connected-with-russia>)

220. Financial Action Task Force, "Transparency and Beneficial Ownership," October 2014. (<https://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-transparency-beneficial-ownership.pdf>)

As a first step, Treasury should revoke the Bank Secrecy Act exemptions afforded to investment funds. The FBI has warned that “threat actors,” including from Russia, exploit this loophole “to launder money ... in support of fraud, transnational organized crime, and sanctions evasion.” The bureau warned that unless Washington requires “private investment funds to identify and disclose to financial institutions the underlying beneficial owners of investments,” this activity will likely increase over time.²²¹ In 2015, FinCEN proposed obligating investment advisors to establish AML safeguards, to no avail. FinCEN should reissue an updated version of its draft rule, as members of Congress called for last year.²²²

In addition, Washington should apply AML obligations to trust and company service providers (TCSPs). These entities file company-formation paperwork on behalf of company owners, but some TCSPs allow owners to obfuscate their identities by writing in the TCSP’s name and address instead. Unlike most other countries, the United States does not require TCSPs to implement AML safeguards. Washington should fulfill the FATF recommendation to impose AML obligations on company formation agents, trustee and nominee service providers, and providers of registered offices and business addresses.²²³

Accountants and legal professionals should also be subject to AML obligations. Integral to countless sophisticated illicit financial enterprises the world

over, accountants and lawyers ironically face no AML obligations in the United States — contrary to FATF recommendations. Congress should amend the Bank Secrecy Act to add accountants and accounting firms to the statutory list of financial institutions subject to AML obligations. Lawyers should also be obligated to report suspicious activity rather than claiming attorney-client privilege. As suggested by Josh Rudolph, an expert on countering malign finance, Congress could close this loophole through legislation that allows legal professionals to choose between assuming AML obligations and forgoing handling their clients’ money altogether.²²⁴

A bill introduced during the last Congress, the ENABLERS Act, would have gone a long way toward redressing these vulnerabilities. It passed the House but was blocked in the Senate.²²⁵ Congress should re-examine this issue during its current session.

Address Risks in the Real Estate Sector

In January, FinCEN warned that “sanctioned Russian elites and their proxies are likely attempting to exploit several vulnerabilities in the commercial real estate (CRE) market in order to evade sanctions.” The agency noted that this “market presents unique challenges for financial institutions in detecting sanctions evasion,” in part because “CRE transactions routinely involve highly complex financing methods and opaque ownership structures that can make it

221. U.S. Federal Bureau of Investigation, “Threat Actors Likely Use Private Investment Funds To Launder Money, Circumventing Regulatory Tripwires,” July 14, 2020. (Archived version available at: <https://archive.org/details/fbi-intelligence-bulletin-threat-actors-likely-use-private-investment/page/2/mode/2up>)

222. Office of Senator Mark R. Warner, Press Release, “Senators Urge Administration to Require Investment Advisers to Proactively Combat Money Laundering and Support Sanctions Compliance,” March 30, 2022. (<https://www.warner.senate.gov/public/index.cfm/2022/3/senators-urge-administration-to-require-investment-advisers-to-proactively-combat-money-laundering-and-support-sanctions-compliance>)

223. Josh Rudolph, “Regulating The Enablers,” *GMF Alliance for Securing Democracy*, September 21, 2021. (<https://securingdemocracy.gmfus.org/regulating-the-enablers>)

224. Ibid.

225. Josh Rogin, “Congress is letting international money launderers off the hook,” *The Washington Post*, November 17, 2022. (<https://www.washingtonpost.com/opinions/2022/11/17/money-laundering-legislation-stalls-congress>)

relatively easy for bad actors to hide illicit funds in CRE investments.”²²⁶

To counter illicit finance in the real estate market, FinCEN established so-called Geographic Targeting Orders (GTOs), which require U.S. title insurance companies to identify the beneficial owners behind all-cash purchases of real estate in certain geographic areas. But they do not cover CRE. Moreover, the existing GTO regime itself contains a number of weaknesses that must be addressed. Treasury should close these gaps in its long-awaited draft rule on combating money laundering in the real estate sector, set to be issued this April.²²⁷

Strengthen Protections Against Dark Money Targeting U.S. Politics

Washington should redress vulnerabilities in campaign and NGO finance. As the Senate Select Committee on Intelligence noted in 2020, Moscow has long “has sought to understand, and potentially exploit, vulnerabilities in the U.S. campaign finance system.” The committee called on “DOJ, the Intelligence Community, regulators and legislators” to “work together to identify and address any loopholes that could be abused.”²²⁸

In particular, Congress should prohibit cryptocurrency donations, require disclosure of online political ad buys,

prohibit foreign purchases of political advertisements, and obligate internet media to disclose publicly their beneficial owners. In addition, all NGOs should have to disclose their foreign donors to a national regulatory authority. Finally, Congress should also consider steps to prevent foreign companies from funneling campaign donations through U.S. subsidiaries.²²⁹

Work With Foreign Partners and Industry to Address the Virtual Currency Threat

Washington should work with international partners to promote global implementation of relevant FATF standards, particularly the so-called “travel rule,” which requires cryptocurrency exchanges and other virtual asset service providers (VASPs) to obtain and share due diligence information about their customers when transferring funds. As FDD’s Richard Goldberg and K2 Integrity’s Alex Levitov note, “few foreign jurisdictions have implemented the travel rule.” And “if bad actors can access VASPs subject to insufficient regulation, they can often gain access to other, better-regulated VASPs and, ultimately, the traditional financial sector.”²³⁰

As Goldberg and Levitov recommend, Washington and other governments should also require VASPs in well-regulated jurisdictions to apply more stringent due diligence to VASPs in high-risk jurisdictions. In addition, the U.S. government should engage with

226. U.S. Financial Crimes Enforcement Network, “FinCEN Alert on Potential U.S. Commercial Real Estate Investments by Sanctioned Russian Elites, Oligarchs, and Their Proxies,” January 25, 2023. (https://www.fincen.gov/sites/default/files/shared/FinCEN%20Alert%20Real%20Estate%20FINAL%20508_1-25-23%20FINAL%20FINAL.pdf)

227. “Treasury Announces Timeline for New Rule Cracking Down on Money Laundering Through US Real Estate,” *The FACT Coalition*, January 12, 2023. (<https://thefactcoalition.org/treasury-announces-timeline-for-new-rule-cracking-down-on-money-laundering-through-us-real-estate>)

228. U.S. Senate Select Committee on Intelligence, “Russian Active Measures Campaigns and Interference in the 2016 U.S. Election, Volume 5: Counterintelligence Threats and Vulnerabilities,” August 18, 2020, page 935. https://www.intelligence.senate.gov/sites/default/files/documents/report_volume5.pdf

229. For further discussion, see: Josh Rudolph and Thomas Morley, “Covert Foreign Money: Financial loopholes exploited by authoritarians to fund political interference in democracies,” GMF Alliance for Securing Democracy, August 2020. (<https://securingdemocracy.gmfus.org/wp-content/uploads/2020/08/ASD-Covert-Foreign-Money.pdf>); Saurav Ghosh, “The FEC is Allowing Foreign Money to Influence Our Elections,” *Campaign Legal Center*, November 10, 2022. (<https://campaignlegal.org/update/fec-allowing-foreign-money-influence-our-elections>)

230. Richard Goldberg and Alex Levitov, “The Underside of the Coin: Illicit Finance Risks in Virtual Assets,” *Foundation for Defense of Democracies*, February 16, 2023, pages 8-10. (<https://www.fdd.org/analysis/2023/02/16/the-underside-of-the-coin-illicit-finance-risks-in-virtual-assets>)

the private sector and state and local governments to promote investment in and widescale adoption of anti-money laundering/combating the financing of terrorism (AML/CFT) compliance programs and blockchain analysis tools and software. Finally, policymakers should pursue ways to better regulate so-called “privacy coins,” “unhosted wallets,” virtual currency “mixers,” and cryptocurrency “mining pools,” often used to facilitate illicit activity.²³¹ Toward this end, Congress should carefully consider the measures proposed in the bipartisan Digital Asset Anti-Money Laundering Act of 2022, introduced last December.²³²

Equip Key U.S. Government Agencies for Success

Congress must ensure Treasury and Commerce have the resources, staff, authorities, and structures they need. Despite their critical roles in protecting U.S. national security, both Treasury and Commerce operate with relatively small staffs and budgets. This challenge will only grow more acute in the years ahead with the expansion of Russia-related sanctions and export controls and Moscow’s efforts to evade them.

This is particularly concerning given that the malign activity of Russian actors already far outstrips the rate at which Treasury sanctions them. This likely reflects staffing shortfalls, although an inefficient interagency

process may be another factor. The so-called FinCEN Files, which revealed an enormous amount of suspicious and even illicit activity that went unthwarted, indicate that the U.S. government is not acting on the mountains of “suspicious activity reports” that financial institutions submit to FinCEN.²³³ In 2020, FinCEN officials reportedly admitted the agency never even reads most of these reports, let alone acts on them.²³⁴

Fixing FinCEN should be a priority. Congress has begun to address this challenge by providing FinCEN with “direct-hire” authority in 2021,²³⁵ plus an 18 percent budget increase in the FY2023 omnibus spending bill.²³⁶ Biden’s FY2024 budget proposal requested a further 20 percent increase in funding,²³⁷ which Congress should grant. FinCEN should use these resources to invest in a substantial increase in staff, streamline its organizational processes, and modernize its technology, including by harnessing data-driven analytical tools that utilize AI and machine learning.

Commerce also needs to take this opportunity to revamp. As FDD Senior Advisor and former Treasury Department official Chip Poncy has argued, the revolutionary post-9/11 changes at Treasury can be replicated at Commerce. In particular, the department’s Bureau of Industry and Security (BIS) should add capabilities similar to Treasury’s Office of Terrorism and Financial Intelligence, complete with its own intelligence and analysis office. To meet its mission,

231. Ibid., pages 11-12.

232. Office of Senator Elizabeth Warren, Press Release, “Warren, Marshall Introduce Bipartisan Legislation to Crack Down on Cryptocurrency Money Laundering, Financing of Terrorists and Rogue Nations,” December 14, 2022. (<https://www.warren.senate.gov/newsroom/press-releases/warren-marshall-introduce-bipartisan-legislation-to-crack-down-on-cryptocurrency-money-laundering-financing-of-terrorists-and-rogue-nations>)

233. Gary Kalman and Josh Rudolph, “Congress Can Do Better to Fight Weaponized Corruption,” *Foreign Policy*, April 1, 2021. (<https://foreignpolicy.com/2021/04/01/fincen-congress-corruption-finance-banks-kleptocrats-money-laundering-narcoterrorists>)

234. Jason Leopold et al., “The FinCEN Files,” *BuzzFeed News*, September 20, 2020. (<https://www.buzzfeednews.com/article/jasonleopold/fincen-files-financial-scandal-criminal-networks>)

235. William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. 116-283, 134 Stat. 4555. (<https://www.congress.gov/116/plaws/publ283/PLAW-116publ283.pdf>)

236. The Fact Coalition, Press Release, “Congress Provides Needed Boost to Budget of Nation’s Financial Crime Fighters in New Omnibus Spending Bill,” December 20, 2022. (<https://thefactcoalition.org/congress-provides-needed-boost-to-budget-of-nations-financial-crime-fighters-in-new-omnibus-spending-bill>)

237. The Fact Coalition, Press Release, “Nation’s Financial Crime Fighters Poised for Needed Boost in President’s New Budget,” March 9, 2023. (<https://thefactcoalition.org/nations-financial-crime-fighters-poised-for-needed-boost-in-presidents-new-budget>)

BIS will need to increase its staff and budget, which are currently insufficient.²³⁸ Commerce should also equip BIS analysts with modern analytical tools, which could dramatically increase their productivity.²³⁹

Build Partner Capacity to Detect and Disrupt Malign Financial Schemes

Even as it improves its own enforcement capacity, the U.S. government should help foreign partners do the same. International cooperation will be essential in mounting effective defenses against Russian evasion of sanctions and export controls. Unfortunately, many of the nations that have imposed restrictions against Russia lack the experience and institutional capacity required to enforce them. As Treasury noted in its 2022 National Strategy for Combating Terrorist and Other Illicit Financing, a “sustained and coordinated effort is needed to improve the capacity of foreign financial intelligence units, law enforcement, supervisors, and others to . . . detect and disrupt illicit financial activity.”²⁴⁰

Treasury, Commerce, the State Department’s Office of Sanctions Coordination, DOJ, and other interagency stakeholders should work with partner countries to streamline information sharing and help them build their capacity to counter Russian circumvention. For example, Washington could expand the Democracies Against Safe Havens Initiative so it focuses on building

partner capacity to disrupt illicit procurement in addition to corruption.

Establish an Authority to Designate Jurisdictions of Primary Diversion Concern

For some countries, the issue is less about capability than political will. As FDD Action’s Matthew Zweig has argued,²⁴¹ Washington can counter Russian evasion of export controls by borrowing a concept from the Iran sanctions regime. The Commerce Department and Congress should develop an authority allowing the department to require enhanced due diligence for sensitive exports to *jurisdictions of primary diversion concern*.²⁴² Such a designation would be applied to jurisdictions that are frequently used for Russian illicit procurement schemes and refuse to work with the United States. The 18 “common transshipment points” identified in Commerce’s June 2022 guidance to industry provide a good place to start.²⁴³

Ensure the Disruptive Technology Strike Force Is Positioned to Combat Russian Illicit Procurement

In February, DOJ and Commerce launched the Disruptive Technology Strike Force, dedicated to preventing adversaries from acquiring sensitive U.S. technologies in violation of export controls.²⁴⁴

²³⁸. Conversation with Chip Poncy in October 2022.

²³⁹. Gregory C. Allen, Emily Benson, and William Alan Reinsch, “Improved Export Controls Enforcement Technology Needed for U.S. National Security,” *Center for Strategic and International Studies*, November 2022. (https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/221130_Allen_Export_Controls.pdf?VersionId=xmB4Pqusa5lsBnQzNBh1RqebwJKcQvmr)

²⁴⁰. U.S. Department of the Treasury, “National Strategy for Combating Terrorist and Other Illicit Financing,” May 2022, page 22. (<https://home.treasury.gov/system/files/136/2022-National-Strategy-for-Combating-Terrorist-and-Other-Illicit-Financing.pdf>)

²⁴¹. Mark Dubowitz and Matthew Zweig, “Iran’s Master Class in Evading Sanctions,” *The Wall Street Journal*, April 5, 2022. (<https://www.wsj.com/articles/iran-evading-sanctions-russia-putin-moscow-tehran-banking-system-ukraine-invasion-terrorism-human-rights-nuclear-deal-jcpoa-11649171567>)

²⁴². See: Identification of countries of concern with respect to the diversion of certain goods, services, and technologies to or through Iran, 22 U.S.C. §8542. (<http://uscode.house.gov/view.xhtml?req=diversion+concern&f=treesort&fq=true&num=42&hl=true&edition=prelim&granuleId=USC-prelim-title22-section8542>)

²⁴³. U.S. Financial Crimes Enforcement Network and Department of Commerce, “FinCEN and the U.S. Department of Commerce’s Bureau of Industry and Security Urge Increased Vigilance for Potential Russian and Belarusian Export Control Evasion Attempts,” June 28, 2022, page 5. (<https://www.fincen.gov/sites/default/files/2022-06/FinCEN%20and%20Bis%20Joint%20Alert%20FINAL.pdf>)

²⁴⁴. U.S. Department of Justice, Press Release, “Justice and Commerce Departments Announce Creation of Disruptive Technology Strike Force,” February 16, 2023. (<https://www.justice.gov/opa/pr/justice-and-commerce-departments-announce-creation-disruptive-technology-strike-force>)

This announcement is welcome, but two potential pitfalls stand out.

First, the task force seems to focus on preventing adversaries, primarily China, from acquiring America’s “most advanced technology,” such as “supercomputing and exascale computing, artificial intelligence, advanced manufacturing equipment and materials, quantum computing, and biosciences.” While certainly worthwhile, this prioritization may mean the task force will give short shrift to thwarting Russian illicit procurement. Generally speaking, the microelectronics Moscow needs to enable production of existing military systems are not particularly cutting-edge, but Russian illicit procurement will continue to do considerable damage to U.S. interests if allowed to continue at scale.

Second, in their announcement, DOJ and Commerce said the task force would include participation by the Department of Homeland Security and 14 U.S. Attorneys’ Offices, but they gave no indication that Treasury will be included, despite its indispensable role in combatting malign finance.

Amend the Rewards for Justice Program

Congress should expand the State Department’s Rewards for Justice program to allow it to grant rewards to foreign individuals who provide information that leads to action taken against individuals or entities that evade or facilitate evasion of U.S. or UN sanctions or export controls. A bill introduced last year, the Bassam Barabandi Rewards for Justice Act, would do just that.²⁴⁵

Expand RICO

DOJ should also receive additional funds and powers to pursue foreign persons violating U.S. sanctions or export controls, similar to DOJ’s campaign against Russian hackers and its Task Force KleptoCapture launched last year. It would make sense to expand the Racketeer Influence and Corrupt Organizations (RICO) Act to bolster American law enforcement’s ability to investigate and prosecute violations of sanctions or export controls abroad, as DOJ has proposed.²⁴⁶ This should apply to all Russia-related restrictions, as well as those pertaining to other bad actors.

Continue Improving International Sanctions Coordination

Together, Washington and its allies should minimize opportunities for regulatory arbitrage, such as different definitions of “ownership” and “control.” The United States and European Union should also increase the efficiency of their information sharing process under their mutual legal assistance treaty, which can take years to process requests.²⁴⁷ Washington should also encourage the European Union to amend its human rights sanctions regime to authorize sanctions against corruption, like the United States and United Kingdom. The transatlantic allies should then launch a sustained sanctions campaign targeting corruption in Russia and elsewhere.

Finally, Western nations should continue improving information sharing and operational coordination concerning Russian malign finance, including between

²⁴⁵. Bassam Barabandi Rewards for Justice Act, H.R.1036, 117th Congress (2022). (<https://www.congress.gov/bill/117th-congress/house-bill/1036/text>)

²⁴⁶. U.S. Department of Justice, Fact Sheet, “Administration Legislative Proposals in Support of Kleptocracy Asset Recovery,” April 28, 2022. (<https://www.justice.gov/opa/pr/fact-sheet-administration-legislative-proposals-support-kleptocracy-asset-recovery>)

²⁴⁷. Kathleen Doherty, “Biden Can’t Fight Corruption Without Help From Europe,” *Foreign Policy*, January 14, 2021. (<https://foreignpolicy.com/2021/01/14/biden-corruption-money-laundering-shell-companies-european-union>)

their financial intelligence units. The “enhanced partnership” Treasury’s Office of Foreign Assets Control and the UK Office of Financial Sanctions Implementation announced in October can serve as a model for similar partnerships involving other allies and agencies, such as the Commerce Department.²⁴⁸

Crack Down on ‘Super-Facilitators’ and Renew the Sanctions Campaign Against Russia-Based Organized Crime

In terms of prioritization, cracking down on Russian “super-facilitators” — networks that facilitate malign financial activity of multiple different Putin regime actors or purposes — should be an area of focus. For example, a Germany-based front company allegedly both served in a network that laundered money stolen as part of the 2007 Magnitsky affair and facilitated Russian illicit procurement of radiation-resistant chips and items for Russia’s covert chemical weapons program.²⁴⁹ Last October, DOJ alleged that another Germany-based front facilitated both illicit procurement and a sanctions-busting oil-smuggling scheme.²⁵⁰ Tackling these super-facilitator networks can achieve outsized impact.

Treasury, working with allies, should also renew its campaign against Eurasian organized crime. In 2018, Treasury said that “Russian [transnational criminal organizations] operating in the U.S. remain priority threats.”²⁵¹ Yet the department has not issued a designation pertaining to Eurasian organized crime since 2017.²⁵² In addition to posing a threat in and of themselves, these groups, and particularly those who are still based in Russia or cooperate with Russia-based criminal networks, sometimes also do Moscow’s dirty work, including by moving money for regime actors. A more concerted effort from Treasury could help counter this threat.

Conclusion

The United States has much at stake in its confrontation with Russia. The security order in Europe hangs in the balance, while other adversaries, such as China and Iran, are watching. Winning this confrontation will require Washington to be decisive and persistent. This is true when it comes to military aid for Ukraine, and it is true in the financial and economic domain as well.

²⁴⁸. UK Treasury, “OFAC-OFSI Enhanced Partnership,” October 17, 2022. (<https://ofsi.blog.gov.uk/2022/10/17/ofac-ofsi-enhanced-partnership>)

²⁴⁹. “Химики двойного назначения [Dual-purpose chemicals],” *Novaya Gazeta* (Russia), March 18, 2021. (<https://novayagazeta.ru/articles/2021/03/18/khimiki-dvoynogo-naznacheniia>)

²⁵⁰. U.S. Department of Justice, Press Release, “Justice Department Announces Charges and Arrests in Two Cases Involving Export Violation Schemes to Aid Russian Military,” October 19, 2022. (<https://www.justice.gov/opa/pr/justice-department-announces-charges-and-arrests-two-cases-involving-export-violation-schemes>)

²⁵¹. U.S. Department of the Treasury, “National Money Laundering Risk Assessment,” 2018, page 17. (https://home.treasury.gov/system/files/136/2018NMLRA_12-18.pdf)

²⁵². U.S. Department of the Treasury, Press Release, “Treasury Targets the ‘Thieves-in-Law’ Eurasian Transnational Criminal Organization,” December 22, 2017. (<https://home.treasury.gov/news/press-releases/sm0244>)

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Russian strongman Vladimir Putin is engaged in a strategic confrontation with the United States. In partnership with Beijing, Tehran, and other authoritarian regimes, Moscow seeks to replace the American-led, liberal international order with a new world order that is decidedly illiberal – one in which Russia has a “sphere of influence” over its neighbors, along with increasing influence in the Middle East, Latin America, and Africa. FDD’s Russia Program conducts in-depth research, produces insightful and timely analyses, identifies illicit activities, and provides policy options to combat the political, economic, cyber, and cognitive warfare weapons Moscow uses against the United States and its allies.

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