kleptotrace

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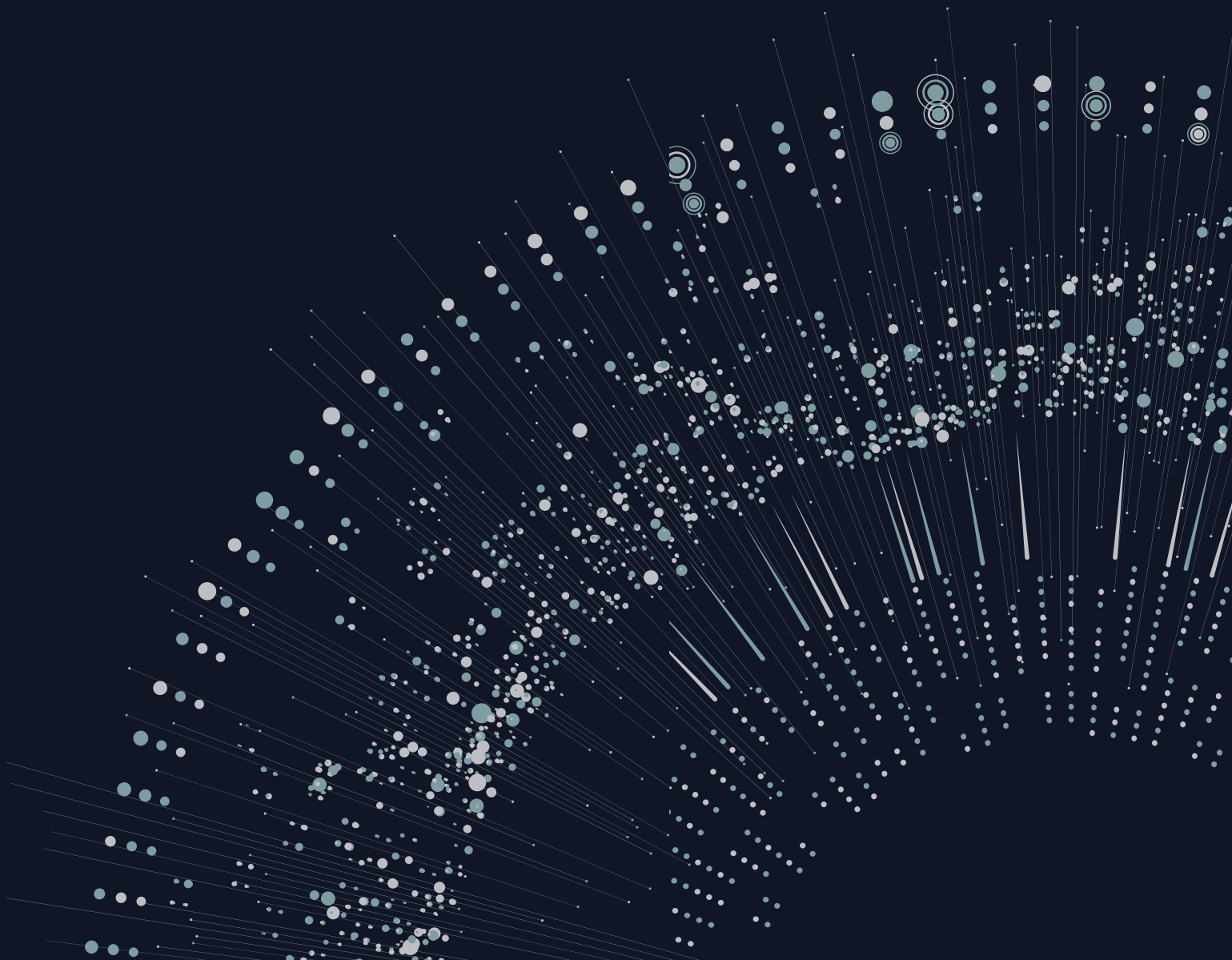
# KLEPTOTRACE

Strengthening EU asset recovery and sanction tracing against high-level transnational corruption

## Restrictive measures: the challenges in front of the EU

Report on schemes employed to circumvent sanctions



# KLEPTOTRACE - Strengthening EU asset recovery and sanction tracing against high-level transnational corruption

## Restrictive measures: the challenges in front of the EU

*Report on schemes employed to circumvent sanctions*

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# Executive Summary

# Background and context

The effectiveness of international sanctions is a topic that often dominates policy debates, with discussions typically revolving around whether these measures achieve their intended political objectives. However, less attention is paid to the **mechanisms that underpin their operational dimensions** – the dynamics that ensure that sanctions are adequately **adopted** and **enforced**.

In the current environment, European economic operators are obliged to make every effort to ensure that funds, goods, and services do not end up in the hands of sanctioned entities or states. This responsibility, however, is complicated by the hidden and adaptable nature of sanction evasion. Those attempting to violate sanctions may use complex corporate arrangements—often involving offshore companies, nominee shareholders, and anonymous entities—to disguise who truly controls assets or manages financial flows.

As the enforcement of sanction violations is still relatively new to many operators, there is a **limited understanding of how these evasive tactics are employed**.

The private sector is increasingly requesting clearer guidance and examples of enforcement in action. Businesses have expressed frustration over the lack of detailed feedback and educational material provided by government authorities. [63] Industry stakeholders have repeatedly called for greater transparency and actionable information, noting that without meaningful guidance, it becomes significantly harder to design effective compliance programmes aligned with evolving enforcement standards.

Given the issues at hand, there is an urgent need for studies that can provide a clearer understanding of the scale, nature, and methods of sanction evasion.

This report provides one of the first overviews of cases of sanction circumvention that have begun to be investigated by law enforcement authorities, describing their main features.

# Methodology

This report examines schemes aimed at circumventing sanctions through a **systematic collection and analysis of open-source information** regarding enforcement actions and investigations related to sanctions violations.

The data collection process involved gathering a **broad set of news articles, reports, and other publicly available materials** related to enforcement actions and investigations of sanctions violations. The goal of this collection process was to ensure comprehensive global coverage, focusing on sources that provided detailed and verifiable information. 97 of these cases were selected for closer examination. Their characteristics form the basis of the findings in this report.

# Results

## Forms of sanction violations

The strategies used to evade sanctions can vary widely, reflecting the complexity and scope of the restrictions in place. Within the European Union (EU), operators face a variety of obligations, and violations of these can be classified into distinct categories. According to EU directives, these infractions can be grouped into four main types:

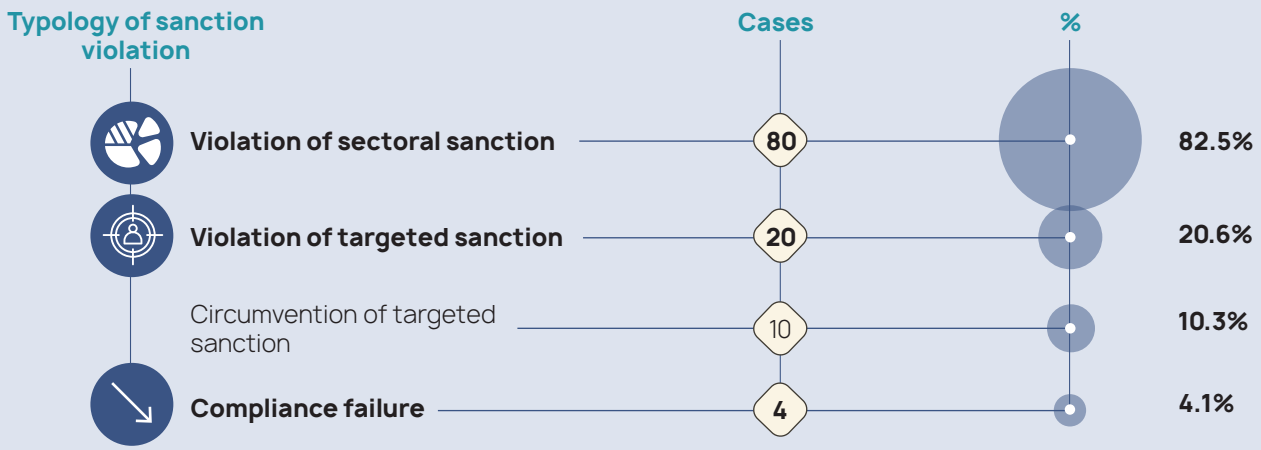
› **Violation of sectoral sections.** These violations occur when operators engage in activities that are explicitly prohibited within specific sectors or trade in restricted goods, services, or financial products. Such violations typically involve broad embargoes or trade restrictions and indicate intentional or grossly negligent non-compliance with industry-level restrictions.

› **Violation of targeted sanctions.** This category includes direct contraventions of prohibitions or obligations aimed at specific, designated individuals, entities, or organisations. Violations in this area generally involve purposeful defiance of sanctions that focus on a narrow set of actors.

- The violation of targeted sanctions may also take the form of **circumvention**. Circumvention refers to deliberate efforts to disguise the involvement or beneficial ownership of sanctioned individuals or entities. Tactics may include creating complex corporate structures, using nominee arrangements, and employing shell companies or intermediaries. These measures are designed to undermine the effectiveness of targeted sanctions by obscuring the true identities and intentions of the parties involved.

› **Compliance failure.** Compliance entails fully adhering to all restrictive measures, ensuring that no prohibited funds, goods, or services reach sanctioned individuals, entities, or states. Failures in compliance often stem from inadequate due diligence, oversight lapses, or insufficient safeguards rather than deliberate misconduct.

## Distribution of analysed cases of sanction violations



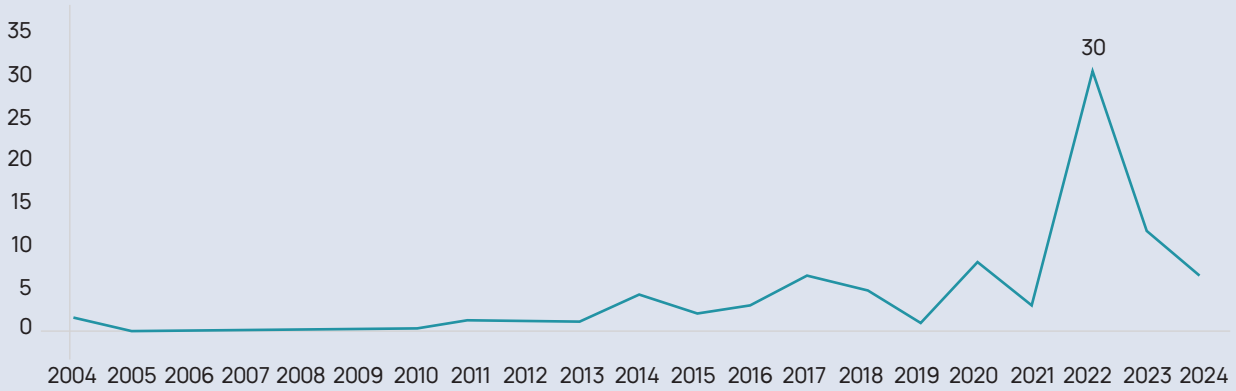
The **majority of recorded violations are related to sectoral sanctions**. This indicate that broad, industry-wide restrictions may present particular challenges for enforcement due to the complexity and scale of monitoring economic activities across multiple sectors. In contrast, violations of **targeted sanctions represent a smaller proportion**, as these infractions affect a more narrowly defined group of actors. Notably, in cases of targeted sanction violations, there are often **signs of circumvention tactics**, highlighting the intentional and calculated efforts to obscure prohibited transactions. **Compliance failures**, which are enforced less frequently, are distinguishable from intentional violations due to the absence of deliberate misconduct. Instead, these failures often stem from **inadequate controls, lack of vigilance, or insufficient internal processes**.

### The occurrence in time

The timing of sanction evasion activities offers valuable insight int**o how sanctioned actors adapt and how effectively enforcement efforts respond**. By analysing when these violations occur and how long they last, it is possible to understand better **how quickly sanction evaders react to new restrictions and how effectively authorities work to manage these violations**.

Evidence, suggests that sanction evaders often respond with remarkable speed: **one-third of violations analysed in this report occurred as early as 2022**, shortly after the implementation of significant new sanctions regimes. This pattern indicates that **many operators quickly shift from legitimate commerce to prohibited dealings, sometimes using pre-existing contracts that seamlessly transition into illicit activities in the wake of new measures**. The window between the introduction of sanctions and the onset of evasion schemes appears to be narrow, highlighting the **need for immediate enforcement actions and robust monitoring systems**.

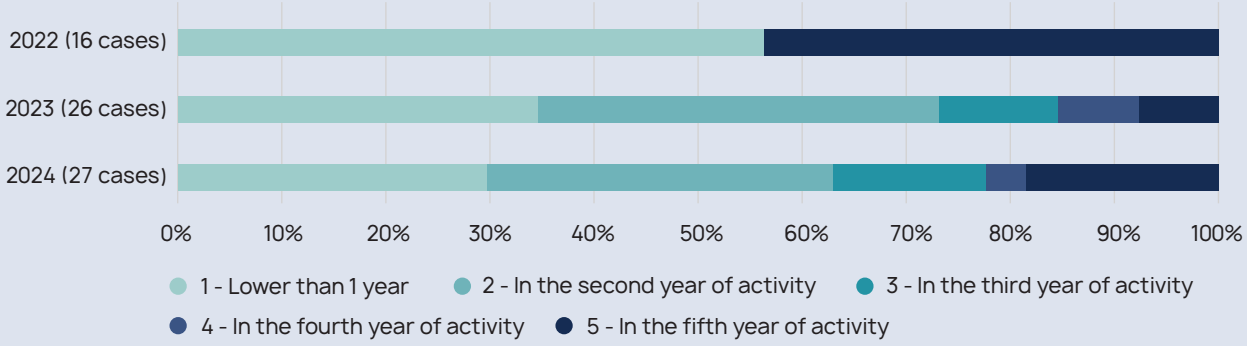
### Cases of sanction evasion, by year of start of activities




Over time, the **persistence of such activities can reveal both the sophistication of sanctioned actors and the potential gaps in enforcement capabilities**. If sanction evasion activities persist for long periods, it may indicate weaknesses in detection, investigation, or prosecution efforts.

On the other hand, a decrease in the duration of sanction evasion schemes could suggest the growing effectiveness of enforcement measures, improved data-sharing among agencies, or enhanced deterrence due to increased penalties and more prominent prosecutions.

**Number of sanction evasion schemes, by years taken to be uncovered (by year of discovery)***




*The years taken to be uncovered is computed as difference from the starting years of activity and the invstigation years.

## The occurrence in space

Evasion schemes typically involve multiple jurisdictions, each contributing to a layer of complexity. By understanding these regional patterns—both in terms of direct violations and the supportive role of intermediary "satellite" areas—enforcement authorities can better focus their efforts, customize their responses, and ultimately enhance the overall integrity of sanctions regimes.

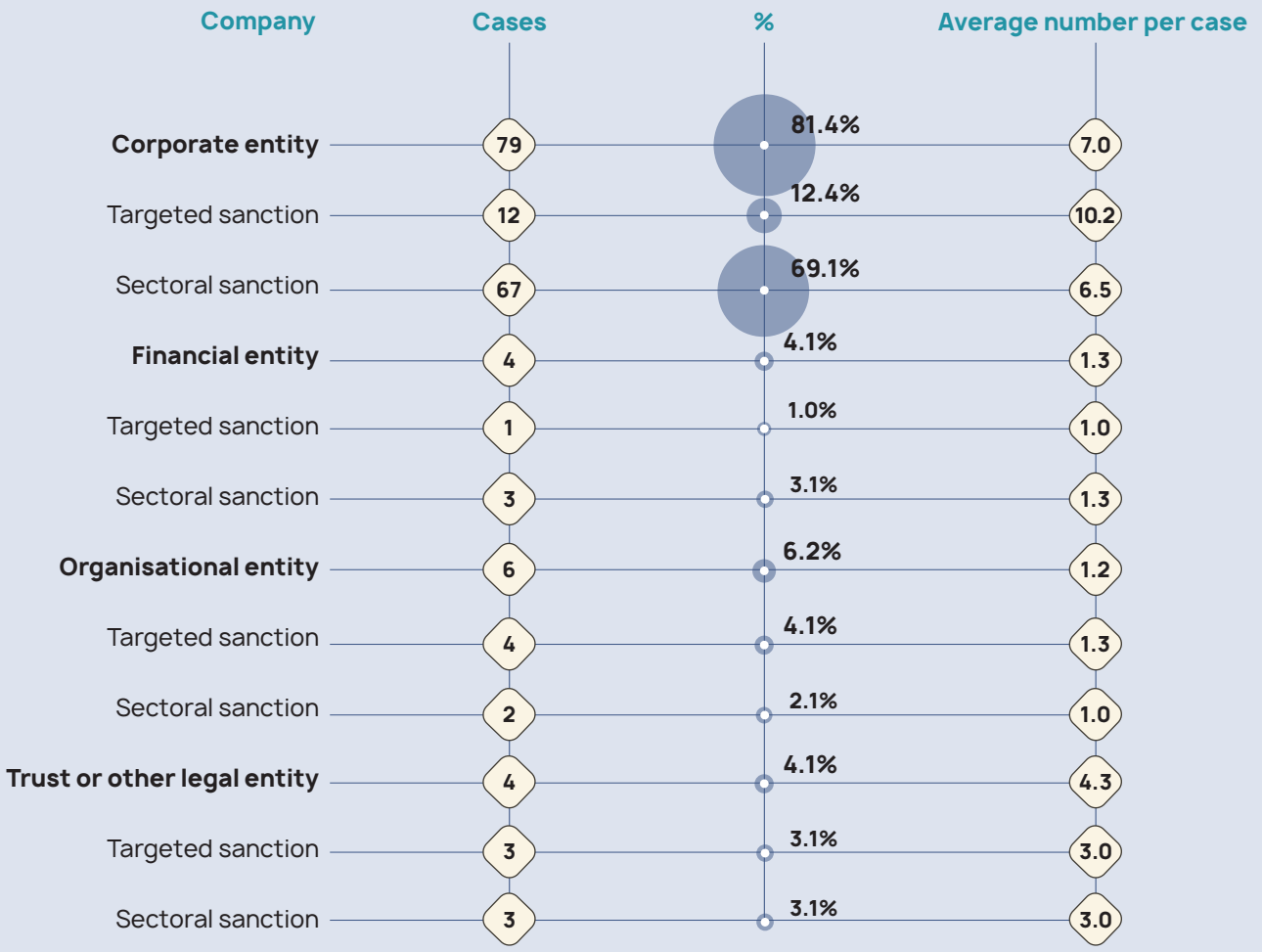
A significant difference emerges in the patterns of geographical distribution of hubs in relation to whether the evasion concerns targeted or sectoral sanctions. In particular, for **targeted sanctions, the roles of several countries that are not part of the European Union are noteworthy**. This includes **Switzerland** and **Turkey**, as well as jurisdictions such as **Jersey**, **Monaco**, and the **Isle of Man**. Within the European Union, the southeastern region, particularly **Cyprus**, plays a significant role. Additionally, the **Mid-Atlantic** region is relevant, highlighted by the involvement of the **British Virgin Islands** and **Panama**.

**Regarding sectoral sanctions, the Asia/Pacific region is important**, especially **Hong Kong**, **China**, **Kyrgyzstan**, and **Kazakhstan**. The **Middle East** also plays a significant role, particularly the **United Arab Emirates**. Furthermore, other European countries that are not part of the European Union, specifically **Turkey** and **Belarus**, are relevant in this context.

## The role of corporate vehicles and facilitators

**Corporate entities** play a crucial role in many strategies for evading sanctions. They can either participate **intentionally or unknowingly facilitate these actions**. Their legal structures, operational capabilities, and global presence make them well-suited for obscuring financial transactions, concealing beneficial ownership, and redirecting goods to destinations that are under sanctions. In the vast majority of the cases, **at least one corporate vehicle was deliberately involved**. Although not commonly observed, the role of financial entities, organisational entities, or other trusts as willing violators in sanction violations remains relevant.

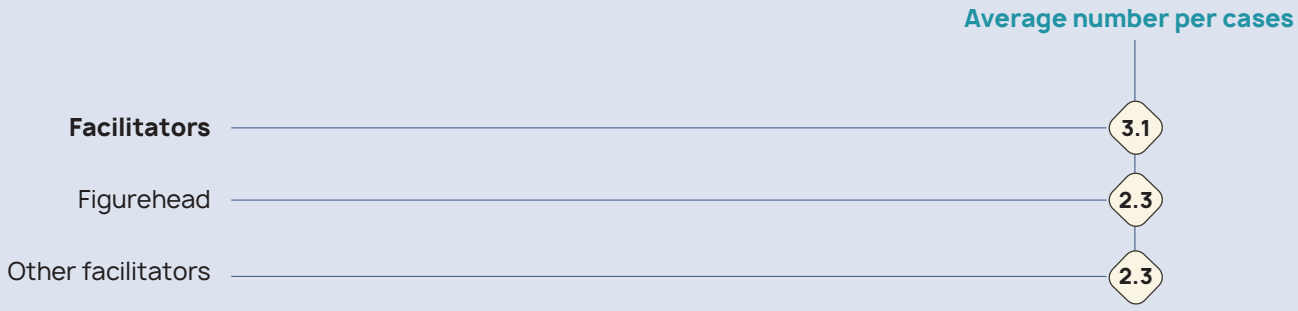
## Breakdown of willing corporate vehicle types involved




The legal entities involved in sanction evasion are primarily operational. **Nearly one-third of corporate entities are identified as shell companies**. Particularly, in cases of sectoral sanctions, the participation of **fictitious companies** has also been noted as a tactic to facilitate these schemes. Regarding **financial entities**, it is important to highlight that they are often **branches of larger institutions**. This underscores the necessity of **extending responsibility from the headquarters to its branches as well**.

Analysis of the cases reveals that **intermediaries, such as brokers, agents, and other facilitators, are instrumental in orchestrating sanction circumvention**. They often possess specialised expertise, networks, and the ability to understand and deal with regulatory nuances. On average, each case involved around three people, illustrating the collaborative nature of these networks.

### Type of facilitators involved in sanction violation cases




Statistics are calculated solely from articles containing sufficiently complete information to determine the number of facilitators involved.

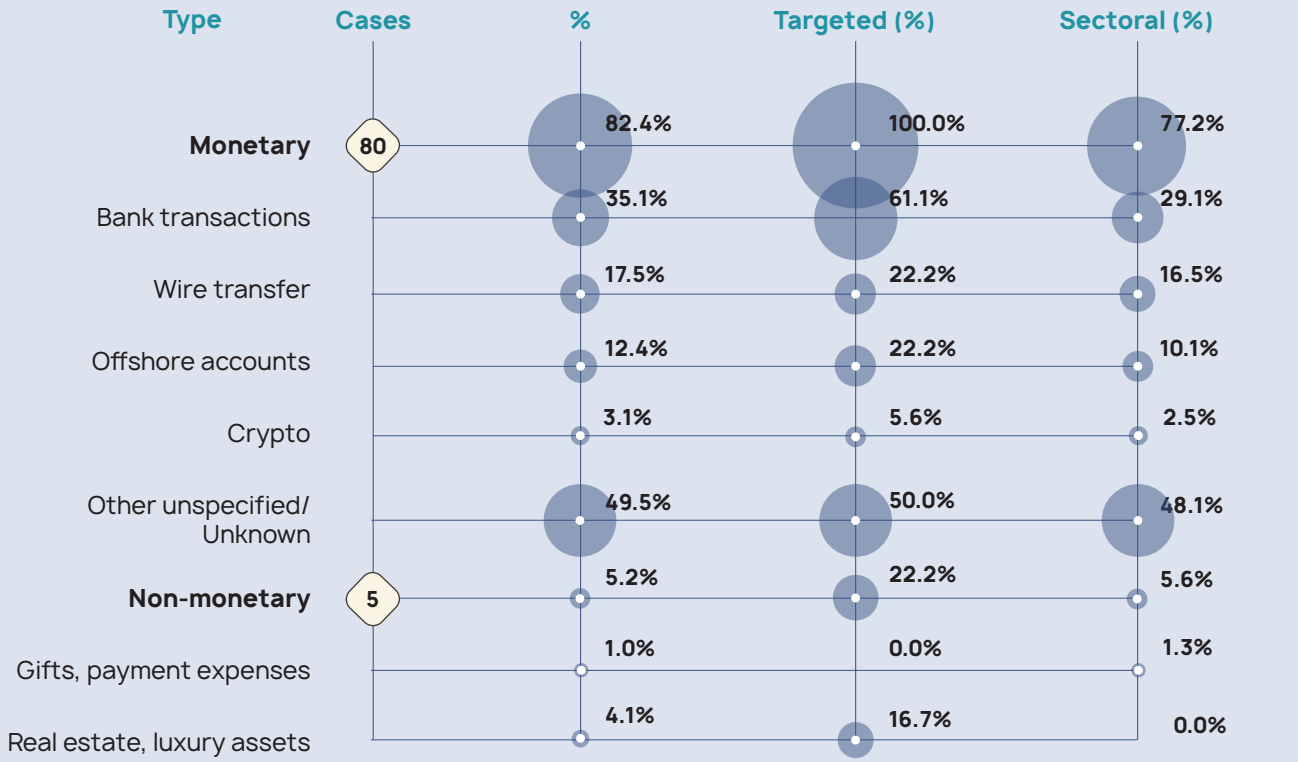
### Types of transactions mechanism

The choice of transaction mechanism often depends on the specific objectives of the sanctions and the resources available to the sanctioned entity. Sanctioned individuals and entities use various financial channels to move funds discreetly. **Bank transactions** are the most common method. **Offshore accounts** and **wire transfers** are also frequently used to conceal both the origin and destination of funds, while cash transactions are relatively rare. The use of cryptocurrencies as a means of evading sanctions has been observed in few cases. This trend indicates an **increasing necessity for regulatory adaptations within the digital finance sector**.

Non-monetary methods, such as **gifting assets or trading valuable items like real estate and luxury goods**, provide alternative ways to evade financial scrutiny. These non-monetary means are particularly noted in targeted sanction violations.

As enforcement agencies adapt to these evolving tactics, it is crucial to place a greater emphasis on monitoring new technologies, strengthening due diligence in non-traditional sectors, and promoting international cooperation. By anticipating these shifts, regulatory authorities can stay ahead of potential loopholes, thereby reducing opportunities for sanctioned entities to exploit weaknesses in the global financial system.

### Type of transaction mechanism



# Conclusions and policy implications

Sanctions are a key tool in international efforts to counter illicit financial activity, enforce legal standards, and apply pressure on targeted regimes. This report identifies evasion not as an isolated concern but as a **systemic issue**, demonstrating methods used by individuals and networks to circumvent enforcement.

To address these challenges, governments should adopt a structured approach targeting **all actors involved** in evasion, including enablers such as legal advisors providing loophole guidance, financial intermediaries facilitating transactions, and individuals managing concealed assets. Adoption and enforcement, at the same time, must maintain **consistent evidential thresholds** to ensure sanctions are legally defensible and credible, reinforcing international compliance.

Law enforcement agencies require **dedicated units focused on sanctions evasion**, equipped with expertise to respond to evolving tactics. Timely enforcement would reduce delays between sanctions designations and implementation. Concurrently, **clear and practical compliance guidelines** – outlining evasion methods, detection steps, and reporting processes – should be provided to businesses and financial institutions to **clarify obligations and minimise errors**.

The transnational nature of sanctions evasion poses challenges that require **coordinated action**. The European Union should strengthen its sanctions regimes by **improving enforcement and addressing jurisdictional gaps**. This necessitates cooperation with other jurisdictions, particularly through alignment of sanctions policies between the EU, the U.S., and other G7 states. **Harmonising frameworks** would reduce opportunities for evasion across legal systems. **Strengthening intelligence-sharing mechanisms**, such as real-time data exchanges on asset movements and ownership changes, would support more effective enforcement.

**Collaboration with offshore financial centres** should be expanded to enforce transparency in beneficial ownership. International agreements could mandate stricter reporting standards to limit concealment. Technology, including analytics and blockchain tools, could improve tracking of asset ownership in sectors like real estate and high-value transactions, where opacity enables evasion.

Public awareness campaigns should recognise and **foster the role of civil society actors**, including investigative journalists, in identifying and reporting sanctions evasion. Corporations should be encouraged to adopt anti-evasion measures through **compliance incentives or penalties for non-compliance**, ensuring alignment with international legal standards.

While the European Union is in the initial phases of strengthening its role in countering sanctions circumvention, this report identifies vulnerabilities that require coordinated action from diverse stakeholders. Policymakers, at European and national level, law enforcement authorities, civil society, and economic operators have the opportunity to align efforts to close enforcement gaps, enhance transparency, and foster cross-border collaboration. Sustained cooperation, supported by adaptive legal frameworks and technological innovation, will be essential to uphold the integrity of sanctions as a credible instrument of international policy.

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# Introduction

Sanctions represent a strategic intervention tool that states and international organisations, such as the European Union, may adopt to prevent conflict, respond to current or emerging crises, and ultimately protect key values in an increasingly complex global landscape. Yet, their effectiveness is undermined by sophisticated evasion tactics that exploit legal loopholes and regulatory gaps. This report analyses sanction evasion activities, starting with the foundational principles of sanctions to arrive at discussing the techniques employed to circumvent them which undermine the objectives of sanctions.

European economic operators face significant challenges in ensuring their operations do not inadvertently support sanctioned entities or states. Evasion tactics often involve shell companies, front companies, and complex ownership structures designed to conceal true ownership and control. These strategies pose serious risks, reducing the effectiveness of sanctions and the legal, financial, and reputational standing of the European economic operators themselves.

Enforcement of restrictive measures has received significant attention in recent years, especially in response to sanctions imposed following the Russian Federation's 2022 invasion of Ukraine. However, as of late March 2025, enforcement efforts are still in their early stages. This lack of experience has led to frustration among private sector businesses as they seek more straightforward guidance, detailed case studies, and practical resources to improve compliance.

This report aims to address existing gaps by providing a comprehensive examination of how sanctions are evaded, along with practical insights for businesses and recommendations for policymakers. By investigating the methods and networks that undermine sanctions, the report seeks to empower decision-makers and stakeholders to strengthen enforcement mechanisms and enhance the overall effectiveness of sanctions.

The analysis begins by outlining the fundamental concepts of sanctions, including their definition, objectives, and categories, and it critically assesses their effectiveness. It then transitions into an in-depth exploration of real-world cases, highlighting the most common mechanisms employed to bypass restrictions. By analysing nearly 100 cases of sanctions evasion, strategically sampled to ensure balanced coverage across European countries, the report outlines the main characteristics of these cases.

This report is both a valuable resource and a call to action. It equips businesses, policymakers, and stakeholders with the tools and knowledge necessary to safeguard the integrity of sanctions and to enhance their role as effective instruments of diplomacy and accountability.

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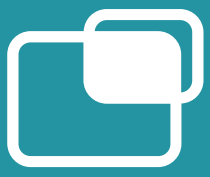
**About KLEPTOTRACE**

KLEPTOTRACE is a project co-funded by the European Commission, and coordinated by Transcrime – Università Cattolica del Sacro Cuore, to address transnational high-level corruption, and sanction circumvention within the European Union. It focuses on investigating how high-level corruption operates through transnational networks that exploit corporate structures and intermediaries, making them difficult to trace and combat. The project aims to strengthen the EU's capacity for asset recovery and sanction enforcement by providing tools and insights into the mechanisms that enable kleptocracy, with an emphasis on how international sanctions can play a critical role.

# 1.

# Background and context



# 1.1. Definitions, purposes, and classifications

## 1.1.1 Definition

There is no single, universally accepted definition of sanctions. [1] In its official interpretation, the European Union (EU) views sanctions as a strategic intervention tool intended to prevent conflict or respond to current or emerging crises. [2] While the term "*sanction*" is commonly used in international relations and academic literature—often interchangeably with "*countermeasures*" and "*restrictive measures*"—it is not a technical term in relevant treaties. [3], [4], [5], [6], [7]

In public international law, sanctions can take various forms, including retorsion, reprisal, non-recognition, the severance of diplomatic or consular relations, self-defence, suspension of rights and privileges, denial of membership, exclusion from international communication, and collective military actions. [8]

To precisely define sanctions, it is helpful to understand the unique features that characterise them:

- **state or international organisations as the sender**: sanctions are imposed by states (or groups of states) or international organisations (e.g., the United Nations Security Council) because only subjects of international law have the right to impose them. [3] International organisations are limited in their right to impose sanctions by their founding documents. [3]

- **international or foreign target:** sanctions are generally directed against foreign states, their citizens or companies, or terrorist organisations abroad. Foreign policy units or financial departments typically manage sanctions policies. In rare instances, sanctions may be directed against a sanctioning state's citizens if they hold dual citizenship or are operating outside the state, for example, as part of a terrorist organisation. [3]

- **non-military means:** while sometimes applied during armed conflict, sanctions are often acts of coercion without the use of force, they can also serve as responses to the use of force by others. [1]

- **primary goals and purposes:** sanctions have three primary objectives: changing the behaviour of the entity against which sanctions are applied; causing harm or damage to the sanctioned entity for its illegal behaviour or violation of international law; or signalling violations of international law. [9]

- **temporary nature:** the nature of sanctions restrictions lies in the temporary application and the existence of conditions under which they can and should be lifted. [8]

**Focus 1 – On the definition of international sanctions**

There is no single, universally accepted definition of "*sanctions*", and multiple international actors and institutions frame them in ways that reflect their own legal traditions, policy goals, and strategic considerations. A commonly cited definition, however, describes sanctions as the "*deliberate, government-inspired withdrawal or threat of withdrawal of customary trade or financial relations*". [10] Similarly, the Council on Foreign Relations defines sanctions as the "*withdrawal of customary trade and financial relations for foreign and security-policy purposes*". [11]

Yet sanctions encompass more than just financial or commercial restrictions. The United Nations Charter uses the term "*measures*" to include a wide range of non-military tools—such as the interruption of communications, severance of diplomatic relations, and limitations on economic tiers—aimed at influencing states' behaviour. [12]

Indeed, in this case, the term "measures" is intended to include all those "[…] *measures not involving the use of armed force may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations*". [12]

Within the European Union, the preferred term is "*restrictive measures*", understood as "*the interruption or reduction, in part or completely, of economic and financial relations with one or more third countries*". [13]

Although not explicitly defined as "*sanctions*" in the foundational treaties, "*restrictive measures*" are regularly treated as synonymous with sanctions in both EU policy and academic literature. The EU officially frames these tools as strategic, non-punitive instruments designed to prevent conflicts or respond proportionally to crises.

Sanctions occupy a middle ground within the spectrum of state responses known in international law. On one end are "*retorsions*" - unfriendly but lawful acts like cutting off cultural exchanges or diplomatic ties. On the other are "*countermeasures*" - responses to internationally wrongful acts that would generally be illegal but are justified by the offending state's prior wrongdoing.

Countermeasures can include actions like imposing trade embargos or visa restrictions, provided they meet the conditions set out by the UN International Law Committee (ILC): they must be aimed at a responsible state, respect humanitarian obligations, and maintain proportionality. [14] While the United Kingdom and the United States often use the term "*sanctions*", they also recognise the distinct legal pathways and justifications for "*countermeasures*". [15], [16]

Understanding these subtle **differences in terminology is not just a semantic exercise**; it highlights the complex legal landscape in which states operate and offers insight into the varying degrees of severity, legality, and strategic intent behind each measure.

### 1.1.2 Purposes

International economic sanctions are tools of political and economic pressure that states and international organisations use against other states, groups, or entities. Their purpose is to **influence targets' behaviour or policies, restrict access to specific economic resources**, and **publicly condemn unlawful conduct**. [17] By leveraging sanctions, authorities seek to uphold values they deem worthy of protection, such as democracy, human rights, and territorial sovereignty, when they are perceived to be under threat. [18]

Taken together, EU sanctions generally fall into two types:

- country-specific sanctions, which address **specific situations within a particular country**, with reasons tied to specific geographic borders;
- thematic sanctions, which are **triggered by broader issues regardless of country**.

**Focus 2 – A brief overview of the main causes meant to be protected by EU sanctions**

As of late 2024, the EU maintained around 40 sanction programmes. Many of these initiatives are **country-based**, designed in response to specific events in a particular region. [19] In January 2024, for instance, the EU adopted a new legal framework aimed at Guatemala, responding to attempts to invalidate the country's general and presidential elections. This legal framework allows for sanctions targeting individuals and entities, as well as imposing travel bans on those responsible for undermining democratic principles, the rule of law, and the peaceful transfer of power. Such sanctions may be triggered by persecuting public officials, elected authorities, civil society, the media, or the judiciary, as well as through the misuse of public funds and the unauthorised export of capital. [19]

Alongside country-focused measures, the EU also employs **theme-based sanctions**. These address broader issues without reference to a single country, tackling cross-border problems such as the proliferation of chemical weapons, cyber-attacks, terrorism, or serious human rights violations. [19]

International sanctions, however, are often **political decisions** made by governmental bodies rather than the product of impartial judicial processes. Even when sanctions comply with international law—given that international law does not contain explicit rules on the per se legality or illegality of economic sanctions imposed unilaterally by international organisations and States outside the United Nations framework—they may still be seen as violating the principle against coercion in international relations. [18] The legality and legitimacy of sanctions thus remain topics of ongoing debate. [20]

**Focus 3 – The arguments in favour of crime-based sanctions regimes**

Some scholars argue that sanctions should be linked directly to **specific wrongdoing** rather than imposed arbitrarily. Maintaining the perception of sanctions as penalties tied to actual or alleged misconduct is both possible and necessary. [21] **Crime-based sanctions** respond to criminal behaviours such as corruption, human rights abuses, cybercrime, or drug trafficking. [22] These sanctions typically involve asset freezes and travel bans and operate under lower evidential thresholds compared to traditional criminal justice measures like prosecution or civil forfeiture.

Governments resort to crime-based sanctions when **prosecution is challenging due to jurisdictional or evidentiary limitations**. For instance, sanctions may be applied for corruption or human rights abuses even when formal charges are difficult to pursue. Such sanctions serve as an adaptable response to criminal behaviour, particularly in complex, transnational crimes where traditional legal avenues might fail.

Crime-based sanctions require **credible evidence** or **reasonable grounds to suspect wrongdoing**, which are lower thresholds than those used in criminal trials. This allows for quicker action, often necessary in cases involving immediate threats or ongoing criminal operations.

While these sanctions aim to alter behaviour, crime-based sanctions often carry a **punitive nature**, counteracting impunity. These measures also seek to prevent further criminal activities by disrupting networks and preventing criminals from accessing financial systems.

### 1.1.3 Classifications

There are at least two main typologies of sanctions: targeted sanctions and sectoral sanctions.

#### Targeted sanctions

These measures focus on specific individuals, organisations, or entities that are considered directly responsible for behaviours the European Union (EU) seeks to influence. They reflect a deliberate move away from broad-based economic embargoes towards more nuanced instruments designed to minimise unintended humanitarian consequences.

In practice, targeted sanctions typically involve:

› **Travel bans**: By prohibiting entry into EU territory, these restrictions **prevent designated persons from maintaining international business dealings, diplomatic engagements, or personal connections abroad**. Such measures often carry a symbolic message, denying the individual the legitimacy that accompanies unrestricted international mobility.

› **Asset freezes**: These measures **block access to financial resources, bank accounts, and other forms of property held within the EU**. The intention is to disrupt an actor's economic activities and diminish its capacity to support unwanted policies, such as human rights abuses or actions undermining regional stability.

› **Prohibition on making funds and economic resources available**. In addition to freezing existing assets, EU measures may also **forbid the provision of funds or economic resources to targeted individuals or entities**. By preventing the allocation of both funds and economic resources, the EU not only interrupts immediate monetary flows but also constrains future avenues for financial gain, limiting a sanctioned actor's ability to sustain or escalate activities considered harmful.

**Focus 4 – Patterns in sanctions on Russian individuals**

The study *Patterns in sanctions on Russian individuals*, published in 2022 offers valuable insight into the probability of Russian individuals being sanctioned by Western nations following Russia's invasion of Ukraine in February 2022. [23] The study employed statistical models to estimate the probability of an individual being sanctioned based on observable characteristics. According to the key findings, the determinants of sanctions are the **individuals' political position, economic influence, and proximity to leadership**. [24] More specifically:

› individuals holding **official positions in the Russian government or military** had a higher probability of being sanctioned;

› **oligarchs and business leaders** controlling significant assets, especially in strategic sectors like **energy and finance**, were more likely to be targeted;

› personal connections to President **Vladimir Putin and the inner circle** increased the likelihood of sanctions.

The probability of an individual being sanctioned was higher if they were already sanctioned by other Western countries, indicating a **level of coordination**. However, discrepancies existed, suggesting opportunities for sanctioned entities to exploit gaps between jurisdictions. [23]

## Sectoral sanctions

Sectoral sanctions concentrate their effects on key areas of an economy rather than on named individuals. By restricting the flow of capital, technology, or specialised equipment towards critical industries, the EU seeks to raise the strategic costs associated with certain policies or behaviours. Unlike targeted sanctions, which place the burden squarely on designated actors, sectoral measures shape the broader economic environment. Common types include:

› **Financial sector constraints:** These factors may restrict some state-owned banks or financial institutions from accessing EU capital markets. As a result, there may be liquidity shortages and increased borrowing costs, which limit the target's ability to pursue controversial policies that typically rely on steady financial support.

› **Energy-related measures:** Restrictions on exporting machinery, expertise, or services necessary for extracting and refining energy resources gradually weaken a state's revenue base. Since energy exports often support the economic and political power of targeted regimes, these sanctions aim to change strategic decisions by increasing the costs of continuing objectionable practices.

- **Technology and dual-use export controls:** By hindering the transfer of advanced equipment or software, these controls delay technological progress in critical sectors. High-technology manufacturing, aerospace, and defence industries may struggle with supply shortages, increased operational costs, and diminished competitiveness.

- **Trade embargoes in specific subsectors:** Instead of implementing a blanket ban on imports or exports, the EU can focus on specific components or materials that are crucial for key industries and restrict their trade. By targeting a narrower range of specialized goods, this approach can disrupt production processes, discourage harmful practices, and encourage the targeted government to participate in negotiations.

In practice, the EU often uses both targeted and sectoral sanctions simultaneously, as they fulfil different but complementary objectives. Targeted sanctions send a direct message to individuals responsible for misconduct, discouraging evasion and minimising humanitarian impact. In contrast, sectoral sanctions alter the economic environment in which a regime functions, gradually raising the costs associated with maintaining objectionable policies.

This approach allows policymakers to adjust pressure based on evolving circumstances over time. When a situation escalates or de-escalates, targeted designations and sectoral restrictions can be expanded, reduced, or removed entirely. By making these adjustments, the EU customises its response to maximise the chances of encouraging positive behavioural changes while minimising negative impacts on civilian populations.

## 1.2. Studies on the effectiveness of sanctions

The **effectiveness of sanctions** is a **frequently debated topic in public discourse**, yet responses are seldom neutral. Sanctions are not merely technical tools; rather, they are political actions situated within larger strategic frameworks.

Sanctioned entities often attempt to challenge the legitimacy of sanctions and weaken the political support for them. They may emphasise the economic burdens that sanctions impose not only on the targeted parties but also on the countries that enforce them. Sanctions carry compliance costs for businesses, the risk of financial penalties for non-compliance, and the potential loss of otherwise profitable economic relationships.

Assessing the effectiveness of sanctions is complicated by a lack of agreed-upon terminology and the tendency to focus narrowly on changes in the target's behaviour as the only measure of success. [25] Critics might argue that sanctions are ineffective if they do not lead to the end of conflicts or cause economic collapse.

Traditionally, one common metric for assessing sanctions is **whether they achieve their stated foreign policy objectives**, such as altering the behaviour of a government or entity. However, this approach can be misleading when sanctions are primarily intended for other political purposes rather than genuinely aiming to change the conduct of the targeted foreign actor. [10] Different scholarly perspectives complicate the discussion surrounding the effectiveness of sanctions.

Some experts argue that sanctions cannot be considered effective without clear statistical evidence of economic deterioration in the targeted state. [26] However, even when such evidence is available, establishing a causal link between the sanctions and the economic downturn can be challenging. Other experts highlight the **psychological aspect**, suggesting that sanctions can create pressure on both individuals and governments, shaping their perceptions and potentially influencing decisions. In these cases,

theories from international relations may offer insights into how sanctions affect state behaviour indirectly. [27]

Despite these uncertainties, sanctions can serve multiple functions. They may operate **preventively**, aiming to deter problematic behaviour before it occurs. They can fulfil a **punitive** role, signalling disapproval and exacting consequences for acts already committed. They can also serve a **deterrent** purpose, warning potential third-party actors against similar misconduct. Even if immediate behavioural change is unlikely, these roles can justify their use within the broader tapestry of diplomacy, international negotiation, and conflict management. However, evaluating sanctions requires considering the counterfactual scenario: **what would the situation be without them?** [28]

**Focus 5 – Some empirical estimations on the effectiveness of sanctions**

Conflict research has long attempted to forecast the outcomes of international politics using various types of data, including financial markets information, news reports, expert judgements, and structural data. [29], [30], [31], [32], [33] However, the social sciences' inability to foresee key turning points, such as the end of the Cold War, has led to claims that quantitative political science is of limited use to policymakers. [34]

In *Economic Sanctions Reconsidered* [10], researchers analysed 174 cases of imposed sanctions and found that **sanctions were effective in approximately 34% of instances**, particularly regarding minor policy shifts. [10] Meanwhile, the *Targeted sanctions consortium* (TSC) examined 62 cases of United Nations Security Council (UNSC) sanctions, identifying three primary purposes: **coercion**, forcing the target to alter behaviour or policy; **constraining**, increasing costs for the target and limiting access to resources; **signal**, stigmatising violations of international law. [9], [17] Their findings suggest that sanctions aimed at behaviour change are the least effective, with the overall effectiveness of UNSC sanctions programs around 30%. TSC researchers also analysed specific sanctions regimes and concluded that UNSC sanctions targeting arms embargoes had the lowest effectiveness.

The effectiveness of sanctions is challenging to quantify due to varying conditions for success, depending on the situation and nature of the target—be it states, individuals, or terrorist organisations. Some objectives may not be relevant for certain targets, such as terrorist groups or drug cartels, complicating the assessment of sanctions' success.

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**Focus 6 – The unintended consequences of sanctions**

One must also acknowledge the unintended consequences of sanctions. Past instances of comprehensive UNSC sanctions have resulted in humanitarian crises, which led to a shift toward more targeted measures. [35] Adhering to proportionality—ensuring that the severity and scope of sanctions align with their intended goals—has become a key principle in sanction design. [18] Recent sanctions against Russia demonstrate that not all broad economic measures devastate civilian populations, challenging

assumptions about their humanitarian costs. [36], [37], [38] Nevertheless, negative repercussions, from fuelling black markets to undermining human rights, remain a valid concern. [39]

The EU's legal framework and international human rights mechanisms provide avenues for judicial challenges when sanctions appear insufficiently justified. [18], [40] The Special Rapporteur on the negative impact of unilateral coercive measures on human rights, established by the UN Human Rights Council, also assesses the broader human rights implications of unilateral sanctions. [41]

Finally, practitioners emphasise that poorly designed sanctions can produce unintended effects—empowering authoritarian regimes, diverting resources from social programs, or limiting access to essential goods. There is also literature on the negative domestic political consequences of sanctions. Scholars have argued that multilateral sanctions can undermine the political effectiveness of opposition groups in the target country because the ruling regime opposes the sanctions, thus creating a "rally-round-the-flag" effect. Understanding these pitfalls is crucial for refining future sanctions and ensuring that they achieve intended outcomes without inflicting disproportionate harm. [42]

## 1.3. Challenges of proposition and enforcement

The effectiveness of international sanctions is a topic that often dominates policy debates, with discussions typically revolving around whether these measures achieve their intended political objectives. However, less attention is paid to the **mechanisms that underpin their operational dimensions** – the dynamics that ensure that sanctions are adequately **adopted** and **enforced**. Early studies on sanctions [43], [44], [45], highlighted these operational aspects, yet the predominant focus has persisted on the success or failure of sanctions in achieving policy goals. This emphasis has overshadowed the more fundamental question of how sanctions operate in practice [46, p. 6].

It is important to distinguish between the **proposition** and the **enforcement** of sanctions. **Proposition** refers to the adoption and integration of sanctions into legal and regulatory frameworks. It involves policy formulation, legislative action, and the establishment of procedures that set the sanctions regime in motion.

**Enforcement**, on the other hand, is the active process of ensuring compliance with these sanctions. It includes monitoring adherence, detecting violations, and executing penalties or corrective actions against those who breach the sanctions. Understanding both aspects is crucial because the **ability of sanctions to achieve their goals increasingly depends on effective proposition and robust enforcement**, as well as the capacity to respond to strategies adopted by sanctioned parties to circumvent them.

### 1.3.1. How sanctions are proposed and adopted

Proposing sanctions within the EU involves a carefully structured process that engages multiple actors at different stages. [18]

At its core is the **Council of the European Union** (the Council), which has the authority to adopt, amend, lift, or renew sanctions. Before the Council makes these decisions, proposals and recommendations are developed through

a consultative framework involving the High Representative of the Union for Foreign Affairs and Security Policy, the European External Action Service (EEAS), the European Commission, and **EU member states**. [18]

**Member states** themselves can take the initiative to **propose the establishment or modification of sanctions regimes**. They bring their suggestion to the Council's specialised working groups, which thoroughly examine these proposals. These working groups, composed of experts from the member states, assess the political, legal, and operational merits of the suggested measures. After discussion and necessary adjustments, they forward their conclusions to the Council for consideration. [47]

The **High Representative**, who is responsible for shaping and conducting the EU's common foreign and security policy, plays a key role in this process. Acting both in a personal capacity and with the support of the EEAS, the High Representative can **advance proposals that align with the Union's broader strategic objectives and foreign policy priorities**. [18] These proposals consider the need for a unified and consistent approach that aligns with the EU's fundamental principles—democracy, the rule of law, and respect for human rights.

**The EEAS assists the High Representative in drafting and refining these proposals**, offering analytical expertise, based on information from EU delegations, member states, and the Commission. Their work includes **drafting initial texts for sanctions decisions, mapping out anticipated consequences, and coordinating with relevant actors across the EU institutions**. In this way, the EEAS ensures that proposed sanctions are coherently integrated into the Union's overarching foreign policy framework. [18]

In cases where a sanctions regime necessitates binding rules within the EU's internal market—such as restrictions on financial transactions, asset freezes, or specific trade prohibitions—the **European Commission** comes into play. Collaborating closely with the High Representative, **the Commission helps translate political decisions into precise, directly applicable regulations**. These proposals for regulations, once adopted by the Council, apply uniformly across all member states, ensuring consistency and legal clarity. [48]

Ultimately, this proposition process culminates in the **Council's decisions**, which the input and expertise of member states, the High Representative, the EEAS, and the Commission inform. In this way, the EU can establish sanctions regimes that reflect its collective political will, are thoroughly tested against legal and operational standards, and align with the Union's broader foreign policy objectives.[47]

**Focus 7 – On the structural changes in EU sanction policy**

The evolving governance of EU sanctions policy in recent years reflects a significant reconfiguration of the Union's external action framework. [48]

Traditionally, the High Representative of the Union for Foreign Affairs and Security Policy and the EEAS have been the principal architects of the EU's sanctions regimes. They have guided the design of these regimes to ensure alignment with the Union's Common Foreign and Security Policy (CFSP) objectives. [48]

However, a set of internal and external developments—most notably, the United Kingdom's departure from the EU and the geopolitical pressures intensified by Russia's invasion of Ukraine—have shifted the balance of influence towards the European Commission. [18], [48]

The formulation of sanctions has become less driven by member states than it once was, with most innovation now stemming directly from Commission proposals. [18], [48] This shift does not imply that

the Commission has overstepped its legal boundaries. Under the Treaties, the Commission shares the right of initiative with the High Representative in formulating sanctions proposals, while the Council retains final decision-making power through unanimous voting. Formally, the hierarchy remains unchanged. However, two factors have broadened the Commission's de facto authority compared to earlier practice. [48]

First, the UK, previously a driving force behind EU sanctions, provided extensive expertise, financial resources, and a habitual inclination towards restrictive measures that other member states lacked. [48] With London's exit, a gap emerged in the development of sanctions regimes—a gap that the Commission has readily filled. Second, the EU's current sanctions against Russia rely heavily on financial and economic instruments. This focus naturally leverages the Commission's strengths, enabling it to shape proposals from an early stage. Additionally, the Commission President's involvement in G7 deliberations ensures that the EU stays informed about emerging sanctions concepts before many Member States are fully ready to contribute, thereby reinforcing the Commission's role. [48]

None of these developments is necessarily detrimental to EU sanctions policy. On the contrary, the enhanced role of the Commission may yield better-coordinated measures, reduce inconsistencies, and strengthen enforcement. It also addresses long-standing criticisms that previous arrangements paid insufficient attention to actual implementation and compliance. Nonetheless, structural challenges remain regarding the adoption and enforcement of sanctions. Addressing these challenges will be a top priority on the EU agenda in the coming years. [48]

The main challenge in the adoption of sanctions lies in the **requirement for unanimity**, which has increasingly been viewed as an obstacle, mainly when introducing the latest packages of measures against Russia. [49] Unanimity in the EU Council is required to introduce, lift, or modify sanctions. Achieving consensus among all 27 member states can be difficult, resulting in delays and sometimes diluted measures. Additionally, **lobbying efforts** within member states can influence the enforcement of sanctions. Various interest groups may advocate for exemptions or leniencies in sanctions regimes, especially when their economic interests are affected. This can lead to inconsistencies in the application of sanctions and diminish their overall effectiveness.

**Focus 8 – Difficulties in reaching unanimity in the European Union**

The EU Commission President, Ursula von der Leyen, and the former High Representative, Josep Borrell, have proposed a new voting model that would allow sanction decision, particularly in cases of gross human rights violations, to be made with **a qualified majority (⅔) of votes**. This proposal reflects the EU's commitment to human rights and aims to establish it as a common policy, rather than leaving it to the discretion of individual member states. However, as of March 2025, unanimity is still required for sanctions decisions. [50]

### 1.3.2. How sanctions are enforced

While the adoption of sanctions establishes the legal framework for restrictive measures, the **enforcement** ensures their practical effect and long-term compliance. A significant challenge in enforcement lies in its decentralised character. [27] Although the design and adoption of sanctions is centralised through the Council, supported by the High Representative, the EEAS, and DG FISMA, day-to-day enforcement falls primarily to individual member states. Around **160 domestic competent authorities** share this responsibility, resulting in a fragmented enforcement landscape that can vary considerably in its effectiveness across the Union. [27]

Differing national legal and regulatory structures, as well as disparities in oversight and capacity, create gaps in the EU's enforcement framework. [27] While the Union's integrated financial market suggests a common front, member states' divergent approaches to implementing sanctions can give rise to inconsistencies and loopholes. This undermines the uniformity and credibility of EU sanctions, potentially allowing sanctioned parties to exploit discrepancies and evade restrictions. [27]

#### Focus 9 – The difficulties of enforcement and new guidelines for supervisory authorities

Restrictive measures adopted by the EU are legally binding for all persons and entities under EU jurisdiction, and violations can be classified as criminal offences. However, despite the EU-level design of sanctions, there are significant differences in how competent authorities expect financial institutions to comply. These divergent national interpretations and guidelines create uncertainty for financial institutions, forcing them to navigate a complex set of requirements. [27]

Weak or inconsistent internal policies, procedures, and controls can expose these institutions to legal and reputational risks, along with the potential for significant fines for non-compliance. Additionally, the fragmentation in enforcement frameworks and supervisory expectations reduces the overall effectiveness of sanctions, which ultimately compromise the stability and integrity of the EU's financial system.

To address these challenges, the European Banking Authority (EBA) issued two sets of guidelines in November 2024. [51] These guidelines establish common EU standards for governance arrangements, as well as the internal policies, procedures, and controls that financial institutions must implement to ensure compliance with restrictive measures. Key provisions in the guidelines include the requirement for financial institutions to:

- Conduct **regular risk assessments to identify and mitigate the risk of sanctions breaches**.
- Establish clear **internal escalation procedures for reporting suspicious transactions or customers potentially linked to sanctioned entities**.
- Implement comprehensive **training programmes** to ensure employees understand the sanctions framework and can recognise red flags.
- Maintain effective **record-keeping practices** to facilitate oversight by supervisory authorities.

Competent supervisory authorities are encouraged to refer to these guidelines when assessing the adequacy of institutions' compliance frameworks starting in November 2024. The guidelines will take effect on December 30, 2025. [51] Additionally, beginning on July 10, 2025, the relevant internal policies, procedures, and controls for financial sanctions will be regulated under the *Regulation on the prevention and the use of financial system for the purposes of money laundering or terrorist financing*. [52]

Beyond administrative compliance, the way sanction violations are criminalised varies among member states. In some jurisdictions, breaches of international economic sanctions are not always classified as criminal offences, and violations of EU restrictive measures may incur only administrative penalties. This inconsistency in criminalisation undermines deterrence, reduces the effectiveness of sanctions, and compromises the EU's ability to present a united front.

To remedy these shortcomings, the **European Commission proposed a directive in December 2022 to align the definitions of criminal offences and penalties for violating EU restrictive measures**. [53] The Directive was **adopted on April 24, 2024**, and **came into effect twenty days after its publication in the Official Journal of the EU**. Member states are required to **transpose it into their national legal systems by May 20, 2025**. [54] By harmonising definitions and establishing minimum penalties, this measure aims to **close enforcement gaps, strengthen deterrence, and ensure that sanctions regimes are applied consistently across the entire Union**.

In summary, while EU-level instruments provide a framework for sanctions, genuine effectiveness relies on uniform, credible, and robust enforcement at the national level. The recent EBA guidelines and the new Directive on criminalising sanctions violations represent significant steps towards greater coherence, reducing fragmentation, and enhancing the integrity of the EU's sanctions regimes.

**Focus 10 – The criminalisation of sanction violation and the third pillar of EU's anti-money laundering framework**

In late Spring 2024, two significant pieces of legislation were adopted at the EU level. The first piece ensures the harmonised criminalisation of violation of international sanctions - referred to as restrictive measures in the Directive - across all member states. The second legislation, the anti-money laundering (AML) regulation, establishes the obligations of financial-sector entities and other obliged persons to prevent the misuse of the EU's financial system for money laundering or terrorist financing. Although these two instruments were developed separately, their adoption processes converged, reflecting an evolving regulatory environment where sanctions enforcement increasingly intersects with financial integrity and AML objectives. [55]

The Council's unanimous decision to classify the violation of restrictive measures as one of the "particularly serious crimes" under Article 83(1) of TFEU empowered the EU to set minimum criminal law standards in this area. The Council adopted its general approach on June 9, 2023, and the European Parliament agreed on its position in July 2023. Interinstitutional negotiations concluded in December 2023 with a political agreement, resulting in the directive being adopted on April 24, 2024, and entering into force twenty days after its publication in the Official Journal. Member States must transpose this directive into their national legislation by May 20, 2025. [55]

The directive mandates that Member States criminalise the violation of EU restrictive measures if committed intentionally. There is a single exception: trading in goods or services whose import, export, sale, purchase, transfer, transit, or transportation is prohibited or restricted must also be criminalised if committed with serious negligence. While the Commission's original proposal suggested a broader scope of serious negligence-based liability, and the Parliament even favoured liability to include simple negligence, the final compromise limits the scope primarily to intentional acts. Furthermore, Member States may opt not to impose criminal liability if the value of the underlying offence is less than EUR 10,000. [55]

The Directive introduce a significant amendment by including violations of restrictive measures in the list of predicate offences under the *Directive on combating money laundering by criminal law.* As a result, any breach of sanctions will automatically become a predicate offence for money laundering, affecting both the criminal enforcement of sanctions violations and the preventive obligations of financial institutions under the AML framework. [55]

Once Member States implement the Directive, two parallel enforcement regimes will emerge to address sanction circumvention. Offences in this directive will be prosecuted through the criminal justice system. At the same time, the AML framework will be used to enforce restrictive measures and combat the potential laundering of assets deriving from these violations. The preventive aspect of the AML system is likely to be of greater significance. [55]

While the justice system might lead to more high-profile cases, it will inevitably operate with some delay. In contrast, the preventive duties placed on the financial sector provide a mechanism for ongoing monitoring of financial flows.

### 1.3.3. How to ensure enforcement of sanctions in international contexts

Sanctions imposed by a particular authority typically apply only within that authority's jurisdiction. To achieve meaningful impact, it is often necessary to coordinate these measures with third countries, which helps limit evasion opportunities.

However, not all EU neighbouring states have chosen to align with EU sanctions, particularly those imposed against Russia following its aggression in Ukraine. Serbia, Georgia, and Turkey are notable examples of this. Their refusal to adopt the EU's restrictive measures makes them potential hubs for sanctions evasion, especially given their geographic proximity to Europe and access to its markets.

This issue is further complicated when domestic legal enforcement measures do not align with political declarations of support. Without concrete implementation, sanctions remain unenforced, undermining their overall efficacy and exposing the difficulties of achieving transnational cooperation.

**Focus 11 – The alignment with EU sanctions**

Alignment with EU sanctions serves as a barometer of a candidate country's or neighbouring country's commitment to the Union's values and foreign policy objectives. The EU actively encourages this alignment as part of its Common Foreign and Security Policy (CFSP). Adhering to EU sanctions can be an important factor in accession negotiations for candidate countries.

- **Serbia**, while aspiring to EU membership, has maintained close ties with Russia and has not adopted EU sanctions. This decision reflects historical relations and perceived national interests, demonstrating the delicate balance candidate countries must sometimes strike.
- **Georgia**, while seeking closer relations with the EU, has not fully aligned with the EU's sanctions against Russia. Economic dependencies, regional security concerns, and complex geopolitical realities have contributed to its partial reluctance.
- **Turkey**, as a NATO member and EU candidate country, faces a similarly complex situation. It has not joined EU sanctions against Russia, balancing its relations between the West and Russia. Turkey's strategic position grants it significant regional leverage but also complicates its alignment with EU policies.

To enhance enforcement beyond EU borders, the Union and its partners have initiated the **establishment of international task forces** focused on identifying and tracing assets owned or controlled by sanctioned individuals and entities. These efforts require sustained political will, stable international partnerships, and a commitment to coordinating across multiple jurisdictions. By sharing intelligence, standardising best practices, and jointly monitoring financial flows, these task forces aim to prevent sanctioned parties from exploiting legal or regulatory gaps.

**Focus 12 – Formal and informal coordination mechanisms for addressing sanction evasion**

Since the start of the war, various formal and informal coordination mechanisms have emerged or adapted their mandates to address sanction evasion. Existing frameworks designed for anti-money laundering (AML) and financial crime prevention have integrated sanctions enforcement into their agendas. For example, the Financial Intelligence Units (FIUs) of several Western countries quickly began sharing data related to Russia and sanction circumventions. A notable initiative is the Russia-related Illicit Finance and Sanctions FIU Working Group, which includes FIUs from Australia, Canada, France, Italy, Japan, the Netherlands, New Zealand, the United Kingdom, and the United States. This group collaborates to analyse assets owned by oligarchs and uncover patterns of circumvention. Similarly, the *Egmont Group of Financial Intelligence Units*, traditionally focused on money laundering and terrorist financing, has included sanctions issues in its cooperation framework.

Intelligence sharing has proven vital for rapid sanctions coordination. The *Five Eyes* (FVEY) intelligence alliance—comprising Australia, Canada, New Zealand, the UK, and the US—launched a specialized "E-5" group focusing on export control enforcement. Within Europe, frontline states—Lithuania, Latvia, Estonia, Poland, and Finland—have implemented uniform control measures on products intended for Russia or Belarus, exceeding EU guidance by requiring manufacturers to provide declarations on end-use compliance.

Beyond intelligence circles, sanctions enforcement initiatives have permeated **trade and economic cooperation platforms**. For the first time, the EU and the US leveraged the Trade and Technology Council in June 2022 to discuss sanctions enforcement strategies. Bilateral relationships have intensified, and new ad hoc working groups have also been formed. In March 2022, the **Russian elites, proxies, and oligarchs (REPO)** task force was established to coordinate actions among finance, justice, and home ministries in tracking, freezing, and preventing the misuse of Russian-owned assets. [56] **The Global Export Control Coalition**, comprising 39 countries, was created. This coalition established a Common High Priority List (CHPL) of critical items, complete with Harmonized System (HS) Codes, to unify and streamline export control requirements. These measures highlight efforts to engage all supply chain actors, ensuring that even domestic nationals and smaller enterprises are aware of and comply with sanctions rules. [57]

At the international level, the **G7** has played a key role in coordinating multilateral sanctions enforcement measures, facilitating operational-level information exchange, and developing future strategies. These new structures and partnerships underscore a shift in how sanctions are implemented and enforced; they now extend beyond traditional financial realms into trade, technology, and industry compliance.

**Focus 13 – The G7 approach in the imposition of sanctions**

The G7 and the EU have recently taken steps to improve the coherence and effectiveness of their sanction regimes, particularly through a joint initiative on export control guidance. They have defined:

› **Harmonised export restrictions** on sensitive technologies and goods to prevent sanctioned countries from accessing resources that could enhance their military capabilities or violate international norms.

› An **information-sharing system** and best practices that encourage member countries to share intelligence, coordinate enforcement measures, and develop common lists of controlled items. This collaboration aims to reduce the risk of sanctions evasion.

By enhancing communication and standardising practices, the G7 and the EU aim to close loopholes and ensure that their sanctions regimes achieve their intended effects, even when operating across multiple jurisdictions. [58]

Beyond issues of alignment and international cooperation, the transnational nature of sanctions violations poses a challenge to the traditionally territorial focus of EU restrictive measures. Historically, the **EU has explicitly rejected the extraterritorial application of its sanctions, citing respect for international law and state sovereignty**. EU sanctions were limited to activities conducted within its territory, by EU nationals, or by entities incorporated in EU Member States or operating on EU soil. [19]

In the wake of Russia's full-scale invasion of Ukraine, however, subtle shifts in the EU's approach to jurisdictional reach have begun to emerge. While still avoiding an explicit extraterritorial stance, recent jurisdictional clauses now include "any business done in whole or in part within the Union". This broader language introduces ambiguity and may extend the EU's enforcement reach. Such an approach could influence foreign corporations' compliance decisions and raise the question of whether the EU is quietly adopting a quasi-extraterritorial posture, albeit without openly acknowledging this policy evolution.

It may still be too early to claim a definitive shift towards explicit extraterritorial sanctions; however, the evolving language and policy approaches suggest a possible recalibration. Instead of directly adopting extraterritorial jurisdiction, the EU seems to be experimenting with a flexible interpretation of its territorial boundaries. This trend mirrors developments in EU competition and data protection law, both of which increasingly exert influence beyond the Union's borders. Such a nuanced expansion of EU sanctions jurisdiction may indicate a broader trend in European policymaking, signalling a strategic willingness to safeguard the EU's foreign policy objectives, human rights standards, and environmental commitments in a complex global landscape.

Moving forward, the challenge will be to uphold the EU's core principles—adherence to international law, respect for sovereignty, and regulatory self-restraint—while adapting to the realities of globalised commerce and interdependent security. Ensuring that sanctions are not easily circumvented will require a delicate balance: preserving the EU's normative framework while introducing the necessary flexibility to remain effective in a world where power, influence, and economic activity traverse traditional boundaries.

**Focus 14 – The EU's historical stance against extraterritorial sanctions**

Since the early 1980s, the EU has strongly opposed the extraterritorial applications of foreign laws, considering them violations of international law. This position was codified in the Council's 2003 Guidelines on the implementation of restrictive measures, according to which the EU "[...] *will refrain from adopting legislative instruments having extra-territorial application in breach of international law*". [59]

This position was reaffirmed in the updated version of the *Guidelines* published in 2018, in which was stated that the EU "[...] condemned the extra-territorial application of third country's legislation imposing restrictive measures which purport to regulate the activities of natural and legal persons under the jurisdiction of the Member States of the European Union, as being in violation of international law". [60]

Articulating the EU's position on the question, in October 2021, the EU's High Representative of the Union for Foreign Affairs and Security Policy stated that "[...] *the EU has always been firm and vocal in condemning any extraterritorial application of sanctions*" [61] and that the EU "[...] *also oppose the growing use of secondary sanctions, as well as the use of sanctions as a trade and economic tool. For the EU, sanctions are exclusively a foreign policy tool. And in any event, they must respect international law*". [61]

The EU's consistent condemnation of extraterritorial measures, particularly those originating from the United States, was intended to ensure that EU sanctions remained firmly anchored in respect for sovereignty and the rule of law.

## 1.4. Gaps in knowledge on sanction evasion

In the current environment, European economic operators are obliged to make every effort to ensure that funds, goods, and services do not end up in the hands of sanctioned entities or states. This responsibility, however, is complicated by the hidden and adaptable nature of sanction evasion. Those attempting to violate sanctions may use complex corporate arrangements—often involving offshore companies, nominee shareholders, and anonymous entities—to disguise who truly controls assets or manages financial flows.

As the enforcement of sanction violations is still relatively new to many operators, there is a **limited understanding of how these evasive tactics are employed**. This gap in knowledge makes it more challenging for businesses to design effective compliance programmes. A lack of understanding of common circumvention techniques makes it harder for operators to confidently allocate resources and implement effective measures against sanction circumvention. Consequently, there is an increasing need for research and guidance to help operators better understand and address these emerging risks.

Only recently has the enforcement of restrictive measures become a significant concern for European law enforcement authorities, particularly due to the need to ensure the effectiveness

of sanctions imposed following the large-scale invasion of Ukraine. However, these efforts are too recent to have been thoroughly examined in academic research. As of the end of September 2024, the enforcement of international sanctions in the EU has involved approximately 300 cases among all 27 EU countries, underscoring the recency of these enforcement activities. [62]

The private sector is increasingly requesting clearer guidance and examples of enforcement in action. Businesses have expressed frustration over the lack of detailed feedback and educational material provided by government authorities. [63] Industry stakeholders have repeatedly called for greater transparency and actionable information, noting that without meaningful guidance, it becomes significantly harder to design effective compliance programmes aligned with evolving enforcement standards.

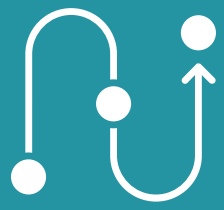
Furthermore, the complexity of sanctions is not limited to European frameworks. Banks and businesses often have to contend with both domestic and foreign sanctions regimes that can sometimes conflict or demand different approaches. While certain foreign sanctions may not impose legal obligations on entities outside their jurisdiction, the commercial and reputational risks of disregarding them can be substantial. Institutions may feel compelled to comply with foreign standards simply to avoid the potential loss of key business relationships or access to international market access. Such decisions, however, raise critical questions: should institutions prioritise business interests or strictly adhere to their own legal obligations? Ambiguous contractual language—such as references to "any applicable laws"—often fails to resolve these dilemmas, leaving banks and other operators exposed to disputes and legal uncertainties. [64]

Given the issues at hand, there is an urgent need for studies that can provide a clearer understanding of the scale, nature, and methods of sanction evasion. Such research serves multiple purposes. First, it can guide the development of more targeted compliance measures and contractual provisions, reducing uncertainty for businesses. Secondly, it can provide evidence-based recommendations to policymakers, promoting the creation of regulations and educational initiatives that truly empower operators to implement sanctions effectively. Without these efforts, we risk leaving the private sector with significant knowledge gaps—an uncertain situation that benefits only those who seek to evade the rules.

Several stakeholders have highlighted the importance of understanding the EU-wide risks associated with the non-implementation and circumvention of sanctions to prevent violations. It is suggested that a pilot project could be initiated to develop a comprehensive risk assessment aimed at identifying the highest risks of circumvention. This assessment would utilize case studies, information about EU sanctions reporting obligations, and financial and trade data. By conducting such a risk assessment, member states, their national competent authorities (NCAs), and EU businesses would gain valuable insights into the methods used for circumvention. This enhanced understanding would enable them to strengthen their implementation, compliance, and enforcement efforts effectively. In this regard, while waiting for the completion of this exercise, this report provides one of the first overviews of cases of sanction circumvention that have begun to be enforced by law enforcement authorities, describing their main *modus operandi*. [65]

# 2.

# Methodology



The present report contributes to the current knowledge by examining circumventing sanctions schemes through the systematic collection and analysis of open-source information regarding enforcement actions and investigations related to sanctions violations.

The data collection involved systematically gathering news articles, reports, and other publicly available materials documenting enforcement actions and investigations into sanctions violations. From these sources, a representative subset of 97 cases was selected for in-depth analysis, ensuring balanced geographical coverage.

The collected information was then carefully analysed to identify and describe the forms of sanctions violations, the specific provisions breached, the sectors and geographical areas most affected, and the modi operandi employed. All statistics presented in the results section pertain exclusively to the specific sample of 97 cases analysed and thus reflect primarily those instances where enforcement actions have been most actively detected and reported.

**Focus 15 – The role of investigative journalism and civil society in exposing sanctions evasion**

Investigative journalists and civil society organisations are key to exposing sanctions evasion and driving change. Journalists shine a light on complex schemes, sparking public outrage and influencing sanctions policy. Their findings often lead to individuals or entities being added to new sanctions lists.

Civil society amplifies these efforts, ensuring that journalistic investigations have a wider reach and impact. Even simple actions - such as disseminating findings or advocating for enforcement at the national level - can lead to significant progress. Notable examples include organisations such as OpenSanctions and SanctionFinders [66], [67], which provide accessible data on sanctioned entities, individuals and transactions to help companies avoid complicity in circumvention schemes. In addition, stakeholders such as Duane Morris [68] which provide valuable insights into sanctions compliance and enforcement, which is also the basis for the report's findings.

The Collective Action Think Tank's report on sanction circumvention [69] highlights the need to bridge the gap between journalistic investigation and enforcement. Policy recommendations emphasise the institutionalisation and recognition of the contribution of journalists and civil society in enforcement efforts. Strengthening their capacity through funding, education and training would significantly enhance global efforts to combat sanctions evasion.

# 3.

# Results

# 3.1 Forms of sanction violations

The strategies used to evade sanctions can vary widely, reflecting the complexity and scope of the restrictions in place. Within the European Union (EU), operators face a variety of obligations, and violations can be classified into distinct categories. According to EU directives, these infractions can be grouped into four main types:

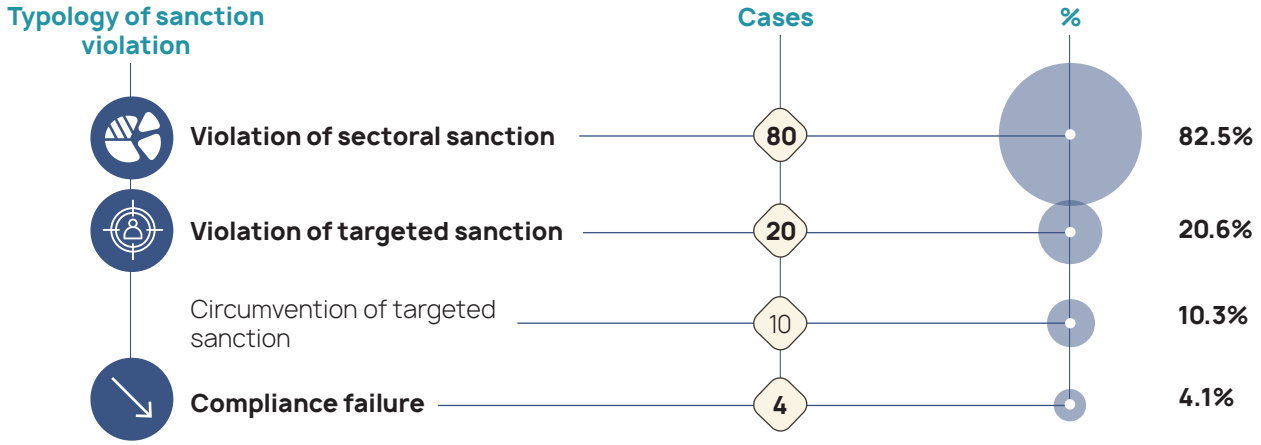
› **Violation of sectoral sections.** These violations occur when operators engage in activities that are explicitly prohibited within specific sectors or trade in restricted goods, services, or financial products. Such violations typically involve broad embargoes or trade restrictions and indicate intentional or grossly negligent non-compliance with industry-level restrictions.

› **Violation of targeted sanctions.** This category includes direct contraventions of prohibitions or obligations aimed at specific, designated individuals, entities, or organisations. Violations in this area generally involve purposeful defiance of sanctions that focus on a narrow set of actors.

- The violation of targeted sanctions may also take the form of **circumvention**. Circumvention refers to deliberate efforts to disguise the involvement or beneficial ownership of sanctioned individuals or entities. Tactics may include creating complex corporate structures, using nominee arrangements, and employing shell companies or intermediaries. These measures are designed to undermine the effectiveness of targeted sanctions by obscuring the true identities and intentions of the parties involved.

› **Compliance failure.** Compliance entails fully adhering to all restrictive measures, ensuring that no prohibited funds, goods, or services reach sanctioned individuals, entities, or states. Failures in compliance often stem from inadequate due diligence, oversight lapses, or insufficient safeguards rather than deliberate misconduct.

**Figure 1 - Distribution of analysed cases of sanction violations**



As shown in Figure 1, the **majority of the violations observed in the sample of sanction violation cases analysed in this report (over 80%) are related to sectoral sanctions**. This indicate that broad, industry-wide restrictions may present particular challenges for enforcement due to the complexity and scale of monitoring economic activities across multiple sectors. In contrast, violations of **targeted sanctions represent a smaller proportion (20%)**, as these infractions affect a more narrowly defined group of actors. Notably, in cases of targeted sanction violations, there are often **signs of circumvention tactics**, highlighting the intentional and calculated efforts to obscure prohibited transactions. **Compliance failures, which account for 4% of the observed cases**, are typically distinguishable from intentional violations due to the absence of deliberate misconduct. Instead, these failures often stem from inadequate controls, lack of vigilance, or insufficient internal processes.

### 3.1.1. Violation of sectoral sanctions

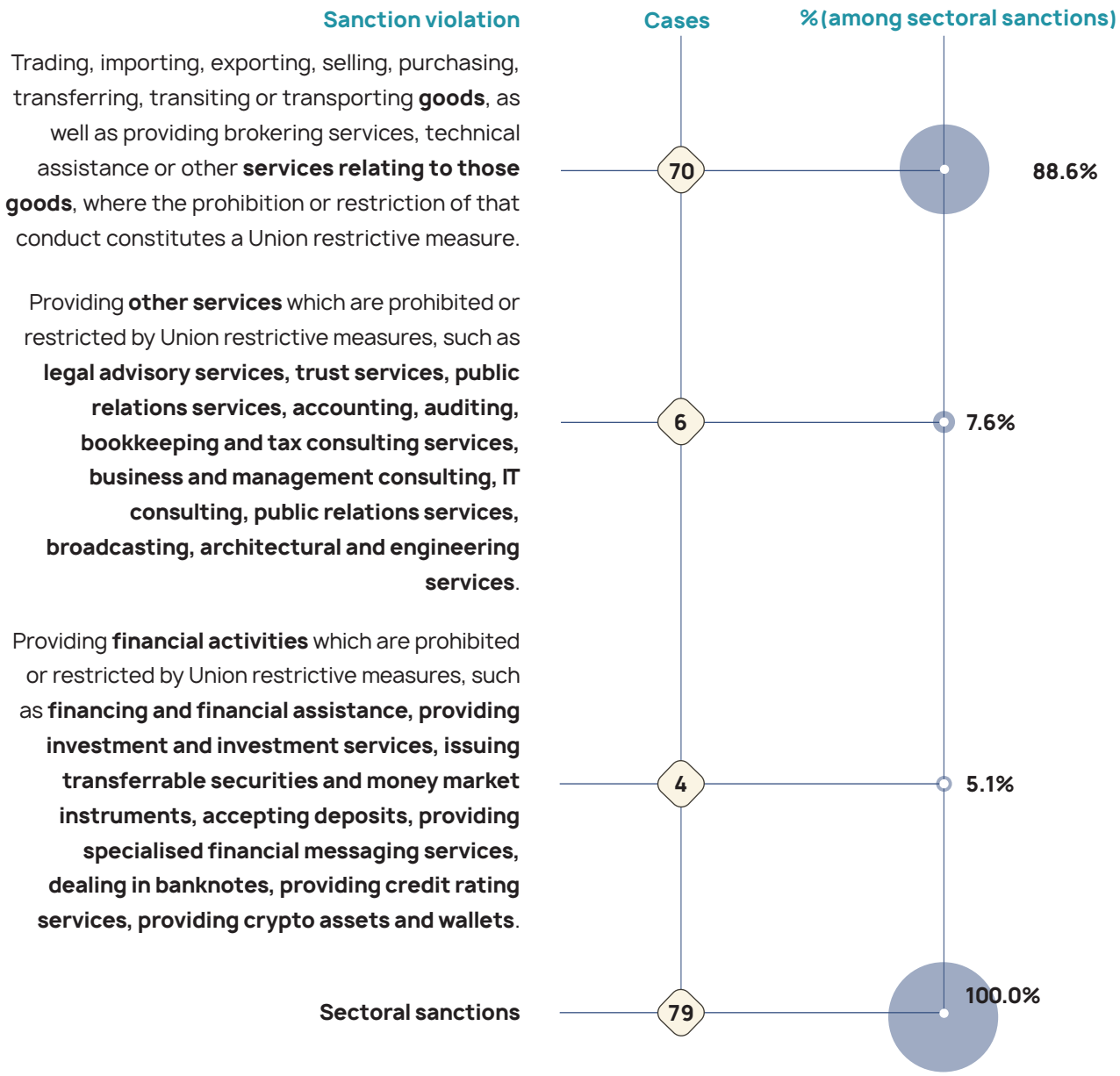
Sectoral sanctions are **strategic economic measures that focus on specific sectors of a sanctioned state's economy**. The purpose of these sanctions is to exert pressure on industries that contribute to activities considered illegal or destabilising, such as military aggression, human rights violations, or the proliferation of weapons of mass destruction. By concentrating on these critical sectors, sanctions aim to **reduce the capabilities of the targeted regime while seeking to minimise broader humanitarian impacts**. However, violations of these sanctions can significantly weaken their intended effects, potentially allowing sanctioned entities to continue or even escalate their problematic activities.

A key legal reference in this area is the EU directive that criminalises violations of restrictive measures. This directive outlines a comprehensive range of activities that constitute a breach, including:

- **Trade in goods and services:** this includes the **importing, exporting, selling, purchasing, transferring, transiting, or transporting of prohibited goods**, as well as providing related brokering or technical services. The goal is to control the entire supply chain of sanctioned products, thereby preventing evasion through intermediaries or clandestine methods.
- **Provision of consultancy services: offering advice or expertise that may facilitate a breach of sanctions**, such as legal advisory services, trust services, public relations services, accounting, auditing, bookkeeping and tax consulting services, business and management consulting, IT consulting, public relations services, broadcasting, architectural and engineering services.
- **Financial services and activities:** engaging in transactions or services that are explicitly prohibited by EU sanctions, such as **financing, investment services, issuing securities, handling deposits, or dealing in cryptocurrency assets**. The rapid evolution of financial instruments requires continuous adaptation of enforcement strategies.

As reported in Figure 2, the most common type of sectoral sanction violation in the sample involves the **direct trade of prohibited goods or services**. This high incidence may highlight the **challenges of ensuring compliance across international supply chains**, where products may be concealed, rerouted, or mislabelled to evade sanctions. Nonetheless, the violation of sectoral sanctions may also involve **services that indirectly support sanctioned regimes, such as strategic consulting or technical assistance**. These breaches may not be immediately obvious but can significantly contribute to circumventing sanctions. Additionally, **some of the violations that have been observed in the sample** are linked to the **financial secto, highligthing that,** although this area is heavily regulated, the emergence of new financial products and technologies requires regulators and compliance officers to remain agile and responsive.

**Figure 2 - Sectoral sanction violation by category**




Sectoral sanctions are intended to be precise tools for geopolitical influence. However, their effectiveness depends on strict enforcement, international cooperation, and the ability to adapt to new methods of evasion. Enforcing these sanctions **requires a clear understanding of which goods are affected**. It is important to note that targeted countries can enhance their military capabilities not only with advanced technology but also through seemingly innocuous items that can be repurposed for military use.

In response to Russia's military actions in Ukraine, international organizations have established **a tiered classification system to prioritize the enforcement of sanctions on goods**. The higher tiers focus on cutting-edge technologies that are essential for modern warfare and surveillance. In contrast, the lower tiers target items that, while less sophisticated, still contribute to logistical support and operational effectiveness. Additionally, other categories—such as luxury goods, energy commodities, and software—have also been subjected to sanctions due to their potential to indirectly finance and sustain military operations.

**Focus 16 – The tier system: the list of common high-priority items**

In response to Russia's war of aggression against Ukraine, which began on February 24, 2022, the European Union and its international partners have implemented extensive restrictive measures aimed at weakening Russia's military-industrial base. These measures include stricter export controls on dual-use goods and advanced technologies.

A collaborative initiative involving the European Commission, the United States, the United Kingdom, and Japan has identified key dual-use and advanced technology items that have been found on the battlefield in Ukraine or are considered essential for the development, production, or deployment of Russian military systems.

Among these critical items are:

- **Electronic components**: Integrated circuits, radio frequency transceiver modules, and other specialised devices.
- **Manufacturing and testing equipment**: Machinery for producing electronic components, printed circuit boards, and high-precision metal parts.
- **High-precision tools**: Equipment enabling the refinement of components critical to advanced aerospace, defence, and communication systems.

These items constitute a list of common high-priority items and are regularly updated to reflect evolving circumvention tactics and intelligence gathered from ongoing conflicts.

Among the goods affected by trade prohibitions against sanctioned countries, the following categories are noteworthy:

**High-tech electronics and components (included in tiers 1, 2, and 3.A).** These goods are restricted because they can significantly enhance military capabilities. Items such as advanced semiconductors, secure microcontrollers, and specialized integrated circuits are crucial for developing sophisticated weapon systems. They improve targeting accuracy, enhance communications, and enable cyber operations. By controlling access to these technologies, sanctions aim to limit the technological advantage of the sanctioned entities. They are among the most common categories of goods involved in sectoral sanction violation cases, primarily exported from sanctioning countries to sanctioned nations (**27.8% of observed cases of sectoral sanction violation**).

**Mechanical systems and aeronautical components (included in tier 3.B).** Restricting these goods would degrade military forces' logistical and operational capabilities. This includes parts for vehicles, drones, or aircraft, which are vital for mobility, logistics, and battlefield effectiveness. This category is also among the most observed goods in sectoral sanction evasion cases found in the sample (**20.3% of observed sectoral sanction violations**).

**Manufacturing and precision equipment (included in tiers 4.A and 4.B).** High-precision machinery and testing equipment are crucial for producing military hardware. Restricting these items hinders the sanctioned country's ability to manufacture or sustain advanced weaponry independently, thus undermining their military self-sufficiency. These goods are relevant to **10% of observed cases of sectoral sanction violations**.

**Other military/dual-use products.** The tiered system is not comprehensive in listing all goods with potential military uses. Several military dual-use products are excluded from this list, even though they represent a significant portion of the cases analysed. In fact, they account for **21.5% of observed cases involving violations of sectoral sanctions**, all of which ultimately end up in the hands of the sanctioned country.

The tiered system focuses on items with direct military importance, but enforcement efforts also target sectors that indirectly support adversarial capabilities. Sanctions recognise that **strategic advantage is not solely based on advanced weaponry**; it also comes from economic resilience, revenue streams, and infrastructure that sustain prolonged conflict. For this reason, several additional categories of goods are restricted. However, these items are still susceptible to attempts at circumvention. Among these restricted goods are:

**Energy commodities.** These are a primary source of income for some countries, such as Russia. Sanctions aim to weaken the state economically by reducing its ability to finance military endeavours or aggressive policies. The **oil embargo and price caps** are examples of sanctions intended to diminish the economic power derived from these resources. **10% of the cases of sectoral sanction evasion** observed relate to energy commodities, which have mainly been imported from sanctioned countries.

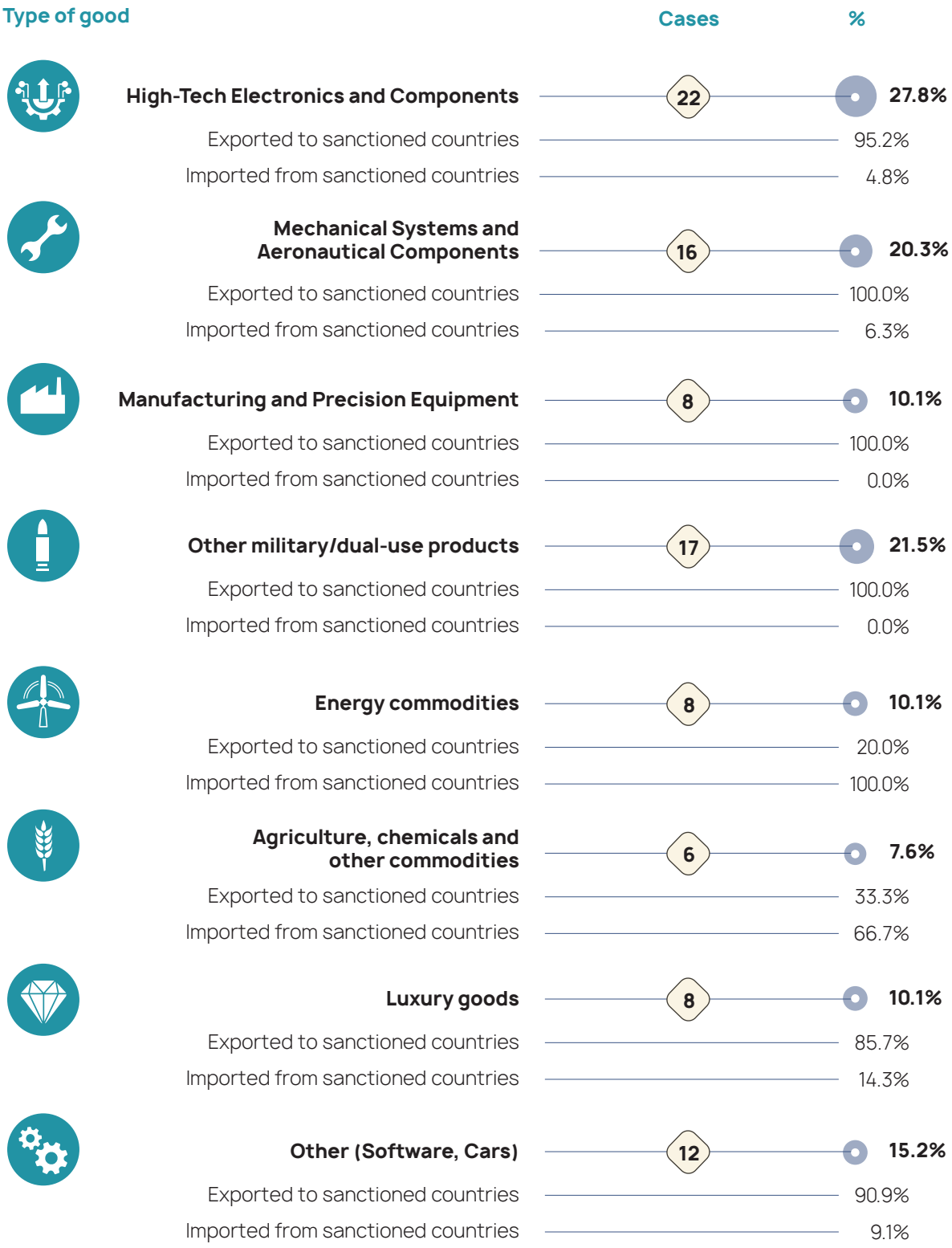
**Agriculture, chemicals and other commodities.** While these factors may not directly enhance military power, including them in sanctions can be a strategic move. For example, restricting the export of specific agricultural products or chemicals can hinder a sanctioned country's capacity to participate in international trade, which in turn applies economic pressure. However, these **measures are frequently accompanied by humanitarian exemptions to prevent causing excessive hardship for civilians**. Instances of sanction evasion were observed in **7.6% of the sectoral violations analysed in the study**. Most of these cases involved goods imported from sanctioned countries, but they also included situations where goods were exported from sanctioning countries to sanctioned countries.

**Luxury goods.** These sanctions are not aimed at direct military use; rather, they target luxury items that are often utilized to generate revenue for sanctioned regimes. By restricting the import or export of these luxury goods, the goal is **to diminish the financial resources available to the government**, which could otherwise be used to fund military actions or support oppressive policies. These sanctions are noted in **10.1% of observed cases involving sectoral sanction evasions and primarily involve exports from non-sanctioned countries to sanctioned countries**.

**Other.** Some restrictions serve a political purpose by signalling international disapproval or by isolating the sanctioned country from global trade networks. This can influence internal politics and public opinion, or it may encourage diplomatic negotiations.

As reported in Figure 3, the goods most frequently involved in the sectoral sanction evasion cases identified and analysed in the report are primarily dual-use items.

**Figure 3 – Typologies of goods involved in sectoral sanction violation cases**



### 3.1.2. Violation of targeted sanctions

Targeted sanctions - also referred to as "*smart sanctions*" - are imposed on **specific individuals, entities, or organisations** rather than broad sectors of an economy to hold key actors accountable for objectionable conduct. Unlike sectoral sanctions, which restrict activities across entire industries, targeted sanctions focus on freezing assets, restricting travel, and limiting access to financial services of designated persons and groups.

Russia is one of the most prominent nationalities sanctioned in the European Union's consolidated sanctions list. [71] In the case of sanction violation of targeted sanctions observed in the analysis, the nationalities of individuals and entities that were targets of sanctions and tried to violate them originated from Russia, with a smaller number of sanctioned persons from Syria and the United Kingdom.

Sectoral sanctions are primarily aimed at controlling trade flows, dual-use technologies, and advanced weaponry. In contrast, targeted sanctions focus on **financial networks, asset concealment, and providing clandestine services**. The most common violations observed include **concealing beneficial ownership**, transferring assets to evade freezing measures, and offering unauthorized services that indirectly help sanctioned individuals maintain their influence, revenue streams, or strategic capabilities. These violations account for **55.6%** of the observed targeted sanction evasion cases.

A smaller portion of observed targeted sanction violations (**27.8%**) involves **making funds or economic resources directly available to sanctioned entities**. Additionally, in some instances, individuals have been found **complicit in enabling designated natural persons to transit through the territory of a Member State**, which represents **11.1% of the observed targeted sanction violation cases**.

The directive clarifying targeted sanctions defines what is meant by "funds" and "economic resources".

- **Funds** refer to money and financial instruments. This includes anything that can be directly used for payments or investments, such as cash, money in bank accounts, stocks, bonds, and other financial securities. Funds also encompass checks, money orders, and digital forms of currency like cryptocurrencies. Essentially, if it can be spent, invested, or easily converted into cash, it is considered a fund.
- **Economic resources** are assets that are not cash but can be converted into money, goods, or services later. These can be tangible items like real estate, cars, yachts, and aeroplanes, as well as intangible assets like property rights. If something can be sold or used to generate additional income, it qualifies as an economic resource.

Reports on violations of targeted sanctions indicate that the transfer of economic resources and funds typically falls into the following categories: deposits in **financial institutions or other entities (55.6% of the observed cases), real estate (27.8%), and shares and vehicles (22.2% each)**. Additionally, there are transfers involving yachts and aircraft.

**Figure 4 - Typologies of targeted sanction violations**

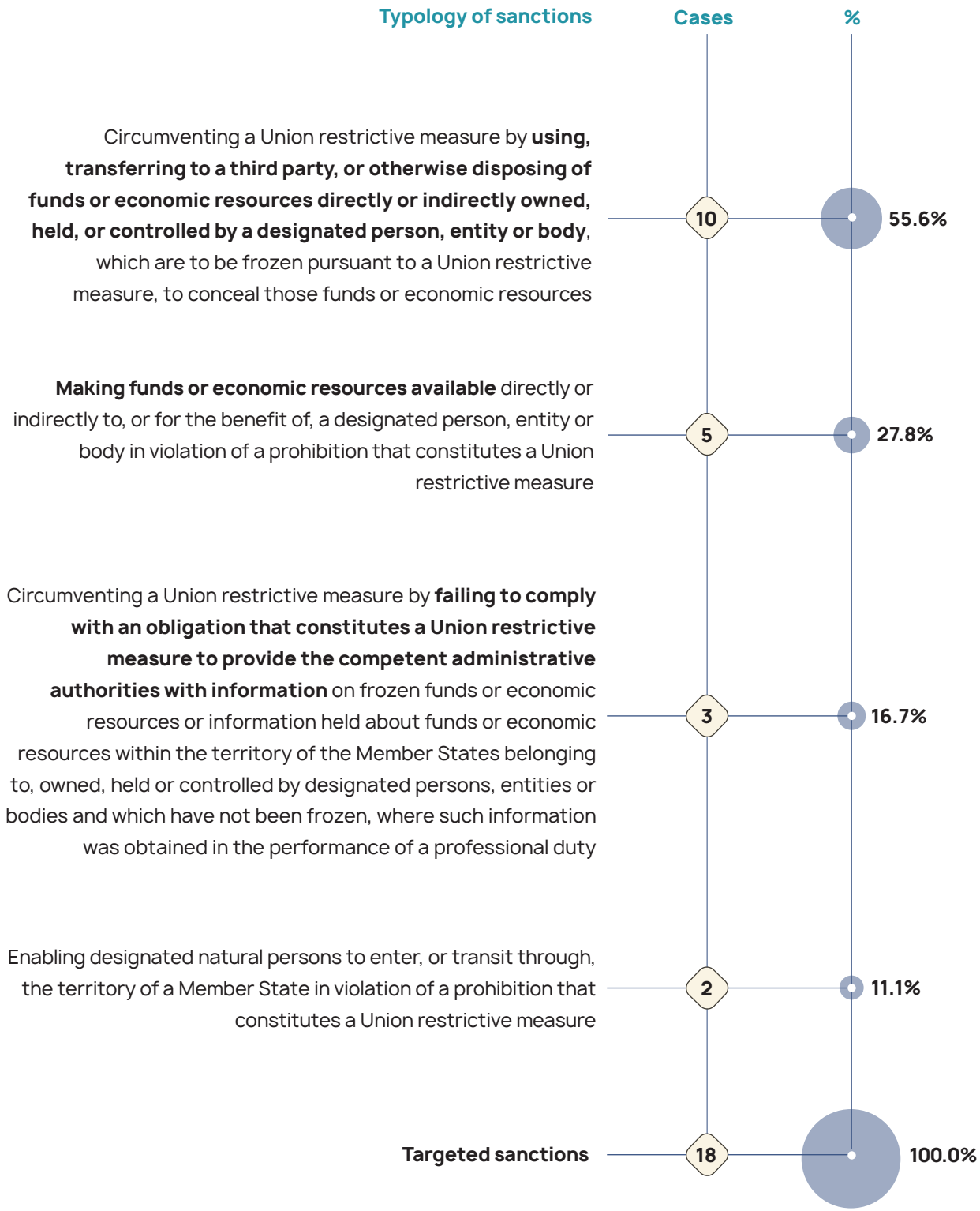
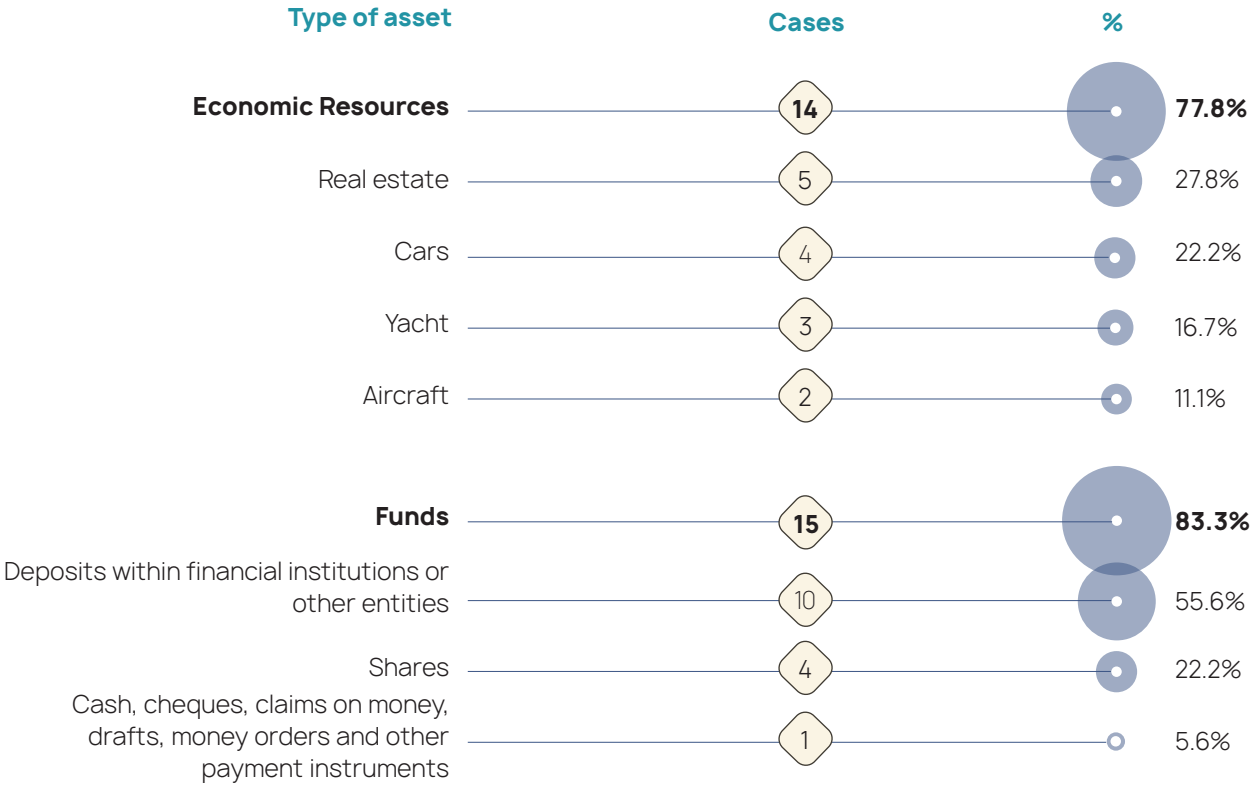


**Figure 5 - Typologies of assets involved in targeted sanction violations**




Due to interconnected factors, **violations of sectoral and targeted sanctions can occur simultaneously**. **Professionals such as lawyers and accountants may help circumvent both types of sanctions by managing assets and providing advice on continuing business operations under restrictions.** Their activities often take place in jurisdictions with minimal oversight, making violations easier. This situation has been observed in **3 out of 97 analysed cases**.

### 3.1.3. Compliance failings

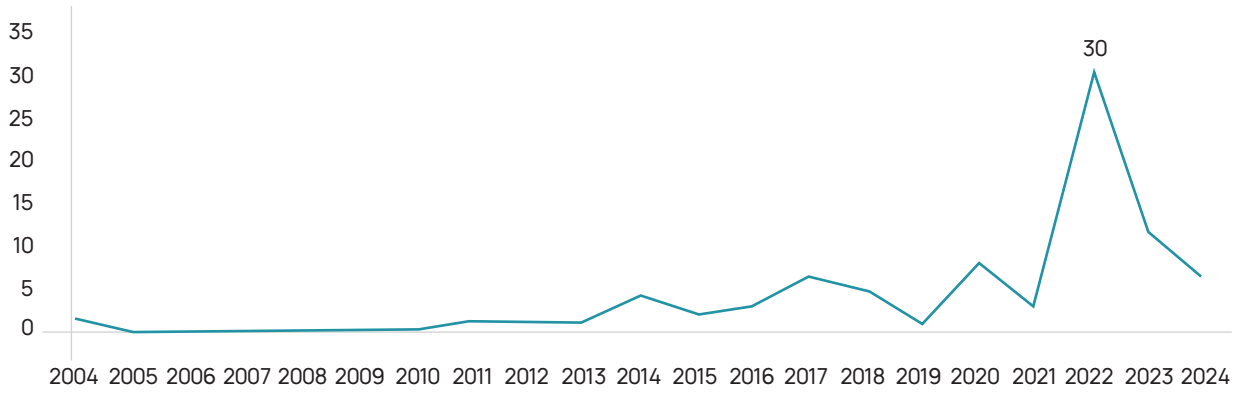
Sometimes, the recorded violations of restrictive measures point to **systemic compliance gaps** within financial institutions, corporate service providers, and other professional intermediaries. Firms that **fail to implement robust customer due diligence, beneficial ownership verification, or real-time screening against sanctions lists enable designated individuals and entities to exploit regulatory blind spots**. Nonetheless, these situations represent a minority of situations targeted by law enforcement authorities, occurring in **4% of the analysed cases of sanction breaches**.

# 3.2 The occurrence in time

The timing of sanction evasion activities offers valuable insight into **how sanctioned actors adapt and how effectively enforcement efforts respond**. By analysing when these violations occur and how long they last, it is possible to understand better **how quickly sanction evaders react to new restrictions and how effectively authorities work to manage these violations**.

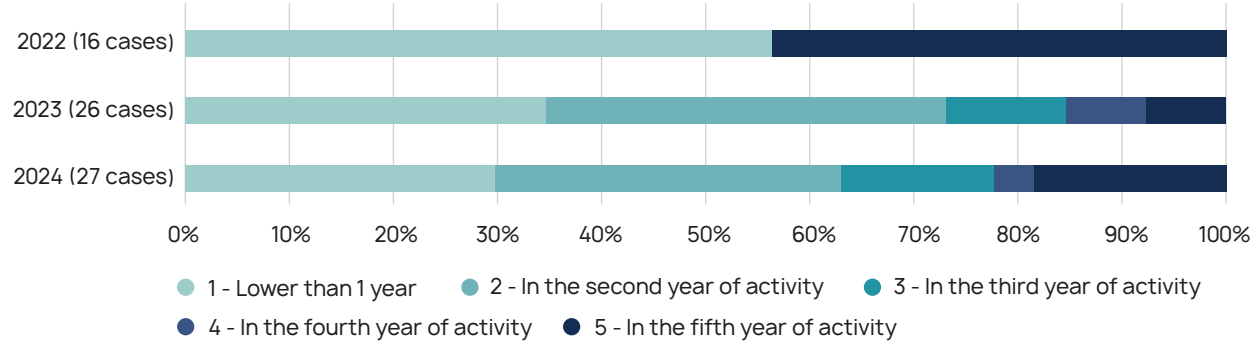
Evidence, reported in Figure 6, suggests that sanction evaders often respond with remarkable speed: **one-third of violations (30 cases) analysed in this report occurred as early as 2022**, shortly after the implementation of significant new sanctions regimes. This pattern indicates that **many operators quickly shift from legitimate commerce to prohibited dealings, sometimes using pre-existing contracts that seamlessly transition into illicit activities in the wake of new measures**. The window between the introduction of sanctions and the onset of evasion schemes appears to be narrow, highlighting the **need for immediate enforcement actions and robust monitoring systems**.

**Figure 6 - Cases of sanction evasion, by year of start of activities**




Over time, the **persistence of such activities can reveal both the sophistication of sanctioned actors and the potential gaps in enforcement capabilities**. If sanction evasion activities persist for long periods, it may indicate weaknesses in detection, investigation, or prosecution efforts. On the other hand, a decrease in the duration of sanction evasion schemes could suggest the growing effectiveness of enforcement measures, improved data-sharing among agencies, or enhanced deterrence due to increased penalties and more prominent prosecutions.

**Figure 7 - Number of sanction evasion schemes, by years taken to be uncovered (by year of discovery)***




*The years taken to be uncovered is computed as difference from the starting years of activity and the invstigation years.

The findings reported in Figure 7 provide valuable insights into how law enforcement's approach has evolved over the past three years, a period during which sanctions evasion has faced increased scrutiny. These findings relate to various instances of sanctions evasion considered in the study, which primarily focus on the Russia-Ukrainian conflict, though they are not limited to that context. Since 2022, there has been a **notable increase in the number of detected cases**, suggesting that investigators are allocating more resources to this area and refining their methods.

However, discoveries made in 2023 and 2024 revealed operations that had begun in 2022—or even earlier—indicating that entrenched evasion networks can remain hidden for years. This combination of early detection and delayed discovery highlights both progress and ongoing challenges.

Overall, the first months and years after sanctions are imposed form a critical period. During this window, violators swiftly organise evasion schemes, which, if unchecked, can persist for years.

## 3.3 The occurrence in space

Understanding where sanction violations occur is essential for developing informed enforcement strategies. R**egional dynamics often reflect complex and evolving networks of intermediaries**, which helps explain why certain areas are more prone to violation than others. The cases examined in this report indicate **an uneven geographic distribution of sanction violations,** revealing **distinct regional vulnerabilities**.

The findings reported in Figure 8 indicates that **North-East Europe, which includes the Baltic States, often serves as a hotspot for sanction evasion**, particularly regarding sectoral sanctions. This trend is likely influenced by the **region's geographical proximity to sanctioned markets**.

A significant issue also arises from **other countries on the European continent that are not part of the European Union**; these countries generally have access to the European market and are exposed to it.

**North Atlantic** countries have been significantly represented in the study, particularly **regarding violations of sectoral sanctions**. Countries in the **European Union located in the North-West** of the continent have also been observed as the place of the main action of the evasion conduct, mainly concerning sectoral sanctions, but they have also shown a significant presence related to targeted sanctions. This is coupled with numerous **instances of compliance failures** among local operators, which may be a result of **proactive measures taken by authorities to address these issues**.

The profiles of individuals and entities involved in sanctions evasion are detailed in Figure 9. These profiles primarily include **individuals from countries outside the European Union, particularly Russia**. A significant number of actors also originate from Northern Europe, including the Baltic States and the Northwestern region of the Union. Additionally, a smaller yet notable number comes from areas such as the Middle East, the North Atlantic, the Asia-Pacific region, and the southern part of the European Union.

Figure 8 – Distribution of the region in which the sanction evasion activity occurs

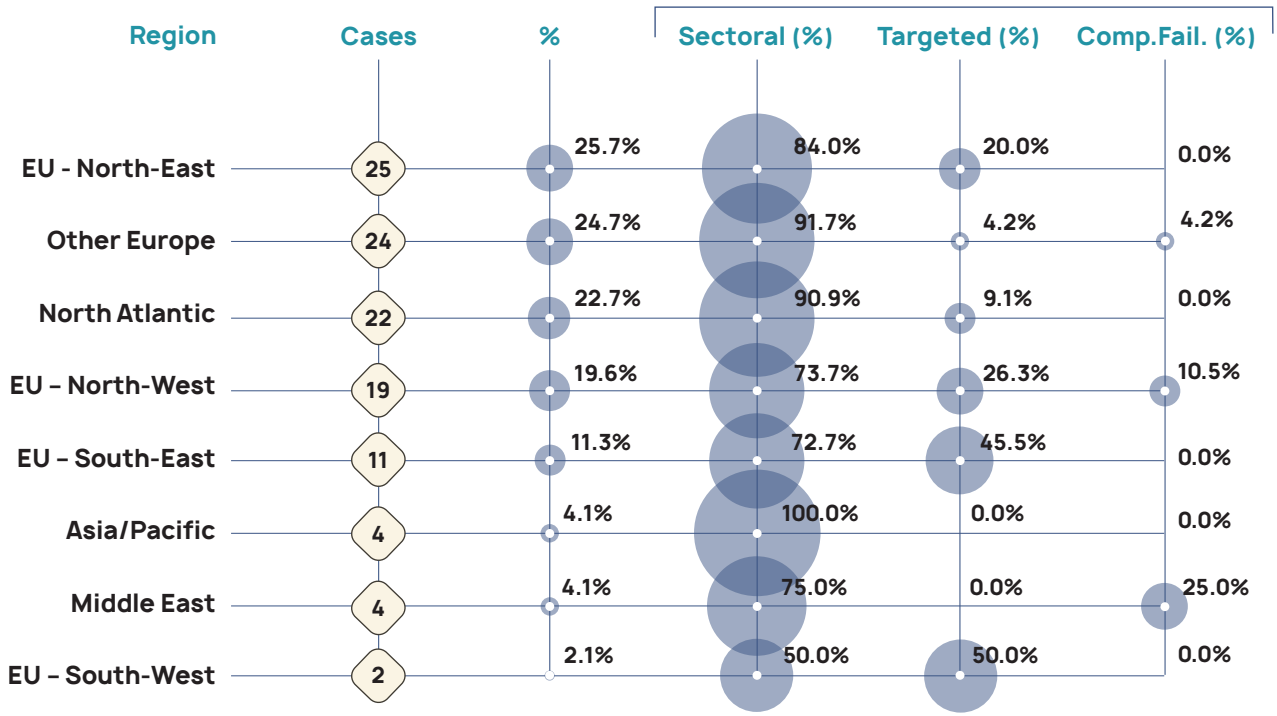
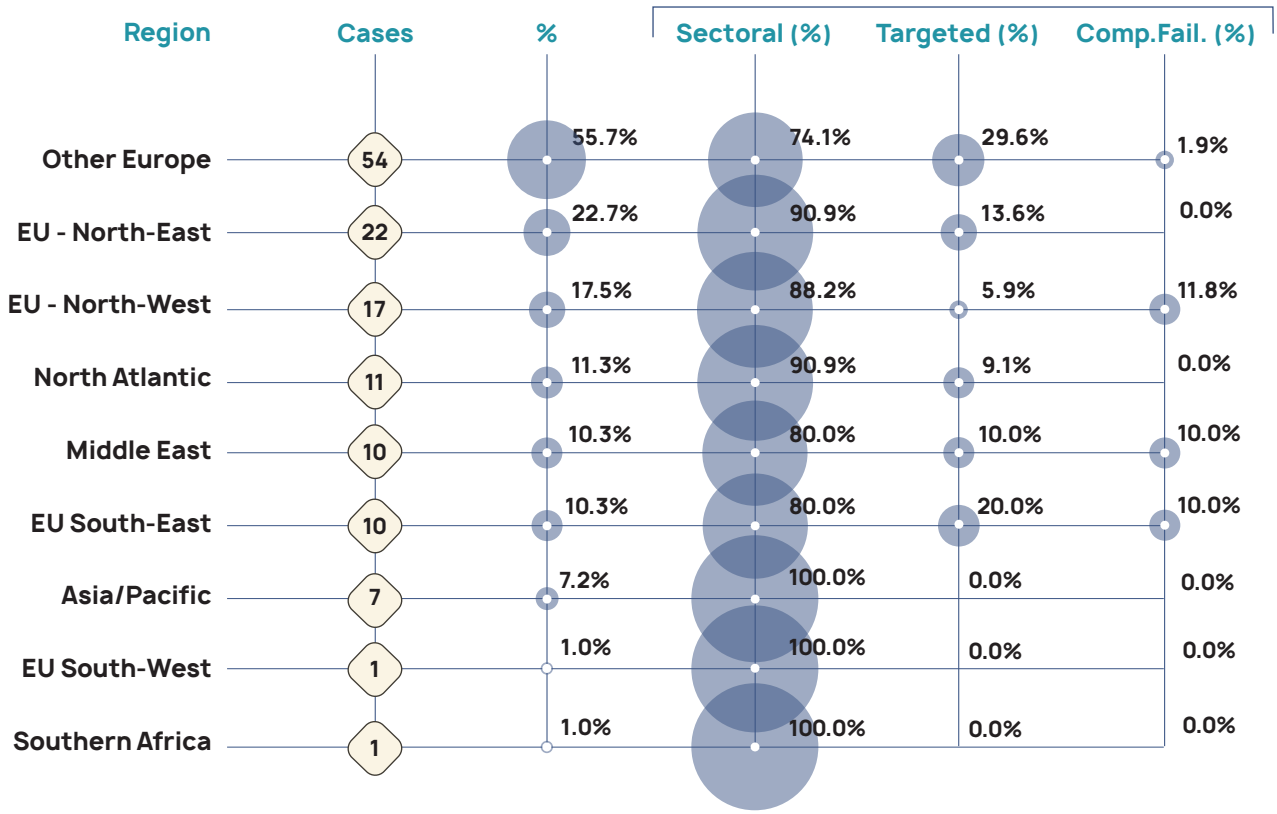
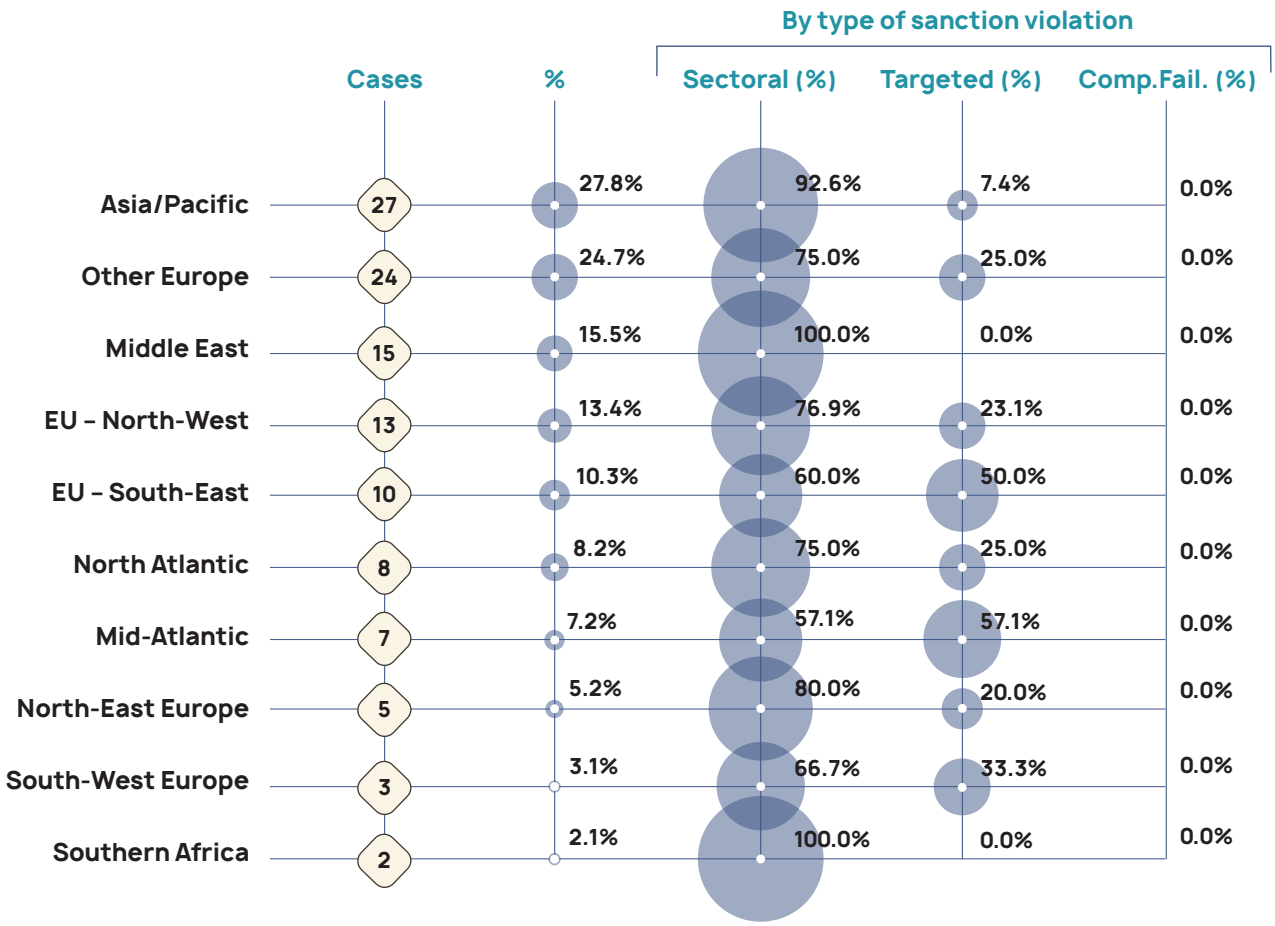



Figure 9 – Distribution of the region from which sanction evaders are



When examining the role of "satellite" regions—areas that support and facilitate evasion schemes—the **Asia/Pacific region** stands out, as reported in Figure 10, particularly in relation to sectoral sanctions. However, significant contributions also come from **neighbouring countries outside the EU**, which serve as satellite nations even though they are not the primary locations where evasion occurs or where the sanctioned countries are situated. The **Middle East** also plays a considerable role as a hub for evading sectoral sanctions. Additionally, **European countries, particularly in the southeastern part of the Union, can act as satellite hubs, especially in the context of targeted sanctions**. Mid-Atlantic countries, composed mainly of small jurisdictions that provide corporate services, also contribute to this dynamic.

**Figure 10 – Distribution of the 'satellite' regions instrumental for the success of sanction evasion schemes**




The data indicates that **no single region functions independently**. Rather, evasion schemes typically involve multiple jurisdictions, each contributing to a layer of complexity. By understanding these regional patterns—both in terms of direct violations and the supportive role of intermediary "satellite" areas—enforcement authorities can better focus their efforts, customize their responses, and ultimately enhance the overall integrity of sanctions regimes.

**Figure 11 – Jurisdiction where sanction evasion took place, satellite countries involved, and country of sanctioned entities**

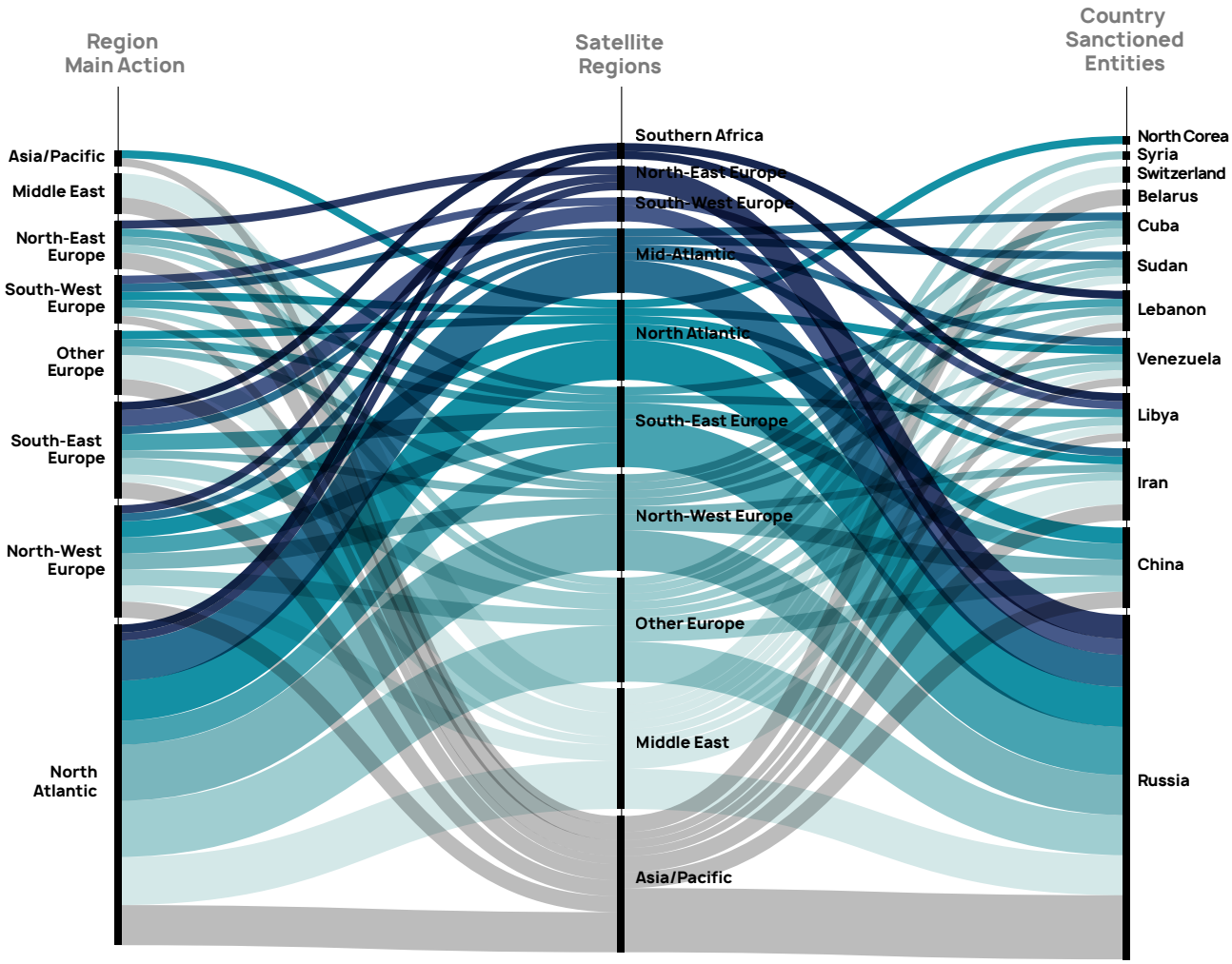


**Figure 12 – Jurisdiction where sectoral sanction evasion took place, satellite countries involved, and country of sanctioned entities**

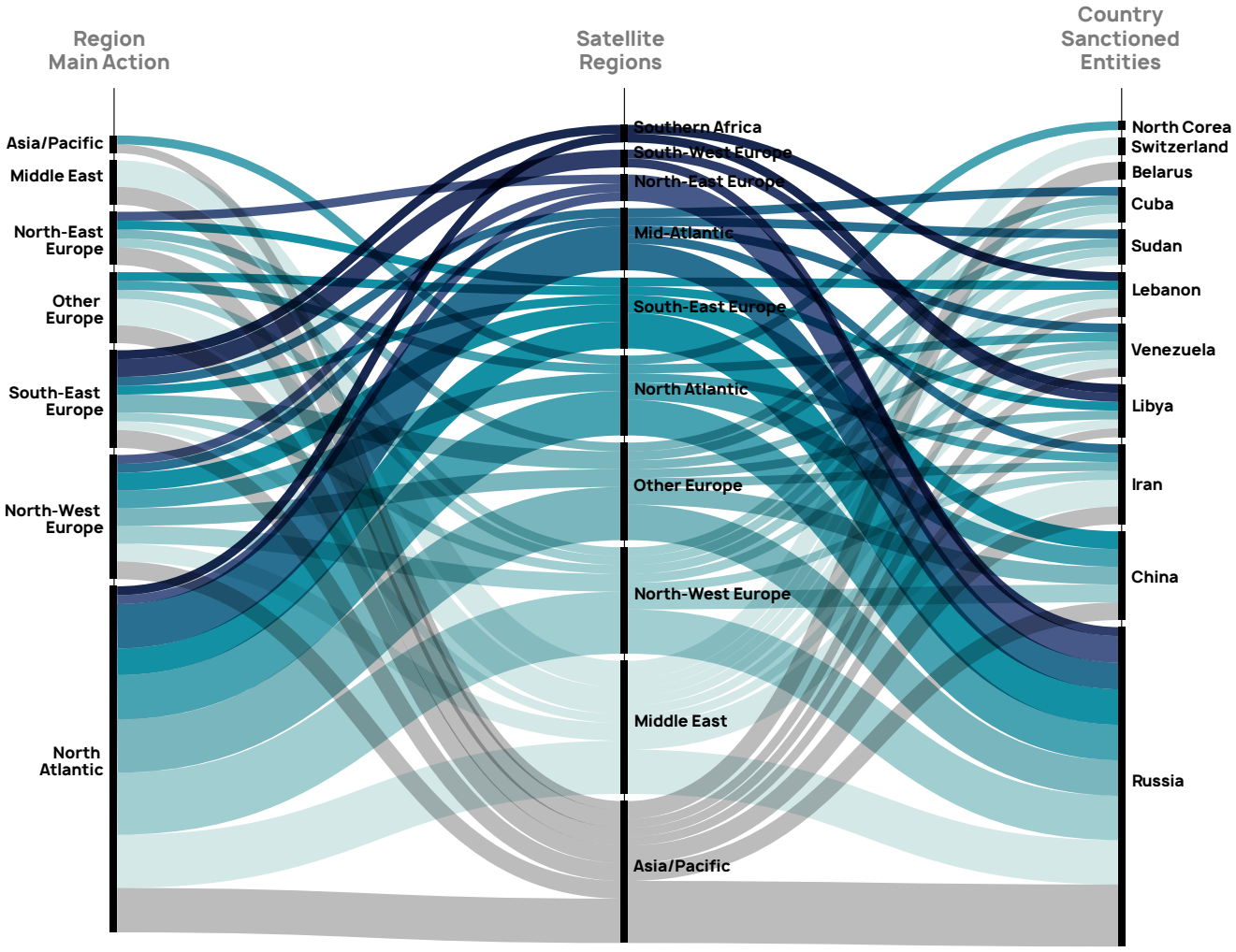
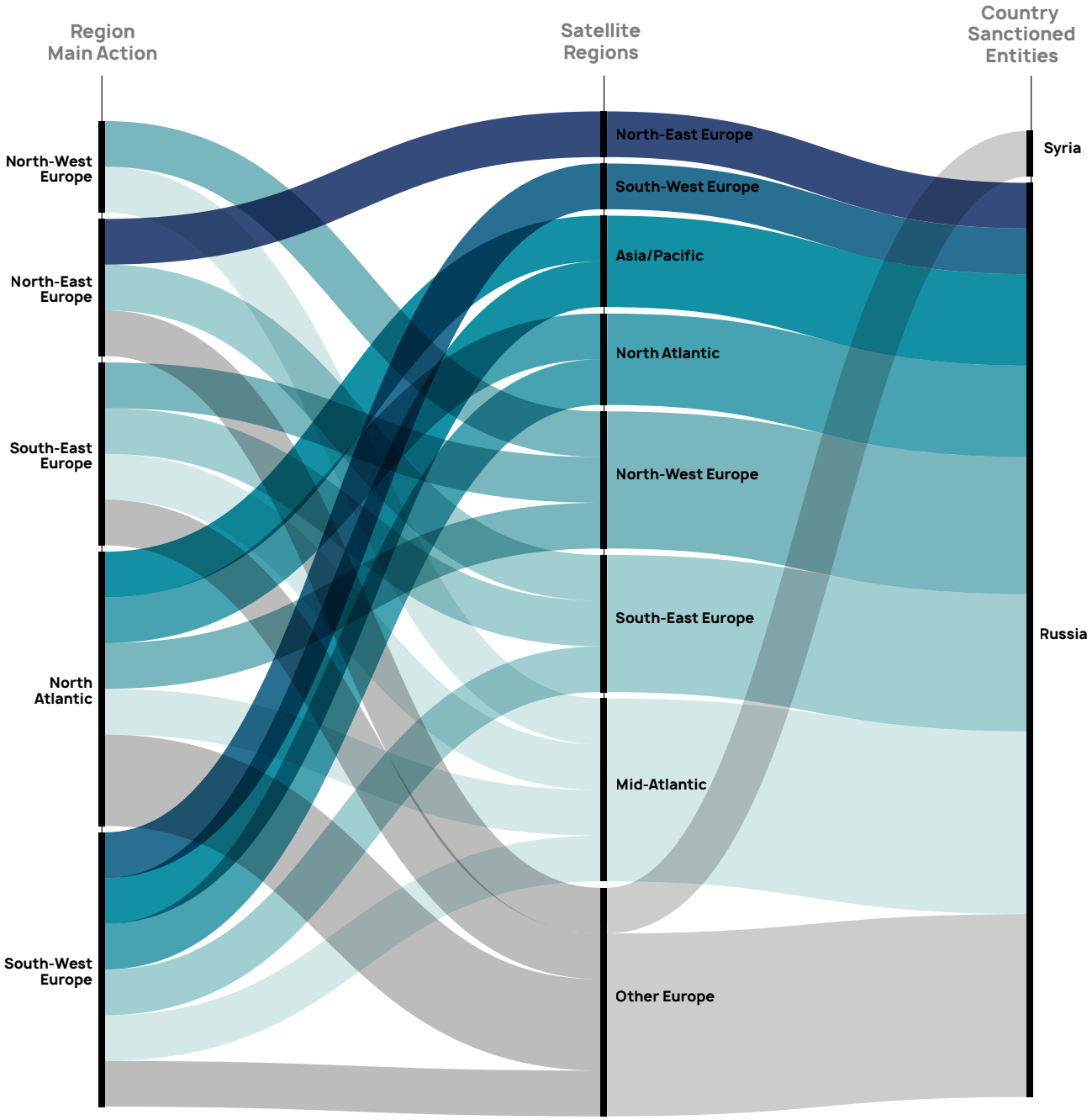


**Figure 13 – Jurisdiction where targeted sanction evasion took place, satellite countries involved, and country of sanctioned entities**



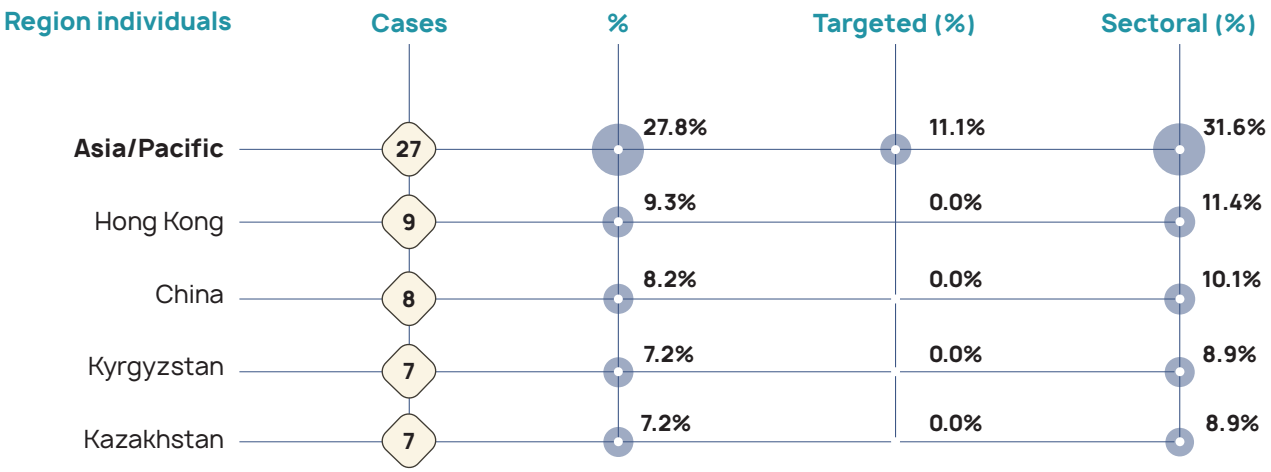
Therefore, understanding the transnational aspect is essential for comprehending how sanctioned parties move funds or assets, as well as how complicit actors facilitate these transactions.

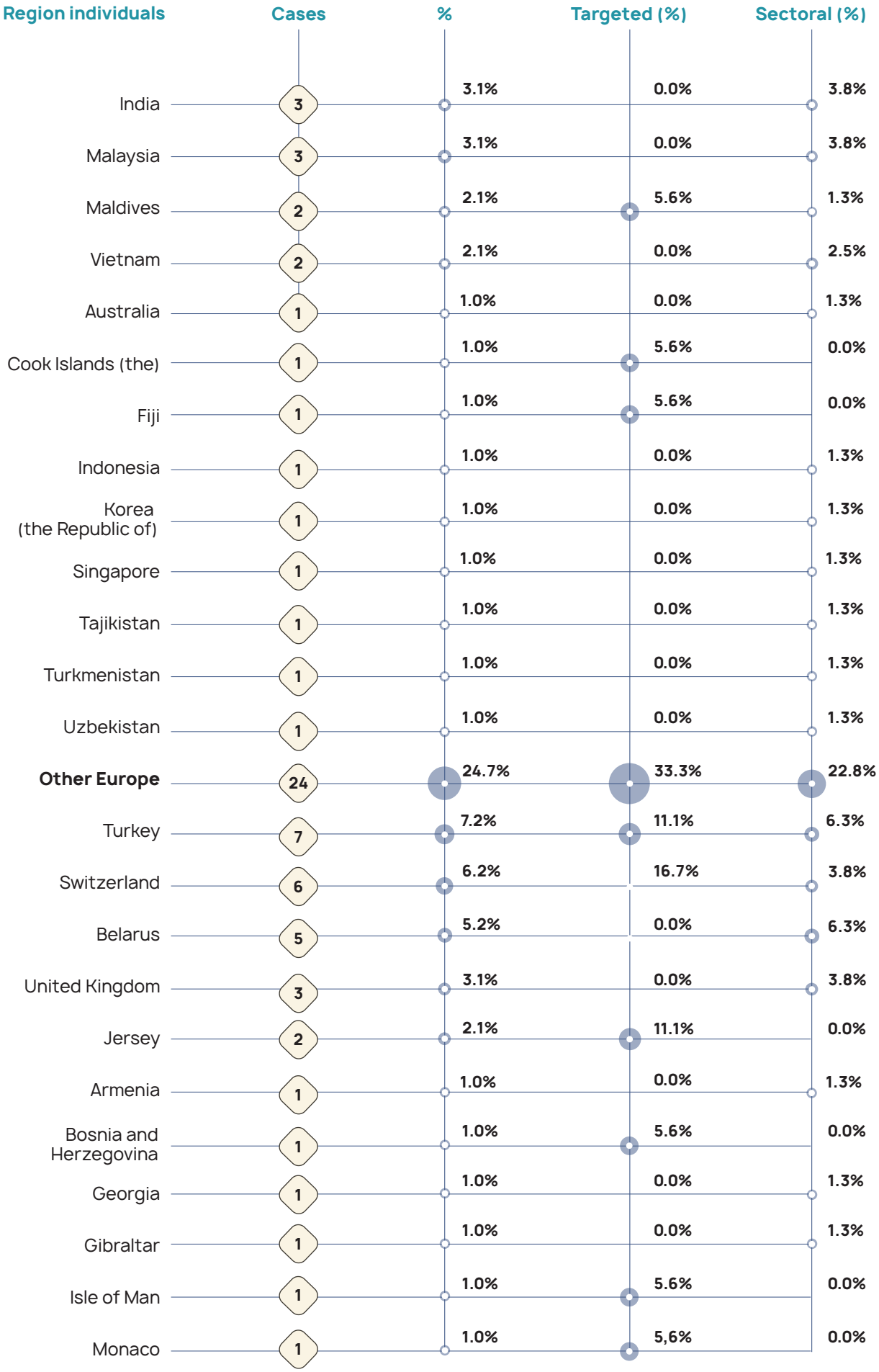
Importantly, **those involved in evading targeted sanctions** often come from or operate within jurisdictions known for providing financial or corporate services that can obscure ownership and asset flows. Several smaller jurisdictions also play a crucial role in this process. With less stringent oversight, these locations become channels for concealing wealth and can be strategically exploited to bypass sanctions. Consequently, efforts to improve compliance must also focus on enhancing international regulatory cooperation and harmonising standards for transparency and asset tracking.

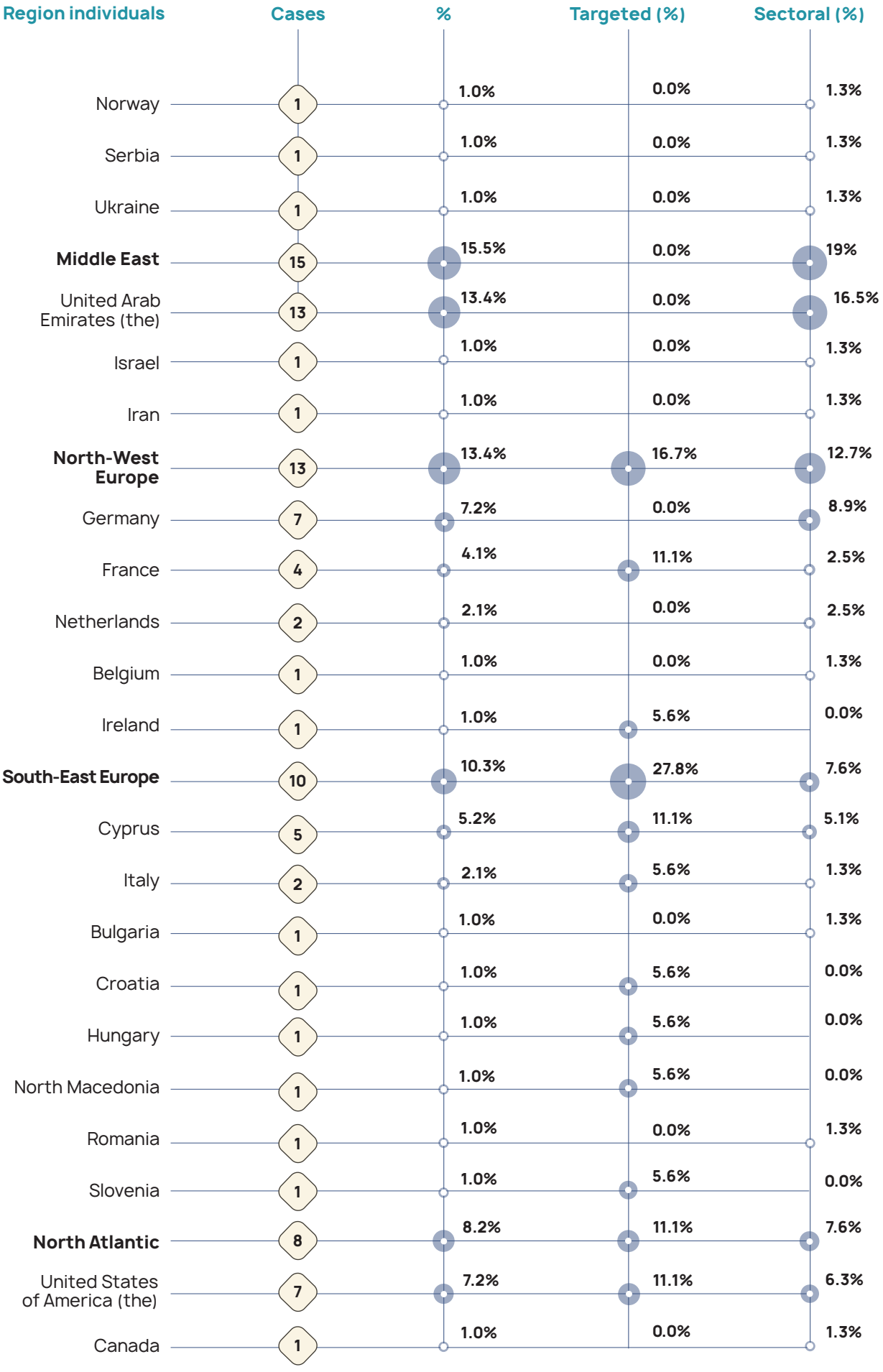
Figure 14 presents cases of the use of jurisdictions different from the place where the sanction evasion took place. These jurisdictions acted as intermediary locations, playing a decisive role in sanction circumvention. A significant difference emerges in the patterns of geographic distribution of hubs in relation to whether there is a place for the evasion of targeted or sectoral sanctions. In particular, for **targeted sanctions, the roles of several countries that are not part of the European Union are noteworthy**. This includes **Switzerland** and **Turkey**, as well as jurisdictions such as **Jersey**, **Monaco**, and the **Isle of Man**. Within the European Union, the southeastern region, particularly **Cyprus**, plays a significant role. Additionally, the **Mid-Atlantic** region is relevant, highlighted by the involvement of the **British Virgin Islands** and **Panama**.

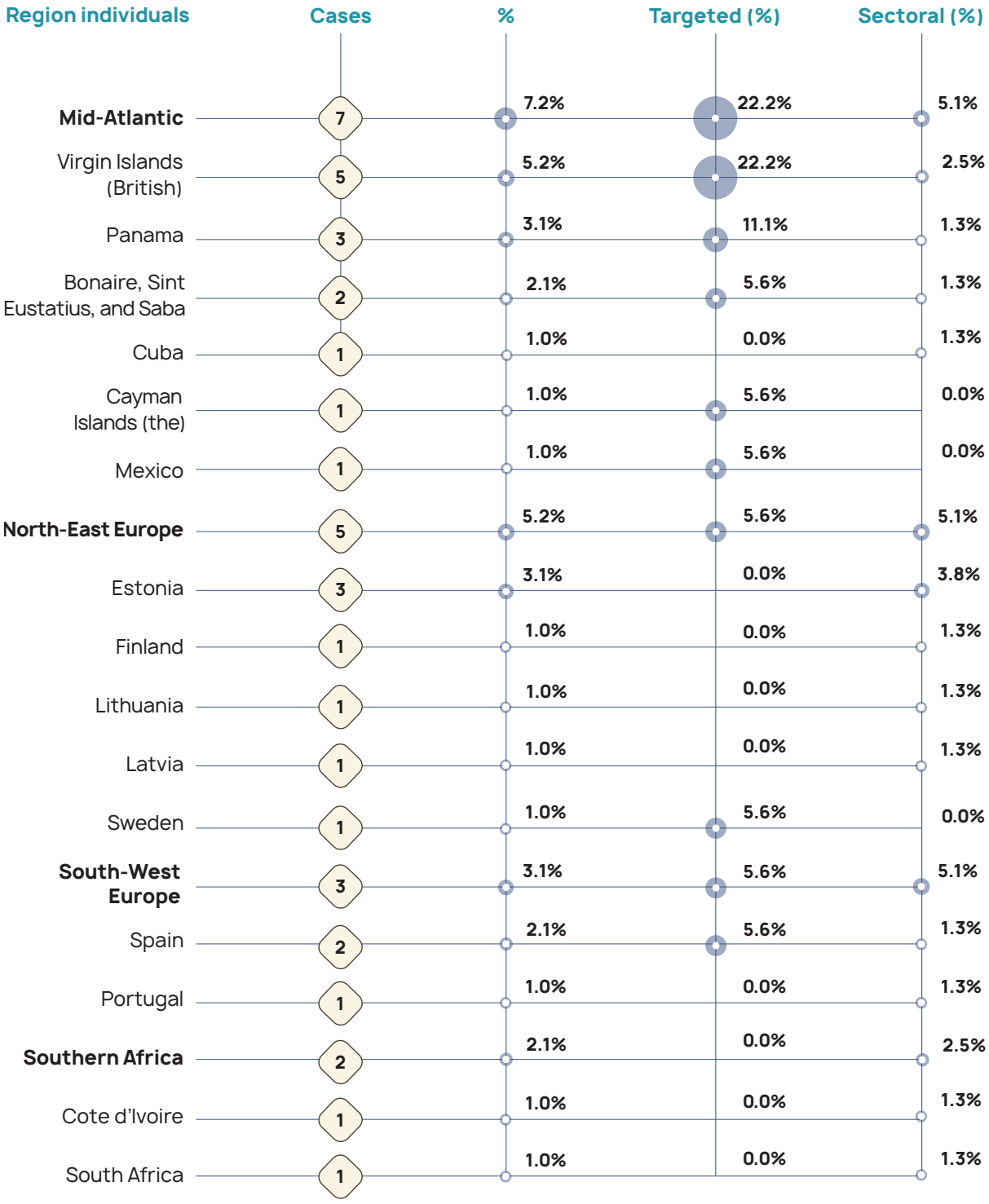
**Regarding sectoral sanctions, the Asia/Pacific region is important**, especially **Hong Kong**, **China**, **Kyrgyzstan**, and **Kazakhstan**. The **Middle East** also plays a significant role, particularly the **United Arab Emirates**. Furthermore, other European countries that are not part of the European Union, specifically **Turkey** and **Belarus**, are relevant in this context.

**Figure 14 - Satellite jurisdictions used in sanctions evasion cases, by type of sanctions violation**




Region individuals
Cases
%
Targeted (%)
Sectoral (%)
India 3 3.1% 0.0% 3.8%
Malaysia 3 3.1% 0.0% 3.8%
Maldives 2 2.1% 5.6% 1.3%
Vietnam 2 2.1% 0.0% 2.5%
Australia 1 1.0% 0.0% 1.3%
Cook Islands (the) 1 1.0% 5.6% 0.0%
Fiji 1 1.0% 5.6% 0.0%
Indonesia 1 1.0% 0.0% 1.3%
Korea (the Republic of) 1 1.0% 0.0% 1.3%
Singapore 1 1.0% 0.0% 1.3%
Tajikistan 1 1.0% 0.0% 1.3%
Turkmenistan 1 1.0% 0.0% 1.3%
Uzbekistan 1 1.0% 0.0% 1.3%
Other Europe 24 24.7% 33.3% 22.8%
Turkey 7 7.2% 11.1% 6.3%
Switzerland 6 6.2% 16.7% 3.8%
Belarus 5 5.2% 0.0% 6.3%
United Kingdom 3 3.1% 0.0% 3.8%
Jersey 2 2.1% 11.1% 0.0%
Armenia 1 1.0% 0.0% 1.3%
Bosnia and Herzegovina 1 1.0% 5.6% 0.0%
Georgia 1 1.0% 0.0% 1.3%
Gibraltar 1 1.0% 0.0% 1.3%
Isle of Man 1 1.0% 5.6% 0.0%
Monaco 1 1.0% 5,6% 0.0%


Region individuals
Cases
%
Targeted (%)
Sectoral (%)
Norway 1 1.0% 0.0% 1.3%
Serbia 1 1.0% 0.0% 1.3%
Ukraine 1 1.0% 0.0% 1.3%
Middle East 15 15.5% 0.0% 19%
United Arab Emirates (the) 13 13.4% 0.0% 16.5%
Israel 1 1.0% 0.0% 1.3%
Iran 1 1.0% 0.0% 1.3%
North-West Europe 13 13.4% 16.7% 12.7%
Germany 7 7.2% 0.0% 8.9%
France 4 4.1% 11.1% 2.5%
Netherlands 2 2.1% 0.0% 2.5%
Belgium 1 1.0% 0.0% 1.3%
Ireland 1 1.0% 5.6% 0.0%
South-East Europe 10 10.3% 27.8% 7.6%
Cyprus 5 5.2% 11.1% 5.1%
Italy 2 2.1% 5.6% 1.3%
Bulgaria 1 1.0% 0.0% 1.3%
Croatia 1 1.0% 5.6% 0.0%
Hungary 1 1.0% 5.6% 0.0%
North Macedonia 1 1.0% 5.6% 0.0%
Romania 1 1.0% 0.0% 1.3%
Slovenia 1 1.0% 5.6% 0.0%
North Atlantic 8 8.2% 11.1% 7.6%
United States of America (the) 7 7.2% 11.1% 6.3%
Canada 1 1.0% 0.0% 1.3%




Finally, Figure 15 and Figure 16 represent the triangulation of countries used to facilitate the triangulation and shipment of prohibited goods in cases of sectoral sanction violations, specifically concerning prohibited exports and imports.

**Figure 15 - Jurisdiction in which the prohibited goods originate, are triangulated and shipped (export)**

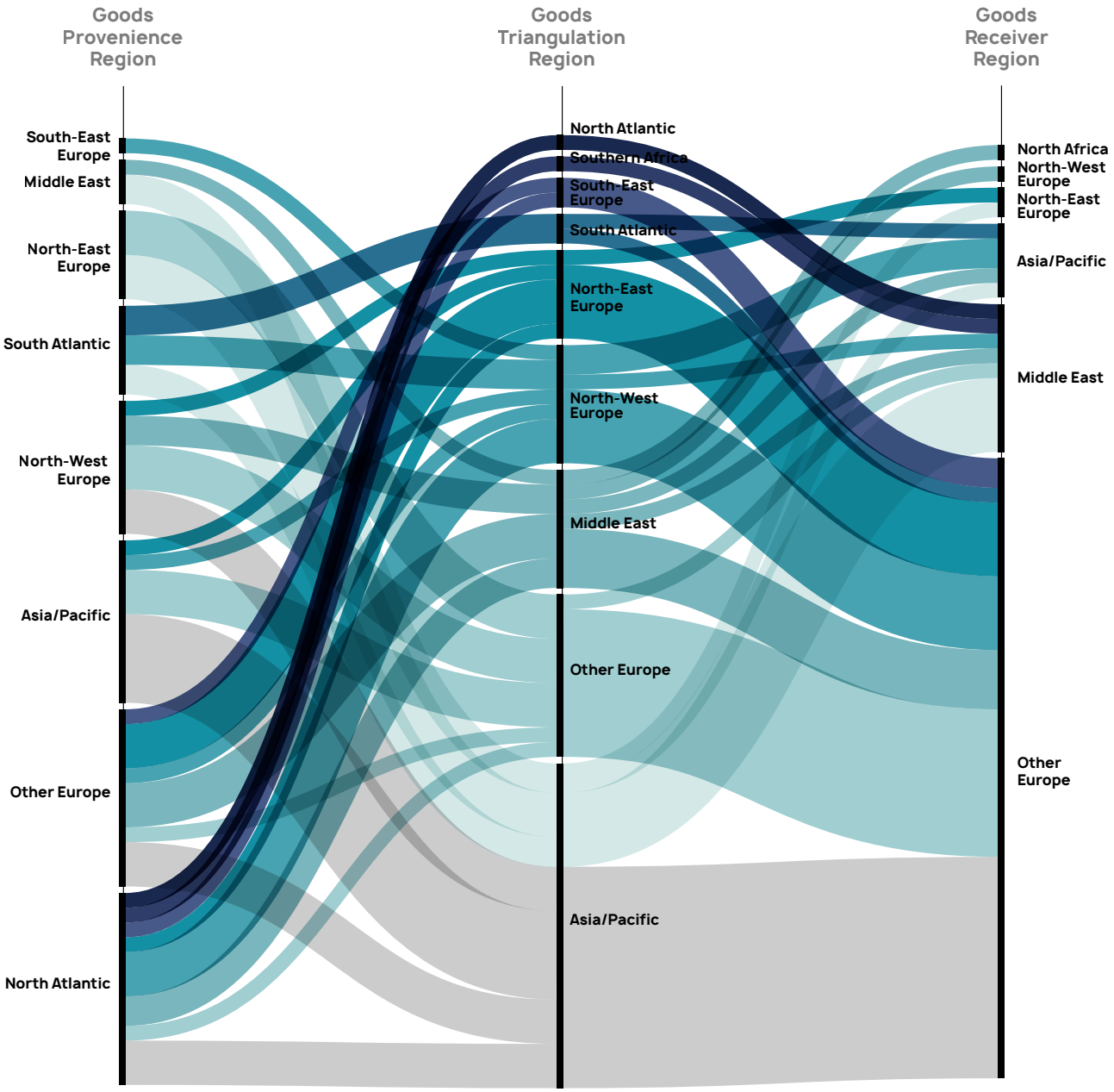
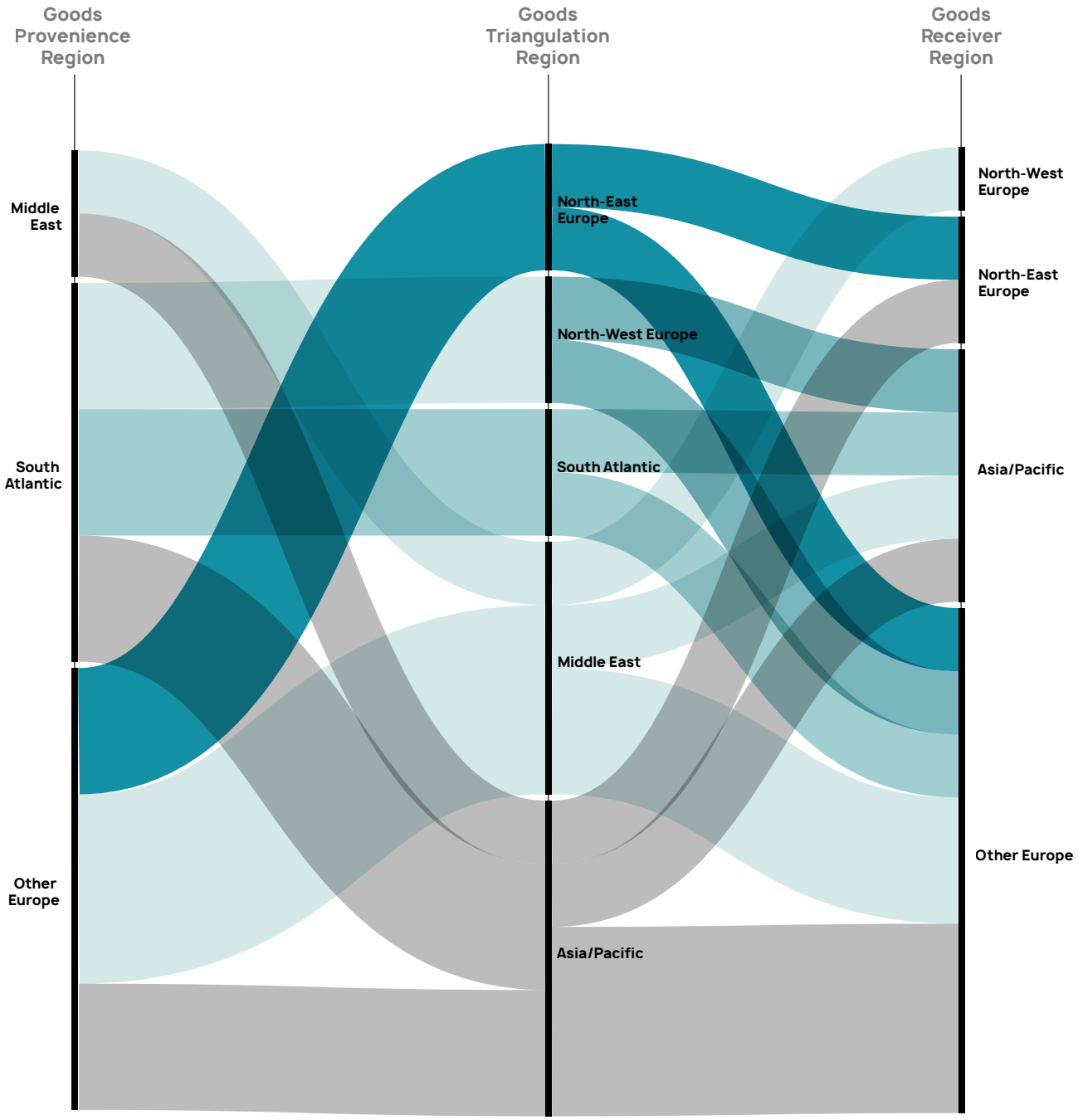


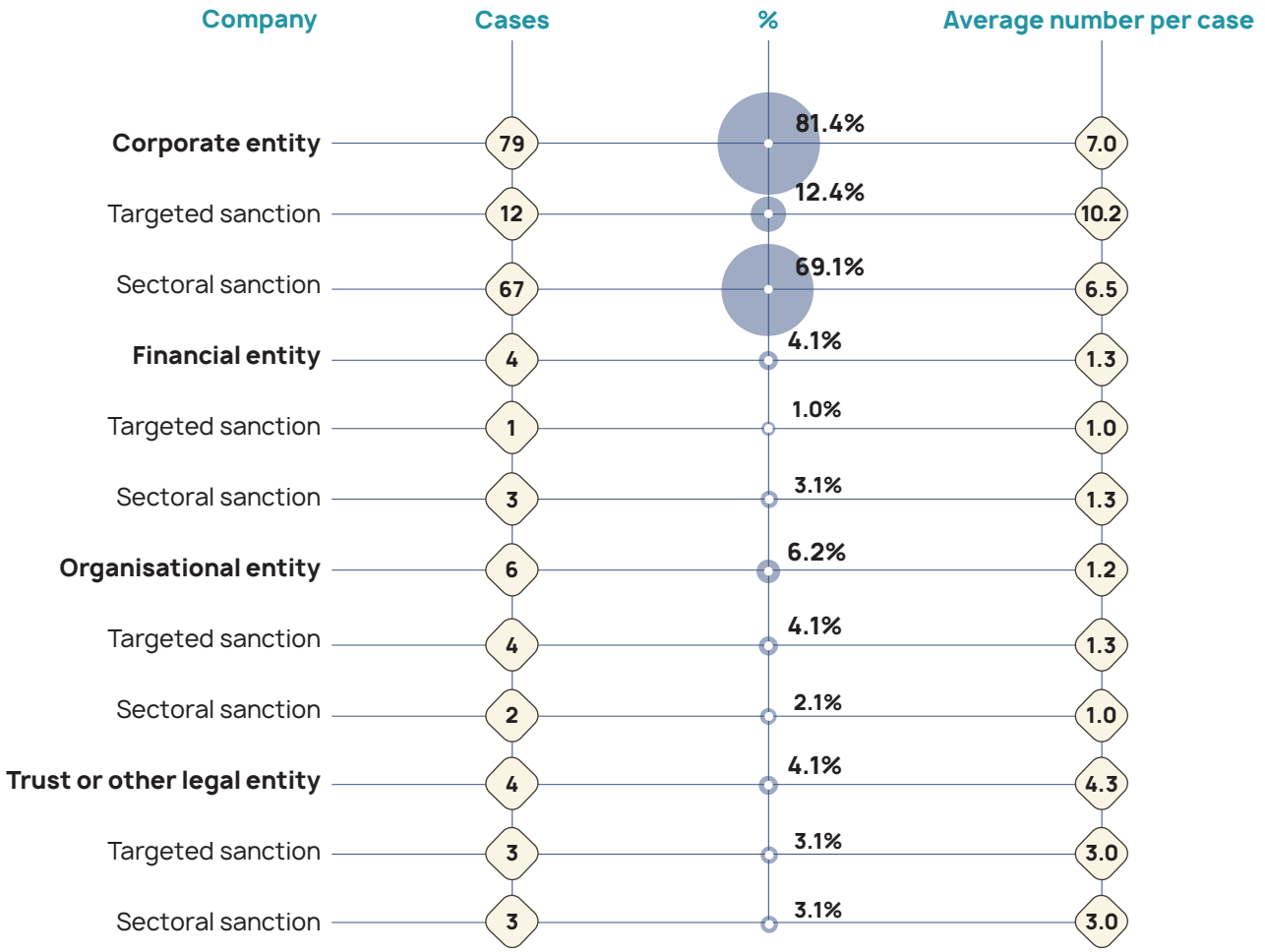
**Figure 16 - Jurisdiction in which the prohibited goods originate, are triangulated and shipped (import)**



# 3.4 The role of corporate vehicles and facilitators

**Corporate entities** play a crucial role in many strategies for evading sanctions. They can either participate **intentionally or unknowingly facilitate these actions**. Their legal structures, operational capabilities, and global presence make them well-suited for obscuring financial transactions, concealing beneficial ownership, and redirecting goods to destinations that are under sanctions. As reported in Figure 17, in the cases examined, 583 corporate vehicles were estimated to be implicated, with **at least one corporate vehicle deliberately involved in 85.7% of the documented instances**. On average, **each case involved approximately 7 corporate vehicles**. Although not commonly observed, the role of financial entities, organisational entities, or other trusts as willing violators in sanction violations remains relevant.

**Figure 17 - Breakdown of willing corporate vehicle types involved**




Some companies become involved in sanction evasion schemes unintentionally due to **inadequate compliance systems or a lack of awareness regarding sanction laws**, as highlighted in Figure 18. This scenario underscores the necessity of educating businesses, particularly in at-risk sectors, about the implications of sanctions and the need to enhance compliance protocols to prevent exploitation. However, other entities **knowingly engage in sanction evasion**, which plays an instrumental role in orchestrating these schemes.

**Figure 18 - Ratio of unwilling corporate vehicles**


Statistics are calculated solely from articles containing sufficiently complete information to determine the number of involuntarily exploited companies.

Entities that deliberately partake in evasion are key to these schemes, classified into **operational companies**, which are legitimate businesses that intentionally violate sanctions for financial or competitive gain, using their established operations to mask economic relationships which are prohibited; **branch of operative** companies, which are subsidiaries or branches of legitimate firms generally established in less regulated jurisdictions to circumvent restrictions while maintaining a facade of compliance; **shell and front companies**, which are entities with little or no operational capacity, created solely to obscure the origin or destination of goods and funds; and **false companies**, which are fabricated entities that exist only on paper to orchestrate or mask illegal transactions, often used for laundering money or evading asset freezes.

**Figure 19 - Typologies of profiles of corporate vehicles involved in sanction violation cases**

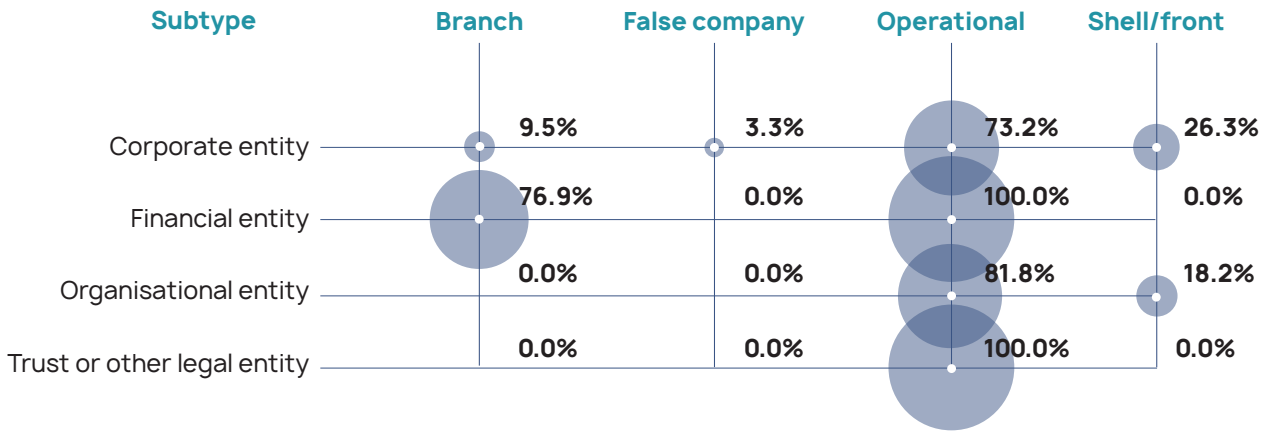



**Figure 20 - Typologies of profiles of corporate vehicles involved in targeted sanction violation cases**

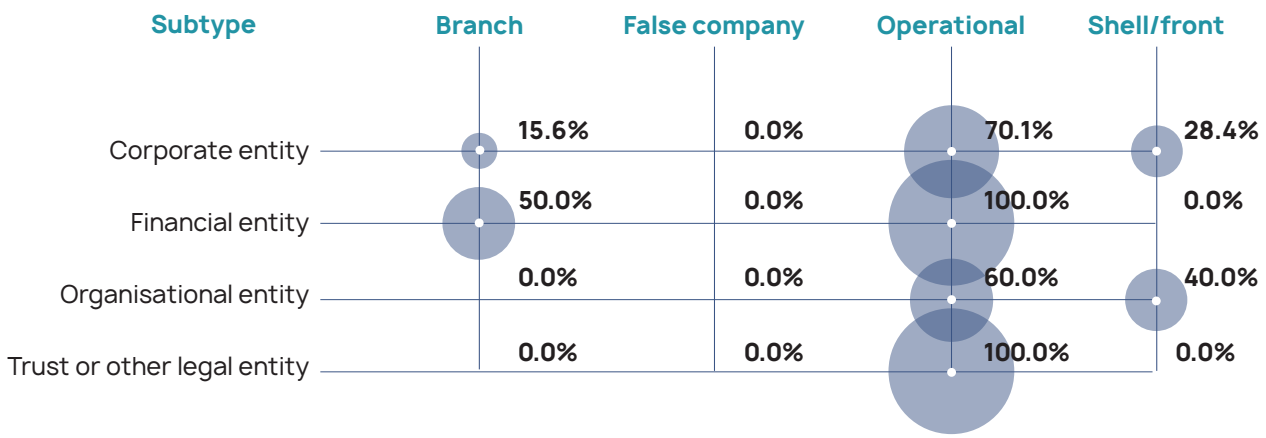
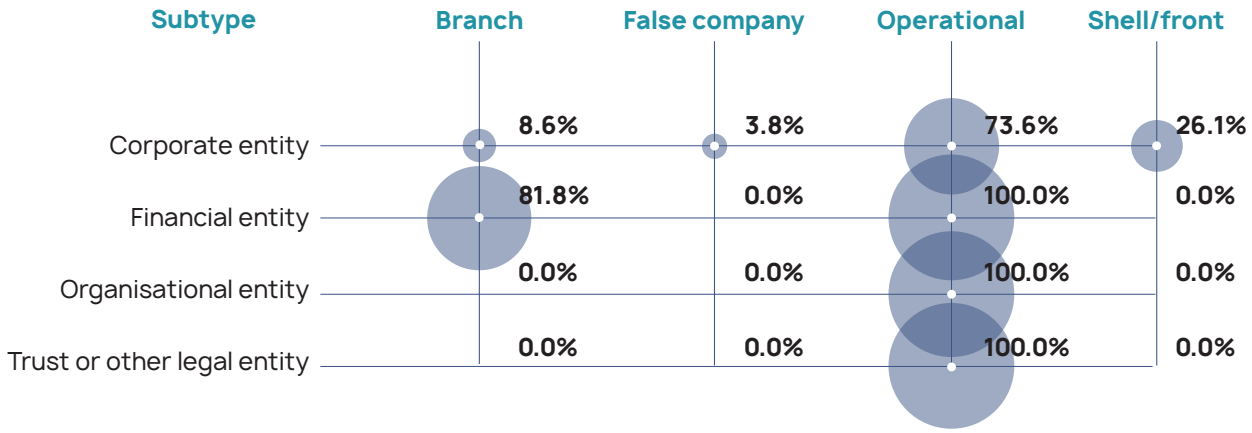


**Figure 21 - Typologies of profiles of corporate vehicles involved in sectoral sanction violation cases**




The legal entities involved in sanction evasion are primarily operational. **Nearly one-third of corporate entities are identified as shell companies**. Particularly, in cases of sectoral sanctions, the participation of **fictitious companies** has also been noted as a tactic to facilitate these schemes. Regarding **financial entities**, it is important to highlight that they are often **branches of larger institutions**. This underscores the necessity of **extending responsibility from the headquarters to its branches as well**.

### › The role of facilitators

Analysis of the cases reveals that **intermediaries, such as brokers, agents, and other facilitators, are instrumental in orchestrating sanction circumvention**. They often possess specialised expertise, networks, and the ability to understand and deal with regulatory nuances. Approximately 260 individuals were identified in the sample, with 193 willing participants actively engaging in sanction circumvention. As reported in Figure 22,on average, each case involved around three people, illustrating the collaborative nature of these networks.

**Figure 22 - Type of facilitators involved in sanction violation cases**


Statistics are calculated solely from articles containing sufficiently complete information to determine the number of facilitators involved.

Facilitators often work across borders, manipulating differences in legal and enforcement environments. An analysis of their nationalities and operational bases indicates that intermediaries often operate transnationally, exploiting differences in legal systems and enforcement rigour.

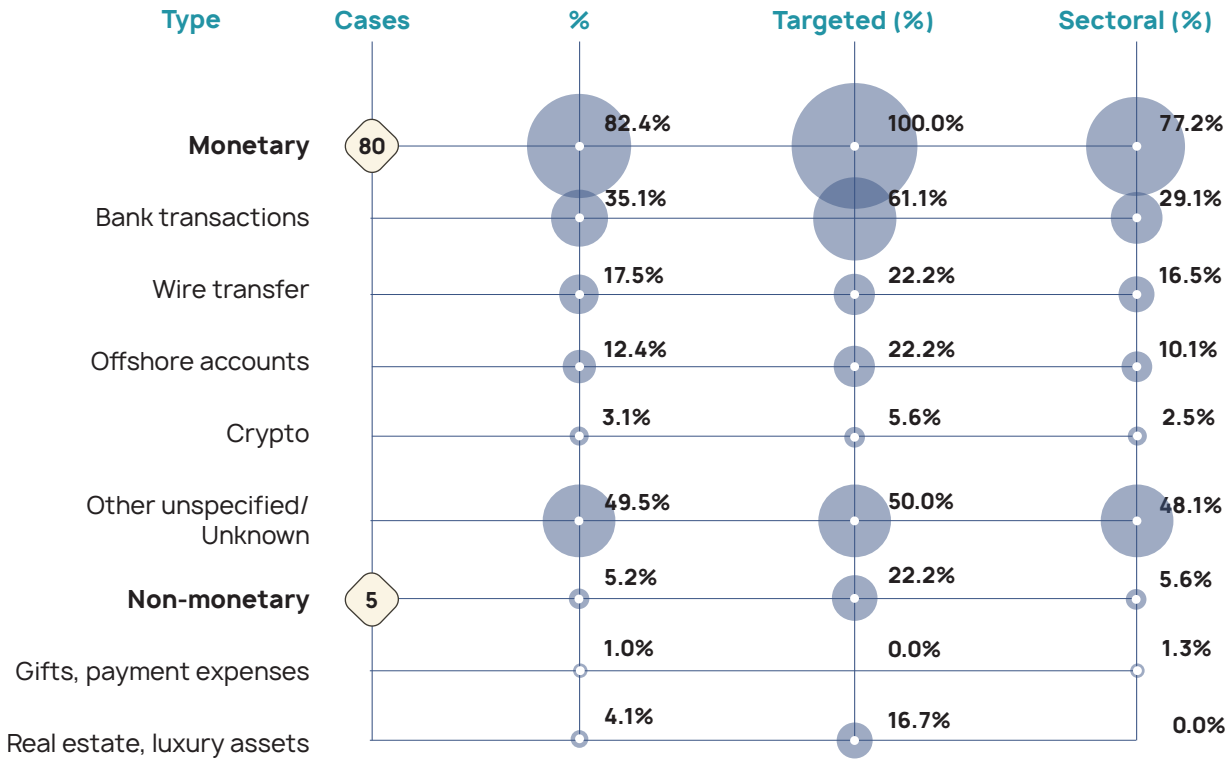
# 3.5 Types of transactions mechanism

The choice of transaction mechanism often depends on the specific objectives of the sanctions and the resources available to the sanctioned entity. Sanctioned individuals and entities use various financial channels to move funds discreetly (Figure 23). **Bank transactions** are the most common method. **Offshore accounts** and **wire transfers** are also frequently used to conceal both the origin and destination of funds, while cash transactions are relatively rare. The use of cryptocurrencies as a means of evading sanctions has been observed in three cases, accounting for 3.1% of the total. This trend indicates an **increasing necessity for regulatory adaptations within the digital finance sector**.

Non-monetary methods, such as **gifting assets or trading valuable items like real estate and luxury goods**, provide alternative ways to evade financial scrutiny. These non-monetary means are particularly noted in targeted sanction violations.

As enforcement agencies adapt to these evolving tactics, it is crucial to place a greater emphasis on monitoring new technologies, strengthening due diligence in non-traditional sectors, and promoting international cooperation. By anticipating these shifts, regulatory authorities can stay ahead of potential loopholes, thereby reducing opportunities for sanctioned entities to exploit weaknesses in the global financial system.

**Figure 23 - Type of transaction mechanism**



# 4.

# Conclusions and policy implications

Sanctions are a key tool in international efforts to counter illicit financial activity, enforce legal standards, and apply pressure on targeted regimes. This report identifies evasion not as an isolated concern but as a **systemic issue**, demonstrating methods used by individuals and networks to circumvent enforcement. For instance, businesses in third countries have facilitated trade of restricted goods from the EU to Russia, while assets are held in the names of family members or obscured through offshore trusts and corporate structures. These practices highlight **gaps in existing frameworks, necessitating coordinated policy measures**.

Evidence of evasion emerged shortly after sanctions were implemented. Prohibited procurement activities continued through alternative channels, properties linked to associates of sanctioned regimes often remained unaffected, and individuals circumvented designations with support from corporate service providers.

To address these challenges, governments should adopt a structured approach targeting **all actors involved** in evasion, including enablers such as legal advisors providing loophole guidance, financial intermediaries facilitating transactions, and individuals managing concealed assets. Adoption and enforcement, at the same time, must maintain **consistent evidential thresholds** to ensure sanctions are legally defensible and credible, reinforcing international compliance.

Law enforcement agencies require **dedicated units focused on sanctions evasion**, equipped with expertise to respond to evolving tactics. Timely enforcement would reduce delays between sanctions designations and implementation. Concurrently, **clear and practical compliance guidelines** – outlining evasion methods, detection steps, and reporting processes – should be provided to businesses and financial institutions to **clarify obligations and minimise errors**.

The transnational nature of sanctions evasion poses challenges that require **coordinated action**. The European Union should strengthen its sanctions regimes by **improving enforcement and addressing jurisdictional gaps**. This necessitates cooperation with other jurisdictions, particularly through alignment of sanctions policies between the EU, the U.S., and other G7 states. **Harmonising frameworks** would reduce opportunities for evasion across legal systems. **Strengthening intelligence-sharing mechanisms**, such as real-time data exchanges on asset movements and ownership changes, would support more effective enforcement.

**Collaboration with offshore financial centres** should be expanded to enforce transparency in beneficial ownership. International agreements could mandate stricter reporting standards to limit concealment. Technology, including analytics and blockchain tools, could improve tracking of asset ownership in sectors like real estate and high-value transactions, where opacity enables evasion.

Public awareness campaigns should recognise and **foster the role of civil society actors**, including investigative journalists, in identifying and reporting sanctions evasion. Corporations should be encouraged to adopt anti-evasion measures through **compliance incentives or penalties for non-compliance**, ensuring alignment with international legal standards.

While the European Union is in the initial phases of strengthening its role in countering sanctions circumvention, this report identifies vulnerabilities that require coordinated action from diverse stakeholders. Policymakers, at European and national level, law enforcement authorities, civil society, and economic operators have the opportunity to align efforts to close enforcement gaps, enhance transparency, and foster cross-border collaboration. Sustained cooperation, supported by adaptive legal frameworks and technological innovation, will be essential to uphold the integrity of sanctions as a credible instrument of international policy.

# 5.

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# 6.

# Risk indicators

Guidance for the private sector plays an important role in **understanding sanction circumvention practices** and **reducing the risk of businesses being exploited by entities seeking to evade sanctions**. Following the increasing restrictions faced by EU economic operators as a result of the invasion of Ukraine, several institutions [1], [2], have issued resources to support businesses. While this guidance does not replace legal advice, it offers practical tools to help organisations develop safeguards and controls suited to their specific needs, based on an evaluation of their exposure to sanctions risks.

The sanction circumvention report, developed under the **KLEPTOTRACE** project, examines the types of goods and services frequently involved in sanction circumvention. It identifies **key jurisdictions** where these activities are concentrated and describes **common methods** used. The report provides exporters, manufacturers, and other economic operators with tools to recognise evasion practices and strategies to mitigate risks. A central feature of the report is the production of **red-flag indicators to help detect potential cases of sanctions evasion**.

These indicators build on the latest guidelines available as of March 2025, on sectoral and targeted sanctions, and are organized into categories, such as **inconsistencies related to customers, products, transactions, and export destinations**. The report includes **18 primary indicators**, further **detailed through several micro-indicators**. Some of those indicators are already mentioned in the public available guidelines from national competent authorities, and have been reformulated to ensure a general application, removing specific references to specific context, while other reflects the findings emerged in this analysis.

It is important to emphasize that while these indicators are **primarily targeted at economic operators**, they are also designed to assist law enforcement authorities and financial intelligence units (FIUs). Some indicators may refer to information not readily available to economic operators but accessible through investigative or intelligence-gathering activities carried out by authorities.

As with guidance provided by national competent authorities, the **points listed here are not exhaustive**. Both private and public sectors are **encouraged to expand these lists further**. It is important to note that no single red flag definitively indicates illicit activity. Transactions should be assessed holistically as part of a thorough due diligence process. Additionally, the sanctions framework is inherently complex, with enforcement and risk management mechanisms constantly evolving. Specific aspects of sanctions risk must be evaluated on a **case-by-case basis**.

## 6.1. Sectoral and targeted sanction risk indicators

### 6.1.1. Customer

1 The customer, or its apical members and personnel (in the case of legal persons), has **relevant connections to a sanctioned country, sanctioned entity or persons in several forms** (e.g., business ties, commercial ties, family ties, or other affiliations of concern).

For instance:

a. The customer, or its apical members and personnel (in the case of legal persons), has **familial or proxy relationships** with:
   i. individuals or entities designated under sanctions, or
   ii. nationals of a sanctioned country, or

iii. individuals directly connected to sanctioned regimes or organisations supporting sanctioned activities (affiliation may include business ties, commercial ties, family ties, or other relationships of concern).

b. The customer, or its apical members and personnel (in the case of legal persons) **has** or **had past partnerships** with sanctioned entity, persons or countries, such as:
   i. engagement in joint ventures or cooperation agreement with a sanctioned entity, persons, or an entity from a sanctioned country, or
   ii. shared stakes or other forms of participation with a sanctioned entity, persons, or entities from a sanctioned country.

c. The customer, or its apical members and personnel (in the case of legal persons), **has maintained or had trade or business relationships** with:
   i. entities indirectly owned or controlled by individuals or entities designated under sanctions, or
   ii. entities incorporated in sanctioned countries.

d. The customer, or its apical members and personnel (in the case of legal persons), **has acted as a supplier or intermediary in activities currently under restriction**, in particular:
   i. acting as a supplier or intermediary for goods or services delivered to sanctioned countries, or
   ii. acting as a supplier or intermediary in transactions with entities connected to sanctioned persons or entities.

e. The customer, or its apical members and personnel (in the case of legal persons), **exhibits unexplained activities in sanctioned countries**, such as:
   i. undertaking international travel to sanctioned countries without clear purposes,
   ii.participating in activities in sanctioned countries, potentially using false identities or proxies.

**2** The customer, or its apical members and personnel (in the case of legal persons), **shares common behaviors** with sanctioned entities, persons, or countries in several forms:

a. The customer, or its apical members and personnel (in the case of legal persons) **shares a business partner or stakeholder with a sanctioned entity or person**.

b. The customer, or its apical members and personnel (in the case of legal persons) **is physically located in, or adjacent to, a residential or commercial address of sanctioned entity or person**.

c. The customer, or its apical members and personnel (in the case of legal persons) **shares contact details (e.g., telephone number, email address), with a sanctioned entity or person**.

d. Companies related to the customers or their apical members and personnel (in the case of legal persons) **share contact details (e.g., telephone number, email address, or company name), with a sanctioned entity or person**.

e. Companies related to the customers or their apical members and personnel (in the case of legal persons) **share contact details (e.g., telephone number, email address, or the company name), with a sanctioned country**, such as:
   i. using company names identical to or strongly resemble those in sanctioned countries, or
   ii.email or phone contacts associated with sanctioned countries, or
   iii.website indicating connections to sanctioned countries, such as references to trade, language, or other affiliations.

**3** The customer, or its apical members and personnel (in the case of legal persons), has or had **relevant connections in several forms** (e.g., business ties, commercial ties, family ties, or other affiliations of concern) **to a non-sanctioned country or non-designated entity or persons for which additional due diligence is suggested**.

These connections may include cases in which:

a. The customer, or its apical members and personnel (in the case of legal persons), has **familial or proxy relationships** with:
   i. individuals or entities that are suspected or known to engage in transactions with sanctioned entities, persons or countries, based on publicly available sources, or
   ii. national of a country involved in the supply, sale, purchase, or delivery of restricted or high-risk goods to sanctioned entities, persons, or countries, or otherwise engaged in sanction circumvention activities.

b. The customer, or its apical members and personnel (in the case of legal persons) **has or had past partnerships** with individuals or entities potentially related to sanction circumvention attempts, or from high-risk jurisdictions, such as:
   i. engagement in joint ventures or cooperation agreement with individuals or entities that are suspected or known to engage in transactions with sanctioned entities, persons or countries, based on publicly available sources, or national of a countries involved in the supply, sale, purchase, or delivery of restricted or high-risk goods to sanctioned entities, persons, or countries, or otherwise engaged in sanction circumvention activities, or
   ii. shared stakes or other forms of participation with individuals or entities that are suspected or known to engage in transactions with sanctioned entities, persons or countries, based on publicly available sources, or national of a countries involved in the supply, sale, purchase, or delivery of restricted or high-risk goods to sanctioned entities, persons, or countries, or otherwise engaged in sanction circumvention activities.

c. The customer, or its apical members and personnel (in the case of legal persons), **has maintained or had trade or business relationships** with:
   i. individuals or entities that are suspected or known to engage in transactions with sanctioned entities, persons or countries, based on publicly available sources, or
   ii. national of a countries involved in the supply, sale, purchase, or delivery of restricted or high-risk goods to sanctioned entities, persons, or countries, or otherwise engaged in sanction circumvention activities.

**4** The customer has undergone significant **changes in wealth, assets, or ownership, including adjustments** in trade and commercial agreements, **shortly before or after sanctions were imposed**.

This include:

a. **Restructuring of assets or changes in ownership**, including acquisitions, transfers, or modifications, occurring **shortly before or after sanctions were imposed**. Such transactions may exhibit irregularities or atypical conditions, such as sale prices inconsistent with market values, rushed transactions conducted at short notice without standard due diligence, or settlement terms that are unusually long (e.g., exceeding one year) or unspecified. Transfers may involve other owners of the legal entity (in the case of legal persons), or entities or individuals connected to a sanctioned entity or individual, such as family members, employees, officials, or associated businesses that are not themselves sanctioned.

b. **Sudden changes in wealth or business activities** (for legal persons) **after sanctions were imposed** or following updates to export controls or sanctions. This is particularly relevant if the customer previously lacked a significant history in the specific types of transactions now restricted by sanctions.

c. **Accumulation of significant wealth**, initiation of new activities, or expressed interest in restricted trade **immediately following the imposition of sanctions**.

d. **Significant changes to the company structure of an existing customer**, such as acquisition by another company or individual, changes in location, shifts in operations, or substantial changes in registered directors.

5 The customer (in the case of legal persons) **acts as an intermediary for an undeclared end-user**. This could be identified by the following indicators:

a. The customer relies heavily on a **single client or actor** for their business operations.

b. The customer **declines routine installation, training, or maintenance services** typically associated with the product.

c. All communications are routed through a representative who appears to possess **general power of attorney**, or senior management staff are consistently unavailable for discussions when requested.

d. Supporting **documents either do not list the actual end-user, are vague, incomplete**, or contain inconsistent information. Additionally, the declared end-user may exhibit characteristics of shell companies or non-existent entities, such as:
   i. Features commonly associated with shell companies.
   ii. Country codes for customer telephone numbers that do not match the destination country.
   iii. Indications or suspicion that documentation (or key details within it) may be fraudulent.

6 The customer, or its apical members and personnel (in the case of legal persons) exhibit **multiple anomalies related to their corporate network**. These indicators may suggest involvement in obfuscating sanction circumvention activities, creating false companies, or employing shell companies. Examples include:

a. The customer, or its apical members and personnel (in the case of legal persons), is part of a corporate network that includes a **significant number of companies**, potentially involved in sanction circumvention activities. This may be highlighted by the fact that:
   i. The customer, or its apical members and personnel (in the case of legal persons) and their relevant connections (such as familiar or other proxies) own or control of a large number of companies, or
   ii. The customer, or its apical members and personnel (in the case of legal persons) and their relevant connections (such as familiar or other proxies), and the companies under their control, share premises or registered address with multiple businesses, especially if dealing in comparable activities.

b. The customer, or its apical members and personnel (in the case of legal persons), has taken step to **obscure the true extent of their corporate network**. This may be highlighted by the fact that:
   i. the customer, or its apical members and personnel (in the case of legal persons) and their relevant connections (such as familiar or other proxies) own or control companies that use corporate service providers, particularly in offshore jurisdictions, or use trust arrangements or complex corporate structures involving offshore companies, or present a lack of single majority stakeholder, potentially concealing ultimate beneficial ownership, or
   ii. the customer, or its apical members and personnel (in the case of legal persons) and their relevant connections (such as familiar or other proxies), and the companies under their control, are mentioned in offshore leaks, or
   iii. the customer, or its apical members and personnel (in the case of legal persons), and their relevant connections (such as familiar or other proxies), uses unwilling representatives, such as personnel, as nominee directors to conceal the true ownership or control of the company under their control, or
   iv. the customer, or its apical members and personnel (in the case of legal persons), and their relevant connections (such as familiar or other proxies) generally communicate using aliases or fabricated identities to obscure real parties.

c. The customer, or its apical members and personnel (in the case of legal persons), and their relevant connections (such as familiar or other proxies) **utilized false companies or shell companies**. This may be highlighted by the fact that:
   i. The customer, or its apical members and personnel (in the case of legal persons), and their relevant connections have companies with generic names, with a short-line spans, or which are located in residential addresses, or have financials in line with non-operative companies, or with a suspicious lack of business activity in the period following the date of incorporation. Additionally, these companies may have failed in submitting financial statements.
   ii. The customer may report falsified, backdated, or conflicting documentation or other indication that raises suspicion that documentation (or material particulars therein) are fraudulent, such as involving entities with unverifiable, fraudulent, or non-existent addresses.

7 The customer repeatedly **fails to comply with sanction regulations**, misinterprets provisions to justify non-compliance, or shows a lack of awareness of obligations.

### 6.1.2. Consumer

1 Transactions involve **sanctioned goods, particularly those with military or dual-use applications**, or other items flagged as high-risk for circumvention. (refer the page in the report where the list of goods is available). For instance,

a. The transactions directly involved those **goods which are categorised under a Harmonised System** (HS) code that is subject to sanctions or export controls, or

b. The transactions involve goods characterised under a **HS code that is not subject to sanctions or export controls** but is **closely aligned** with one that is restricted.

2 There are strong indications of **incompatibilities between the nature of the product required and the customer's profile**, which may suggest a lack of clear economic rational or justification of having access to the restricted goods, such as:

a. The **product's capabilities are inconsistent with the buyer's business profile or the business profile** of the declared end-user, or

b. The customer is **unfamiliar with the product's performance characteristics** yet persists in requesting it.

c. The description of the goods on the trade or financial **documentation is non-specific or misleading**.

3 The customer's **pattern of ordering exhibits several anomalies**, such as:

a. **Resubmission of canceled orders** with slight alterations to obscure previous rejections or scrutiny.

b. Anomalous **increases in the volume or value of orders** placed by existing customers.

c. **Sequential small orders ("smurfing")** from connected entities to avoid detection or reporting thresholds.

### 6.1.3. Transaction

1 The transactions related to the trade present aspect of anomalies in relation to the **number of channels through which it is routed**.

a. Transactions involving bank accounts, offshore accounts, or subsidiary banks in **high-risk jurisdictions**.

b. Transactions facilitated by **numerous legal entities or vehicles linked to the same scheme**.

c. Indirect transactions, for example, using **intermediaries or shell companies**, with no clear economic rationale.

d. Accounts held in **multiple currencies** without a clear or logical economic purpose.

e. The customer utilises **complicated structures to conceal their involvement in transactions**, for example, layered letters of credit, front companies, intermediaries, or brokers.

2 The transactions related to the trade **present aspect of anomalies in relation to risk route** or channel:

a. Routing payments via **cryptocurrency exchanges** based in sanctioned or high-risk jurisdictions.

b. Payments from entities located in **third countries which are not otherwise involved in the transaction**.

c. Involvement of **shell or front companies or subsidiaries in high-risk jurisdictions** to facilitate transactions.

d. Transactions involving entities with **little to no web presence**. For example, the absence of company website or domain-based email account, or inconsistent information provided on any company websites or profiles that do exist.

e. Use of banks and financial organisations **owned by close associated of a sanctioned entity**.

**3** The transactions related to the trade present **non-standard aspect in relation to the route**:

a. Requests to use a **non-standard payment route**. For example, outside of SWIFT, via smaller overseas banks, or using cryptocurrency.

b. The customer is **willing to pay cash** for an expensive item when the terms of sale would normally require financing.

c. The country of the stated end-user is **not the same as the country from which the order was placed**.

d. **Last-minute changes to parties involved in the transaction** from an entity in Russia or Belarus to an entity in another country.

e. Transactions where the payer and recipient are **unrelated or do not align with expected entities**.

**4** The transactions related to the trade present some **elements of anomalies and irregularities in relation to the nominal pricing**:

a. Use of **nominal pricing** (e.g., €1) or **undervaluation of goods** to avoid thresholds requiring regulatory declarations.

b. Dividing an invoice value into smaller amounts to remain under the export control limits, or an otherwise **anomalous approach to structuring payments** with the apparent aim of avoiding detection.

c. Customer **pays significantly above the known market rate** for those goods.

d. **Disproportionate delivery costs** are charged without a clear or justified reason.

### 6.1.4. Export destination

**1** The restricted goods or financial resources transit via a **country for which additional due diligence** is suggested. This can be highlighted by the fact that:

a. The transit goes through country with **weak export control laws** or **weak enforcement of those laws**, or

b. countries and ports near the **border of sanctioned countries**, or

c. countries which have shown a **notable surge in trade volume** after the imposition of sanctions, or

d. countries which have **established relationships with the military-industrial complexes** of sanctioned regimes, or

e. countries in which sanctioned entities, persons, or countries have significant business interests and economic partnerships.

2 The transit route or the export destination of the product is **inconsistent with the customer's expected business activity**, such as:

a. The shipping route is **abnormal for the product or the destination**. For example, the country concerned does not normally import that product.

b. **Sudden changes in trade agreements or patterns** involving customers or partners following the introduction of sanctions.

3 The transit routes is anomalous, in the sense that it **goes through multiple countries and without an economic rationale**, to ultimately approach restricted destinations.

4 The customer **attempts to obfuscate the product's ultimate destination and purpose** by any means including being vague about details, providing incomplete information, or is evasive when further information is requested – especially information regarding: the product's end-use or end-user; whether the product is for domestic use or re-export; other third-party involvement in the transaction; company ownership; vague delivery dates, or deliveries planned for remote destinations.

Note: These indicators are not definitive proof of illicit activity but should prompt further scrutiny and due diligence. They are designed to assist economic operators, law enforcement authorities, and financial intelligence units in identifying potentially suspicious activities related to sanction circumvention attempts. A holistic assessment of all available information is essential to accurately determine the risk and ensure compliance with sanctions frameworks.

# Reference

[1] FIU Latvia, "Indicators of sectoral and targeted financial sanction evasion," 2024.

[2] UK Government, "Countering Russian sanctions evasion - guidance for exporters," 2025. [Online]. Available: https://www.gov.uk/government/publications/countering-russian-sanctions-evasion-and-circumvention/countering-russian-sanctions-evasion-guidance-for-exporters