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How the West Seeks to Make Russia's Sanctions Evasion More Expensive

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Employees perform engine maintenance on an Airbus aircraft at Moscow's Zhukovsky International Airport. **Sergei Karpukhin / TASS**

With the aid of sanctions, the European Union has reduced exports to Russia to a record low and completely halted the supply of some key industrial components. Yet that is only part of the picture. Some countries—like Turkey, the United Arab Emirates, and Armenia—function as intermediaries through which Russia still receives European goods and equipment.

Sanctions evasion via third countries is not a new problem. Even though the full-scale war in Ukraine has been raging for two and a half years, Ukrainians still find recently made Western components in the Russian cruise missiles falling on their cities. As a result, Western policymakers have begun to change their focus. Instead of trying to stop all exports to Russia, which is impossible, they are seeking to make sanctions evasion more costly.

According to Eurostat, the bloc's exports to Russia in June were worth 2.4 billion euros ($2.67

billion). That is about a third of the volume of exports in June 2021, and the lowest level since January 2003. The most dramatic reductions have been in the exports of machinery and equipment, which in June were worth one-tenth of what they were three years earlier (a drop from 3.5 billion euros to 365 million euros).

However, the data for third countries (which have never imposed sanctions on Russia) shows a sharp rise in imports of goods that Russia once obtained directly from the EU. This is the case even without taking into account China, whose imports from the EU are so huge that any changes linked with Russia are not visible in the data.

For example, the export of power generation equipment from the EU to Russia has dropped steadily since the full-scale invasion of Ukraine. In June, it was valued at just 30,000 euros ($33,200), down from 35 million euros ($38,575,000) three years earlier. In the same period, however, Turkey increased imports of EU power generation equipment by 42 percent to 48.6 million euros ($53,785,000), and the United Arab Emirates ramped it up more than fivefold to 54.8 million euros ($60,646,000). It's difficult to explain such growth as the result of inflation or increased internal demand.

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Another critical category of equipment for the Russian economy is EU-made airplane parts. In June 2021, Russia bought 13 million euros worth of airplane parts from the EU. Now it buys none at all. The UAE, however, has increased its imports of EU-made aircraft parts almost fifteen-fold to 23.6 million euros, and Turkey has boosted imports by a third to be worth 12.7 million euros.

This sort of sanctions evasion sometimes borders on the absurd. Prior to the full-scale invasion of Ukraine, there was little demand for EU maritime navigation equipment in landlocked countries like Armenia and Kyrgyzstan. But after the start of the war, demand from those countries skyrocketed. In January 2024, Kyrgyzstan imported almost 1 million euros of maritime navigation equipment from the EU, while Armenia's imports of the same totaled 6.5 million euros.

European policymakers are not blind to these problems. The EU's 14th package of sanctions, passed at the end of June, was designed to limit the reexport of EU goods to Russia. Unlike the United States, the EU has traditionally been opposed to so-called secondary sanctions aimed at deterring third-party countries from helping sanctioned countries obtain prohibited goods, but these latest measures look remarkably similar in terms of goals.

The EU now requires exporters and their subsidiaries to make "best efforts" to establish the identity of end buyers. This means exporters must draw up sales contracts for dual-use goods and cutting-edge technologies so that they include a clause forbidding use in Russia, or in the manufacturing of goods destined for the Russian market. And they must take special steps, including risk assessments, to ensure the goods do not end up in Russia.

In other words, the responsibility for ensuring EU-made goods stay out of Russia has been laid at the door of private companies. The EU itself has a regulatory function, with the power to take companies that break the rules to court, rescind export licenses, and levy fines. It's not only companies that knowingly allow reexporting to Russia that will be penalized but also those that fail to carry out sufficient checks in advance.

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Much of this has been implicitly required of EU companies since the start of the war in Ukraine, but it has all been codified by the 14th package of sanctions and will now be enforced EU-wide, and not just by individual member states. The new requirements enter force on Dec. 26, 2024, and companies with existing contracts will have six months to complete deliveries.

In private, however, European officials admit these measures won't be enough to fully solve the problem of reexports to Russia. The EU does not have the capacity to check all exports to third countries, so it will likely concentrate its efforts on preventing the reexport of items important for the Russian defense sector. Other types of goods will continue to slip through.

Notably, the approach chosen by the EU differs from that of the United States, which is trying to catch those ignoring Western restrictions on Russia and then impose secondary sanctions. This has led to delays and in some cases a complete stop in Russian companies being able to settle payments using banks in Turkey, the UAE, and China. As a result, Russian companies have been forced to use small banks in third countries unafraid of losing access to the U.S. market. But these banks are often less reliable and the costs are higher. Sometimes Russian companies end up making payments in cryptocurrencies or gold.

The EU measures will lead to delays with export agreements. To get around the rules, Russian buyers will likely create ever more complex trading arrangements involving more intermediaries, or they will clear goods through customs in third countries before shipping them to Russia. This will make trade more complicated, more expensive, and slower—as well as increase risks and create supply crises. The result will be more inflation in Russia and a less efficient economy.

However, none of the existing measures will fully prevent the reexport of sanctioned goods to Russia. If that were the goal, the West would need to take drastic steps like a full trade embargo maintained with military force. Clearly, the West is not ready for such a move. Nor is it willing to take the more moderate step of imposing import quotas on third countries, as that would violate free trade principles.

A more realistic goal for Washington and Brussels is to continue to increase the costs associated with reexport to Russia. Tightening control over intermediaries and exporters significantly increases the pressure from sanctions, hampering the work of many sectors, including Russia's military-industrial complex.

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