

Has the EU done all it can to help Ukraine?



Photo by European Parliament: Ukrainian President Zelensky addressing an extraordinary session of the European Parliament on 1 March 2022

On February 24 Russia launched its full-scale invasion against the sovereign country of Ukraine. The numerous sanctions and attempts to isolate Russia since the annexation of Crimea in 2014 did not succeed in deterring further aggression. The European Union and other Western powers have recently acted more quickly and with more serious sanctions. However, as of the end of June, more is still needed in order to stop Russia's war machine.

Soon after the invasion started, Transparency International EU published a document "[12 things the EU can do NOW to help Ukraine](#)". We looked at potential courses of action from an anti-corruption perspective. These recommendations included more transparency of beneficial ownership information in order to enforce sanctions, calls for seizing assets and closing some loopholes in the EU's current regime. Four months later we see the devastating reality of the war. Millions have been forced to flee their homes, cities have been razed to the ground, and Russia stands accused of committing war crimes on a large scale. Every day the war continues, the scale of this widespread suffering increases. In this follow-up briefing we summarise what has happened in the past four months, including the adoption of six sanction packages, where a political agreement on the sixth one was agreed upon only after a long delay. This overview shows what has been achieved from our recommendations, and any loopholes still being exploited, which the EU and its Member States should fix immediately.

1. Target the sale of luxury goods and diamonds

The European Union has included luxury goods in its sanction packages. The list of luxury goods generally applies to products with a value exceeding €300 per item. The export ban imposed by the EU is extended to re-selling, in order to stop sanction circumvention by rerouting. The list includes perfumes, fashion items, truffles, watches, and precious metals, among other things. Our [comparison demonstrates](#) that this is mostly aligned with the sanctions imposed by the US and wider than that, with the sanction regime applied to Syria. Transparency International believes these measures, while not sufficient to cause behavioural change alone, are important steps in the right direction. The corrupt elite should not enjoy their lavish lifestyle while innocent Ukrainians are being killed.

While the export of diamonds to Russia has been sanctioned, the import of rough diamonds from Russia has so far been exempted. Russia's diamond exports have generated over \$4 billion [annually](#), around 90% of which is mined by Public Joint Stock Company Alrosa. This company has strong Kremlin [links](#): it is 33% state-owned, thus providing direct income from abroad into the state budget. Diamonds are in the top 10 export products of the Russian Federation that are not related to energy. Alrosa Group and Sergey S. Ivanov Alrosa CEO are [already sanctioned](#) by the USA. Transparency International believes that the European Union must do everything in its power to weaken the Kremlin's capacities to finance its war by prohibiting the import of rough diamonds. Transparency International EU and Transparency International Belgium wrote an [open letter](#) to call on the Belgian government and the European Commission to ban diamond import from Russia.

2. Seize Russian yachts in EU ports and extend the EU flight ban to Russian jets owned through tax havens

Enforcing sanctions is often hindered by the secrecy of ownership. The majority of yachts, jets and other assets are owned by shell companies on paper. Proving the link between Alisher Usmanov and his yacht posed considerable [challenges to German authorities](#). As the yacht was owned by a company based in Malta and registered in the Cayman Islands, it took several weeks for the national authorities to prove that the real owner of the yacht was indeed the Russian oligarch. The superyacht *Scheherazade* [is believed](#) to be owned by President Putin himself. Italian authorities [have opened](#) an inquiry. It [took almost two months](#) to seize it yet its real beneficial owner has not been publicly identified. The problem is largely similar with private jets, and those owned through companies based in tax havens are harder to track. A [study by Transparency International shows](#) that countries who are committed to freezing and seizing Russian dirty money are not collecting nor publishing the beneficial ownership of yachts and jets (from EU Member States the study covered Germany, France, Italy and the Netherlands).

Many of the yachts and jets have already been seized, including in [Spain, France](#) and [Italy](#), yet [others have escaped](#) from the EU to avoid sanctions. Now the [Maldives](#), the [United Arab Emirates](#) and some of the [Caribbean islands](#) still act as safe havens for Russian oligarchs' assets. Many of the yachts [are stuck](#) in Dubai, from where they are not able to leave. Authorities need to ensure they reveal the ultimate beneficial owners of these assets, and the international community should pressure those who are still aligned with the sanctions. The global trendsetter in anti-money laundering regulation, the Financial Action Task Force (FATF) has put the United Arab Emirates on its grey list in March, yet the EU has not followed suit. The EU's own third country grey list should be put to better use. In addition, the UAE, and other countries where the implementation of anti-money laundering rules is not adequate, should be put on the EU list as quickly as possible.

3. Expand the EU Magnitsky Sanctions Regime to include corruption

The Global Human Rights Sanction regime, adopted in the EU in 2020, did not include corruption as a ground for sanctioning individuals or entities, and focuses on human rights violations. Targeted sanctions addressed to individuals and entities are a strong foreign policy tool, which can go beyond fostering behavioural change. Sanctions usually include asset freezes inside the EU as well as travel bans. [Transparency International](#) and [other organisations](#) have argued for sanctions that can directly address corrupt behaviour. Among other goals, including corruption into the sanctions regime would contribute towards the disruption of kleptocratic networks as well as protecting our own democratic systems. Putin's regime is built and bound together by corruption. We must not be complicit in this system by allowing them inside the EU.

Legally, this expansion could be a stand-alone regulation on corruption (as is the case in the UK), which would allow a separate structure, complementing the existing system, as this action has been called by the [European Parliament's resolution](#). Alternatively, it could be an extension of the current Global Human Rights Sanction regime, which would be more congruent to the structure of the USA's sanction regime. The decision ultimately lies in the hands of the Council, and they need to act quickly.

The current sanctions targeting Russian citizens and entities are based on the 2014 sanctions regime adopted after the Russian annexation of Crimea ([Council Regulation 269/2014](#) and [Council Regulation 833/2014](#)). There have been 6 sanctions packages since Russia invaded Ukraine in February 2022, covering 1158 individuals and 98 entities. The measures were put in place in response to Russia's actions in destabilising Ukraine, and in view of "actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine."

4. Make ownership information public and free to track down dirty money

Tracking down dirty money has been a challenge due to a lack of ownership information. The [Transatlantic community](#) and [the EU](#) have set up separate mechanisms to coordinate asset tracing work, which Transparency International [welcomed and made some further suggestions for improvement](#). In early April, the Commission stated that over €30 billion of assets have been frozen by Member States. Information is scattered on the procedures and results, the [press has leaked](#) difference between Member States; while France has frozen over €23 billion, Hungary reported freezing "a volume very low", without providing anything concrete. This also shows how much efforts are dependent on the political will of the Member States and law enforcement authorities. [Transparency International's research](#) showed that most law enforcement authorities are seriously understaffed, and they are not able to carry out the tracing and seizing of assets of sanctioned individuals. Whereas some countries have been cooperating with civil society and have their beneficial ownership data publicly available, others have exhibited a regrettable lack of action. Even where the necessary beneficial ownership registers are in place and data is available in a searchable format, the information is often unreliable or incomplete due to a lack of verification. The Commission should be more transparent by providing aggregated data on the volume and the types of frozen and seized assets.

The European Union needs to fix the problem of financial secrecy. There are over 10 infringement cases against Member States due to the lack of implementation of the 4th and 5th Anti-Money Laundering Directive. Cyprus has been delaying the full implementation of the 5th Anti-Money Laundering Directive (AMLD5, adopted in 2018, for which the transposition deadline was January

2020), in March 2022 it was given an additional six months to submit beneficial ownership information to the register. This decision hampers the EU's efforts to effectively trace assets. Reports are emerging identifying how oligarchs are selling their shares of Cyprus based companies to [other non-sanctioned oligarchs](#), or [leaving Cyprus](#) to other tax havens. Sanction regimes need to be aligned and only international cooperation can help to make sure oligarchs cannot hide their wealth elsewhere. The anti-money laundering package currently discussed by the European Parliament and the Council is an important step forward, and it can [still be improved](#). The EP [draft report of the new AML directive](#) goes one step further, however, fees and discriminative registrations policies should be abolished, and data sets should be available in an open, and machine-readable format.

5. Stop the Russian elite from hiding their money in EU real estate

Oligarchs and criminals have been hiding their money in real estate for a long time. For far too long have European countries allowed them to invest in real estate without providing information on the origin of the funds or the real beneficial owners. While real estate agents, lawyers and notaries are bound by anti-money laundering obligations, in practice we see that in numerous cases they have been acting as enablers by setting up complicated corporate structures to ultimately conceal the origin of funds. The immediate task of tracing the real owners of properties is in the hands of law enforcement authorities, however, to address systemic problems related to real estate, fundamental and decisive policy change is required. We need electronic and interoperable real estate registers in all EU Member States, which is not currently the case. These registers need to be connected to beneficial ownership registers in order to easily identify a natural person behind all properties. This is an approach supported by the European Parliament's draft reports on the new anti-money laundering [regulation](#) and [directive](#). These provisions should be strengthened to have a single access point where beneficial ownership information is available, at least to law enforcement authorities, which includes information on foreign entities.

As the [OCCRP project](#) showed, based on leaked documents, billions of euros of assets owned by oligarchs are located in the Western countries. Only two of the one hundred plus assets are registered under the name of the real owner. Asset tracing can only work if we have open registries identifying the real owners. While this €16 billion is most likely the tip of the iceberg, it is clear from the OCCRP's data that real ownership is, more often than not, hidden. Changes to the anti-money laundering package supported by the European Parliament might take years to be implemented, therefore it is of the utmost importance that law enforcement authorities enhance information sharing and international cooperation practices.

6. Introduce common EU rules on seizing oligarchs' ill-gotten assets

The billions of assets frozen by Member States are still legally owned by the designated individuals and entities. There is no easy way to just "take back the money". Sanction regimes do not include provisions for confiscations. Even where seizing a physical asset takes place or financial assets are frozen, control can be transferred to national authorities, but ownership cannot, as we have seen in [recent cases](#). As [Transparency International research](#) has shown, a lack of proper procedures has hindered effective implementation. In order to confiscate assets, Member States must initiate their own proceedings, mostly of a criminal nature, against sanctioned individuals. Criminal investigations into the Russian oligarch's origin of wealth, potential money laundering or tax evasion offences are extremely costly and lengthy. Differences in Member State's legal systems and proceedings therefore lead to varying levels of possibilities, capabilities, and of political will. The Commission has [proposed](#)

a Council decision that would make sanctions evasion a crime across the EU. This might facilitate the start of criminal investigations, which after a court procedure can lead to the confiscation of assets. Yet this is not a silver bullet. Because of the high burden of proof, procedures will take years before confiscation.

The ongoing revision of the Asset Recovery directive, for which the Commission [has presented a proposal](#), should extend the use of non-conviction-based confiscation. Transparency International EU has [welcomed the proposal](#) but believes it still has significant shortcomings. It should be strengthened to ensure confiscation procedures can be used more widely. The directive should also include better provisions on the return of assets to [victim populations](#). The [recently adopted](#) French legislative framework sets a good example on how to improve the asset recovery system. Tools are available to freeze assets. With improved legislation we can ensure more effective confiscation regimes. These are not tools which will immediately diminish the functionality of Putin's war machine, however.

7. Freeze wealthy Russians' assets in EU sports clubs, prohibit sponsorship by Russian oligarchs and state-owned companies

Sport has been a sector prone to money-laundering risks according to international [standard setters](#) and the [European Commission](#). The EP co-rapporteurs of the Anti-Money Laundering Regulation proposed to extend money-laundering rules for professional football clubs, which Transparency International welcomes. However, the current sponsorship agreements need to be screened by the clubs themselves. UEFA has [ended its partnership](#) with Gazprom, and German football club Schalke 04 also [announced](#) the termination of Gazprom's sponsorship.

8. Ban golden passports and regulate the sale of EU residency, rescinding the rights of sanctioned individuals

The European Parliament [has adopted a report](#) calling for the ban of golden passports (citizenship by investment) and regulation of golden visas (residency by investment schemes). Transparency International EU [welcomed the report](#), nevertheless, only the Commission has the power to come forward with the necessary legislative proposal.

Our [previous report showed](#) that thousands of Russian citizens have bought citizenship for themselves and their families. In late March, the European Commission [published its recommendation](#) on the steps to be taken in the context of the Russian-Ukrainian war. However, it only included somewhat vague points on the issue and missed the opportunity to call out many of the problems or to deliver any concrete measures. Only Member States can review the beneficiaries of these schemes in legal and technical terms. Neither the press release nor the six-page long document itself names Cyprus and Malta, even though there are ongoing infringement cases against them. A new regulation could explicitly ban golden passport schemes. It would be important to note that some Member States have been proactively stepping up, at least to control the damage done by these schemes. Among others [Portugal](#), [Greece](#) and [Latvia](#) have all suspended their golden visa sales for Russian and Belarusian citizens; Bulgaria's new parliament [ended its golden passport](#) scheme just this year, and the Petkov government has already [launched investigations](#) into cases involving high-level Russian bankers.

Malta [announced](#) a halt in the sale of citizenship to Russian and Belarusian citizens in early March, claiming no sanctioned individuals were among beneficiaries. Yet, just a few weeks later when the USA sanctioned Russian individuals holding Maltese passports, the responsible department started

[the procedure of revoking](#) the citizenship of 13 individuals. The sixth sanction package included at least one businessman, Mr. Arkady Yurievich Volozh, who also holds Maltese citizenship. This is probably only the tip of the iceberg, as two Russian applicants [rented the villa](#) of the recently re-elected Prime Minister Abela to fulfil residency requirements. Malta should stop selling citizenship and an independent screening procedure must be put into place.

Cyprus has sold citizenship to over 1000 Russians, as [previous reporting showed](#), many of them being high-profile individuals with close links to the Kremlin. Cyprus stopped its citizenship by investment scheme; however, the problems have not disappeared. Some of the previously reported beneficiaries are now on the sanctions list and their citizenship [is being revoked](#). As a recent investigation highlighted [investigation by OCCRP shows](#), Cypriot RCB Bank is undergoing a management buyout to hide its Russian connections. The bank previously helped 31 staff members and their families to obtain Cypriot citizenship, some of them highly problematic cases, without independent proof of legitimate funds. The government of Cyprus should do much more to tackle its Russian dirty money problem, which is closely linked to its golden passport scheme.

9. Prohibit the use of the so-called “digital ruble” and other tools designed to circumvent sanctions

Crypto-assets now fall under the scope of “transferable securities” and thus are sanctioned, as it [was clarified](#) by the European Commission. Among others, the Baltic states have taken further [proactive steps](#) against circumvention of sanctions by crypto-assets. [Evidence suggests](#) that the potential to circumvent sanctions by crypto is rather limited. In March around [\\$62 million was sent](#) from Russian wallets to other addresses, which should be tackled. At the same time, it is less significant than other ways to hide wealth, by an order of magnitude. Regulators shall step up against those service providers doing illegal business, as Germany [has done so](#) with one of the largest dark-net marketplaces. However, Russia [is planning to](#) extend the options to use crypto assets, which might indicate further use in sanction evasion. Sustainable and systemic solution can only come from policy change. The European regulation for [markets in crypto-assets](#) and better rules for [transfer of funds](#) are both currently negotiated by the co-legislators, the EU needs to make sure virtual assets are not misused by criminals and oligarchs and there are transparency rules, where anonymous transfers are not possible.

10. Suspend EU member state membership in the Russian-founded International Investment Bank

Among EU member states, only Hungary still backs the Russian-founded International Investment Bank. A luxurious [historic building](#) in the heart of Budapest still acts as the headquarter of the Bank. Viktor Orbán’s government has reluctantly condemned Putin’s aggression, rather [he claimed](#) Zelensky as someone he has defeated in the elections in April. News [reports suggest](#) that the enforcement of the existing sanctions is also done reluctantly in Hungary. Viktor Orbán also [vetoed putting Patriarch Kirill](#), the head of Russia’s orthodox church, on the list of sanctioned individuals, even though his role in Putin’s system and his support for [anti-Ukrainian stance](#) is [well documented](#). The European Commission should sanction the international investment bank as it is a Russian foreign policy tool and can be used to “influence domains of politics, economy, information warfare and intelligence gathering” [according to analysts](#).

11. Ban EU lobbying by companies and other actors with links to the Russian and Belarusian states

Transparency International EU outlined [the necessary steps](#) to make sure that neither state officials, representatives of Kremlin-linked companies nor consultancies or law firms acting on their behalf should access the European institutions. While European Parliament President Metsola [announced the ban](#) of entering of Russian officials their accreditation and access to the Parliament has been withdrawn, which Transparency International welcomed as a first step. However, as a report of [Greenpeace highlighted](#), many Russian companies can still get indirect access via lobby groups, such as European Energy Forum, the Brussels Energy Club or World Nuclear Association. The French EU Council Presidency [announced in June](#) that the Council would join a ban on lobbying by Russian entities. But such a ban would likely not cover the permanent representations of EU member states, which are not subject to the rules of the EU transparency register.

The sixth [sanction package](#) includes a ban on providing management or PR consultancy, accounting, tax consultancy and auditing services to Russian entities. However, it also [states](#) that when the company is “solely or jointly controlled by a legal person, entity or body which is incorporated or constituted under the law of a Member State”, they are exempt from the ban. This creates an apparent loophole, where subsidiaries or EU companies holding interest in Russia could lobby the EU institutions and use consulting services. Such a narrow definition of Russian lobbying should not be allowed to exist in the EU transparency register and it must be addressed as soon as possible.

12. Ban Russian funding of EU political parties

Last November, the European Commission unveiled [the proposal](#) to reform Regulation 1141/2014 which provides the rules on funding of EU political parties and foundations. On 22 March, the Council of the EU reached a [political agreement](#) on the proposal. It proposes restricting contributions to European political parties and foundations from third countries, by limiting them to member parties and individuals from EU Member States. As for the Parliament, the proposal [is being considered](#) by the Committee on Constitutional Affairs of the European Parliament. Transparency International EU will continue to advocate the closing of loopholes that permit outside influence in European democracy. In this regard, it is essential that the final text increases the transparency of donations and of reporting of political online advertising within the EU. A correct reform of this regulation would constitute a gold standard to be taken at the national level.

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