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Incomplete Exit

Central and Eastern Europe's Corporate Decoupling From Russia

Michal Wyrebkowski
ReThink.CEE Fellowship

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Table of Contents

Summary

Following the full-scale invasion of Ukraine in 2022, companies from Central and Eastern Europe (CEE) initially were trailblazers in voluntarily withdrawing from Russia, effectively self-sanctioning through voluntary overcompliance with sanctions by leaving even though operating in the country is still legal. At the same time, CEE countries have enabled sanctions-evasion networks. The historical economic relationship between CEE countries and Russia created the conditions for this paradox. Decades of relying on Russian energy sources masked an asymmetric interdependence: Russia's military-industrial complex relied heavily on CEE countries for the machine tools, industrial components, and dual-use technologies essential to weapons production. When EU sanctions targeted these critical supply chains, the geographic proximity and established trade relationships that motivated voluntary exit by some companies also enabled systematic sanctions circumvention by others.

The EU's Russia sanctions since 2014 struggled to match the complexity of the economic networks involved. Early sanctions focused on financial restrictions and high-profile sectors but failed to address the technical vulnerabilities that enable large-scale evasion. Even as restrictions expanded to cover dual-use goods and Russia's "shadow fleet", fundamental gaps in classification systems and enforcement mechanisms persisted.

The responses of CEE companies have varied across sectors and countries. While investor and consumer pressure drove rapid voluntary exits from Russia in consumer-facing industries, industrial manufacturers found numerous ways to keep supplying it through third-country intermediaries. The behavior of energy companies has reflected the strategic priorities of CEE governments, with some achieving complete diversification from Russia while others reinforced existing dependencies. The variety of corporate responses mirrored the uneven development of national sanctions-enforcement capabilities, ranging from understaffed sanctions departments to insufficiently robust regulatory frameworks; for example, regarding criminalization of violations.

The persistence of sanctions evasion through CEE countries reflects systemic failures in the EU's enforcement architecture. Technical classification systems designed for traditional trade cannot adequately distinguish between civilian and military applications of modern dual-use technologies. Customs officials lack access to the information systems necessary to verify complex ownership structures and end-use destinations. Legal frameworks optimized for territorial jurisdiction are inadequate for regulating globalized supply chains where goods, payments, and corporate structures span multiple jurisdictions. Banking institutions operating across Central and Eastern Europe have become critical actors, with a small number of financial institutions handling substantial portions of Russia's foreign currency transactions. Their continued operations highlight the limits of EU territorial sanctions, which is confirmed by the extent to which US extraterritorial enforcement has become necessary to police sanctions violations in Europe.

Addressing these challenges requires comprehensive reforms across multiple dimensions. Technical improvements must include supplementary classification systems that incorporate detailed specifications for dual-use goods, while institutional capacity-building demands substantial increases in staffing and expertise at the national and EU levels. Financial-sector monitoring needs real-time automated screening capabilities and dedicated compliance structures, while industrial-sector oversight requires specialized task forces with technical expertise in dual-use technologies.

Introduction

Following the full-scale invasion of Ukraine in 2022, an exodus of Western companies has impacted Russia's economy, limiting its access to technology and know-how as well as hurting growth prospects. Companies that decided to stay in Russia, which the sanctions regime put in place did not prohibit, were in many cases met with consumer outrage and boycotts in their home country. As the sanctions regime became more stringent, the degree of activity allowed Western companies to continue operating in the country became smaller and Western governments started targeting sanctions evaders.

The countries of Central and Eastern Europe (CEE) long had substantial economic relations with Russia, in no small part built on import of its fossil fuels. These relations, however, were not unilateral but a form of asymmetric interdependence. Parts of Russian industry, including its military-industrial complex, relied heavily on components provided by CEE companies. The invasion of Ukraine exposed the importance of these exports as well as the transit of goods to Russia through CEE.

CEE companies have often been praised as trailblazers in leaving Russia, well before the imposition of sectoral sanctions prohibited exports to or activity in the country. However, several continued operations in Russia. This paper looks at the consequences for companies in CEE of the sanctions regime imposed on Russia since 2022. It sets out why companies decide on voluntary overcompliance with sanctions by leaving Russia even though operating there is still legal, which can be described as "self-sanctioning". The paper analyzes the economic interdependence between Russia and CEE countries, and it takes a close look at economic sectors in which CEE companies decided to stay in Russia. It concludes with suggestions as to how to strengthen the sanctions regime at the EU and CEE levels.

CEE-Russia Trade

In 2021, Russia exported $49.8 billion in goods to EU countries in Central and Eastern Europe: Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.[1] Together, these countries would have been Russia's third-largest export destination in 2021. Dependence on Russia's natural gas was key, with countries such as Czechia, Hungary, Romania, and Slovakia relying on it for between 40% and 100% of their needs.[2] However, measures, such as the EU Market Correction Mechanism,[3] the building of floating storage and regasification units, and the coming into operation in September 2022 of the Baltic Pipe pipeline linking Denmark and Poland as well as particularly warm weather that year helped wean off EU countries off Russian gas. The process is not complete, though, as flows of Russian gas to the Baumgarten hub in Austria continue.

In 2021, Russia imported $18.7 billion of goods from EU CEE countries, compared to $27.3 billion from Germany.[4] Its imports from Europe had by that point already fallen since its annexation of Crimea in 2014, having peaked the previous year. For Czechia, Croatia, Hungary, Poland, Romania, Slovakia, and Slovenia, the share of domestic value-added components of exports to Russia ranged between 0.5% and 1.3% of GDP, which enabled them to withstand the hit to trade due to the sanctions and the withdrawal of Western businesses from Russia.[5] For its part, following the sanctions imposed in 2014, Russia had pivoted to a greater extent to China, although the combined value of imports from CEE countries showed they were still an important source of goods for the Russian market.

Most of Russia's production of capital goods—in particular ones that are technology-intensive, such as computer numerically controlled (CNC) machines, metal-cutting, and metal-forming—relies on imported machinery. Imported machine tools are the key bottleneck for Russia's weapons manufacturing. According to the Ministry of Industry and Trade, between 2014 and 2016, over 90% of machine tools in Russia were imported, and over 90% of these were purchased by military producers.[6] Therefore, Russian military products rely on the continuous import of machines, parts, and expendables from abroad, with domestic import substitution, which started around 2011, so far largely failing to replace imports.

The EU Sanctions

Prior to February 2022, the EU had already imposed limited sanctions targeting Russian individuals and entities, in reaction to Moscow's illegal annexation of Crimea in 2014 and support for separatists in eastern Ukraine. These sanctions included asset freezes, which by the end of 2014 encompassed 130 individuals and 28 entities. The EU also banned the export of dual-use goods and technology to Russia; however, this ban allowed for EU-authorized exceptions for items intended for purely civilian purposes in Russia's aeronautics, space, and civil nuclear sectors. Additionally, restrictions were imposed on technology exports to Russia's oil industry. Allowed exports required approval from the relevant authorities. Beyond asset freezes, the EU introduced financial sanctions targeting five banks, three defense companies, and three oil and gas companies. The limited nature of these sanctions meant that most EU companies, including those in Central and Eastern Europe, faced few restrictions on their Russian business activities at the time of the 2022 invasion. In a 2021 survey, 53% of foreign companies said they planned to increase their presence in Russia.[7]

The first four sanctions packages in February and March 2022[8] represented a radical shift, with far-reaching consequences for EU companies, especially those in Central and Eastern Europe with significant Russian ties. These sanctions included:

- Severe restrictions on the access of Russian state-owned enterprises to EU capital markets and financing, effectively cutting off major Russian companies from European funding sources.
- A ban on transactions with Russia's central bank, limiting the country's ability to use its foreign currency reserves.
- The exclusion of seven major Russian banks from the SWIFT messaging system, complicating international transactions for Russian entities and their business partners.
- Comprehensive prohibitions on the export of dual-use goods and advanced technologies in sectors such as aerospace, electronics, oil refining, and telecommunications, disrupting supply chains and technology transfers.
- Closure of EU airspace to Russian aircraft and restrictions on the access of Russian maritime vessels to EU ports, severely impacting logistics and transportation networks.
- A ban on the import of iron and steel products from Russia, affecting EU industries reliant on these materials.

- Restrictions on exports of luxury goods to Russia, impacting EU high-end retailers and manufacturers.
- Prohibitions on new investments in Russian's energy sector.

The next EU sanctions packages between April and July 2022 focused on energy and logistics restrictions. Export bans on goods that could enhance Russia's industrial capabilities were implemented in the fifth package, but most of the capital goods exported to the country did not fall under this measure.[9] The fifth package also banned Russian freight operators in the EU, which contributed to a nearly fivefold increase in shipping costs to Russia, creating significant logistical challenges for companies that traded with the country. The sixth package implemented a crude oil embargo with pipeline exemptions, directly affecting CEE refineries dependent on deliveries though the Druzhba pipeline. The seventh package established price-cap mechanisms for Russian oil and refined fuels.

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The next sanctions packages between October 2022 and February 2023 expanded restrictions across multiple sectors. The eighth package prohibited EU companies from providing Russian entities with professional services, including legal advisory, engineering, and IT consulting. The tenth package banned exports of industrial and high-tech goods such as pumps, industrial robots, and rare-earth metals. These measures restricted Russia's access to Western technology and expertise. The ban on providing gas-storage capacity to Russian entities and new restrictions on petroleum products completed the energy-sector measures.

The next sanctions packages between June 2023 and June 2024 prioritized preventing sanctions circumvention and targeted specific sectors. The 11th package created a framework allowing the EU to restrict exports to countries identified as helping Russia evade sanctions. The 13th package added 27 entities to the EU export-control lists, including for the first time companies from third countries such as China, India, and Kazakhstan. The 12th package banned Russian diamond imports, while the 14th restricted the liquefied natural gas (LNG) sector by prohibiting EU transshipment of Russian LNG to third countries and introduced potential measures against non-EU financial institutions that facilitate restricted trade.

The sanctions packages in December 2024 and February 2025 focused on combating circumvention strategies and Russia's "shadow fleet" of oil tankers. The 15th package added 52 vessels to port-ban lists and listed 84 new entities, notably imposing the first full sanctions on Chinese suppliers of drone components and microelectronics to Russia. The 16th package continued this approach with restrictions on 52 additional vessels and export controls on 32 new entities. Both packages also strengthened protections for EU businesses by prohibiting recognition and enforcement within the EU of Russian court rulings where jurisdiction was asserted based on Russia's counter-sanction laws. These rulings typically involved Russian courts claiming exclusive competence over disputes involving sanctioned entities or arising from sanctions, often overriding prior agreements for foreign courts or arbitration and potentially including anti-suit injunctions against proceedings outside Russia.[10] Concurrently, the packages provided mechanisms for companies to manage their exit from Russia, including cash-balance releases from EU central securities depositories and extended divestment deadlines.

The EU's 17th sanctions package, adopted in May, brought the number of sanctioned individuals and entities to over 2,400. It designated 189 additional oil tankers from the "shadow fleet", bringing the total to 342 sanctioned vessels subject to EU port bans and service prohibitions. Export restrictions were expanded to include chemical precursors used in Russian missile propellants and spare parts for high-precision CNC machine tools. The package designated 75 additional individuals and entities, including the Russian oil company Surgutneftegaz and key shipping and insurance companies, while extending measures across sanctions regimes covering hybrid threats, human rights violations, and chemical-weapons use.[11]

In July, the EU adopted its 18th sanctions package. It lowered the Russian crude-oil price cap to $47.60; added 105 "shadow fleet" tankers to the sanctions list; ended Czechia's oil-import exemption; and imposed a full transaction ban on Nord Stream 1 and 2. The EU also tightened financial restrictions—introducing a transaction ban on the Russian Direct Investment Fund and extending bans to additional Russian banks—and broadened export/import controls (for example, on CNC machine tools, propellant chemicals, and refined products made from Russian crude processed in third countries) with 55 new listings in all.[12] In October, the 19th sanctions package tightened energy and finance pressure on Russia, introducing an EU-wide ban on Russian LNG with a staggered introduction timeline. It also added 117 shadow-fleet vessels to the banned list, and introduced a measure prohibiting EU companies from providing insurance or reinsurance services for the listed vessels.[13]

The EU's Directive 2024/1226, adopted in April 2024, establishes a uniform criminal framework for sanctions violations across all member states.

The EU's Directive 2024/1226, adopted in April 2024, establishes a uniform criminal framework for sanctions violations across all member states.[14] Prior to it, the EU faced significant enforcement inconsistencies, with only 12 member states treating sanctions violations as criminal offenses, while 13 applied either criminal or administrative penalties, and two imposed only administrative sanctions. The directive mandates that intentional violations of EU sanctions—including asset-freeze violations, circumvention activities, and restricted trade—be treated as criminal offenses with harmonized penalties of one to five years' imprisonment for individuals and fines up to 5% of worldwide turnover or €40 million for corporations. Enforcement responsibility remains with the member states, which were required to transpose the directive into national law by May 20, 2025. In July, the European Commission opened infringement procedures against 18 member states for late or incomplete transposition.[15] As of October 6, the EUR-Lex National Transposition Measures register showed that Croatia (44 measures), Czechia (36), Estonia (4), Hungary (30), Latvia (3), Lithuania (20), Poland (6), Romania (19), and Slovakia (9) had notified the commission of implementing acts, while Bulgaria and Slovenia had not. Notification does not by itself lead the commission to close infringement cases and verification of completeness is ongoing.[16] Beyond transposition, member states must also establish competent investigative authorities and coordinate through cross-border mechanisms such as the European Commission's "Freeze and Seize" Task Force.[17] This standardized approach aims to eliminate enforcement gaps and prevent forum shopping where violators previously exploited jurisdictions with lighter penalties.[18]

The CEE countries had taken varying approaches to criminalizing sanctions violations prior to the 2024 EU directive. Czechia imposes fines up to CZK 50 million for serious offenses.[19] Hungary's Criminal Code prescribes imprisonment of one to five years or two to eight years respectively for unauthorized foreign trade in military equipment and dual-use products, with fines up to HUF 2 billion or 10% of annual turnover for money-laundering offenses. Administrative fines for negligent violations of export-trade rules under international sanctions can be up to HUF 5 million.[20] Lithuania's Criminal Code allows for imprisonment of up to five years for severe sanctions violations, with administrative fines for less severe offenses. Latvia's Criminal Law provides for imprisonment of up to eight years and fines up to €5 million for sanctions breaches. Estonia's Penal Code stipulates imprisonment for up to five years for sanctions violations. Poland's legislation allows for administrative penalties up to PLN 20 million and criminal liability with imprisonment of three to 30 years for severe cases.

Overcompliance and Exit

The sanctions regime influenced the decision of companies globally regarding whether to leave Russia following the 2022 invasion. Even if they had operated legally in the country, the logistical and financial challenges associated with shipments to Russia, the removal of the country from SWIFT, and the increased difficulty of compliance made it harder to stay in Russia. Companies also faced the risk of exposure to secondary sanctions, which might be mitigated through know-your-customer policies. Fundamentally, the anticipation of further sanctions for companies that had not been sanctioned incentivized many to leave Russia, producing an "overcompliance" effect.[21]

Companies that were publicly listed or customer-facing were also pressured by investors and customers to leave Russia. Investors rewarded companies that reduced their exposure to Russia and the associated risks through increased stock price.[22] Market pressure manifested itself in the fact that companies that stayed in Russia underperformed the ones that left, controlling for sector differences, size, and pre-war exposure to Russia. Firms with Russian exposure experienced worse stock market results in the weeks following the invasion.[23] Public pressure on social media platforms added to the market pressure from investors and customers. Twitter/X became a key platform for campaigns targeting companies that maintained operations in Russia to sever their ties. Hashtags calling for boycotts of major multinational firms quickly gained traction and support, and these campaigns were significantly associated with companies' decisions to withdraw from Russia.[24]

In the immediate aftermath of the 2022 invasion, companies faced relatively few formal exit restrictions in Russia. Many Western ones quickly announced their departure and were able to execute relatively clean exits through various means. During this initial period, companies could transfer ownership, sell assets, or wind down operations without significant state interference, though in many cases they had to accept substantial financial losses to do so.

Russia has since implemented increasingly stringent controls that make business exits more complex and costly, and in some cases impossible. These include requiring presidential approval for the sale of companies in strategic sectors, mandating discounts of at least 50% on asset sales, demanding payment deferrals of one to two years, and requiring companies to make contributions of at least 10% of transaction value to the federal budget.[25] Despite these obstacles, companies still have some options for exit, primarily through management buyouts or sales to Russian investors or to entities from countries Russia considers “friendly”, typically from China or the United Arab Emirates.[26] Yet even these avenues have become more challenging as Russia has tightened its grip on foreign assets and expanded its ability to expropriate them, as demonstrated by the expropriation of the Russian operations of Danone and Carlsberg in 2023, which sent a warning to other foreign companies still operating in the country.[27] In October, the Russian authorities increased the pressure on remaining foreign companies by issuing a decree enabling the accelerated privatization of their assets, naming entities including Raiffeisen Bank International, UniCredit, and Ritter Sport as potential targets. The Kremlin framed this measure as a symmetrical response to EU plans for a reparations loan to Ukraine backed by immobilized Russian assets.[28]

The data on which the analysis below is partly based is from the Yale Chief Executive Leadership Institute (CELI) and the Leave Russia project led by the Kyiv School of Economics, whose respective datasets cover all the 11 EU CEE member states. By May 2025, over 1,500 foreign companies globally had curtailed (from pausing investment to outright exiting) their Russian operations, with 546 completely halting Russian engagements or exiting Russia, according to Yale-CELI, which grades companies on an A to F scale in this regard.[29] The grades are as follows:

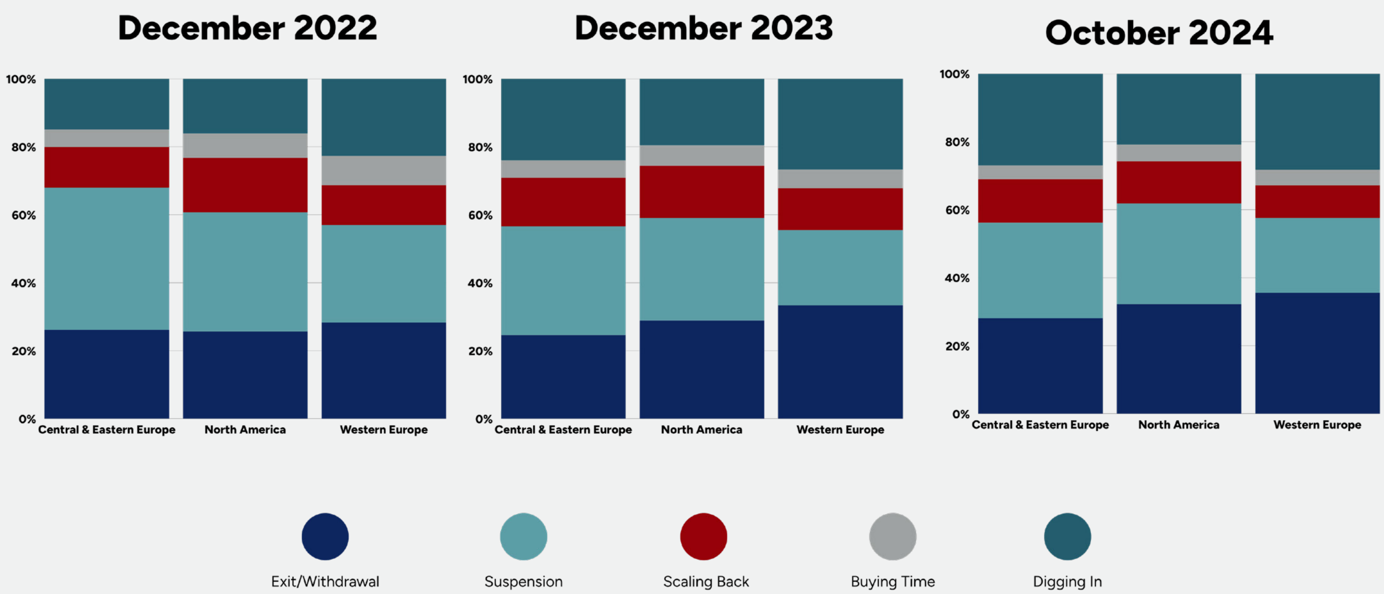
- Grade A (Withdrawal): companies making a clean break/permanent exit from Russia and/or leaving behind no operational footprint.
- Grade B (Suspension): companies suspending all or almost all their Russian operations.
- Grade C (Scaling Back): companies suspending a significant portion of their operations in Russia.
- Grade D (Buying Time): companies pausing new investments/minor operations but largely continuing substantive operations in Russia.
- Grade F (Digging In): companies defying demands for exit or reduction of operations and largely doing business-as-usual.

In May 2025, the Kyiv School of Economics counted 1,714 foreign companies globally continuing their operations in Russia as before, 140 that had paused investments, 363 that had scaled back their operations, 794 that had suspended operations, 563 that had withdrawn, including 428 that had finished their exit process; that is, sold their business in Russia.[30]

There was a regional pattern in how quickly companies self-sanctioned and severed their ties to Russia after the invasion of Ukraine.

There was a regional pattern in how quickly companies self-sanctioned and severed their ties to Russia after the invasion of Ukraine, influenced by geographic proximity, historical relationships, and local public sentiment, before the sanctions became the determining factor. The Yale-CELI data shows that CEE companies did so more than those from North America and Western Europe in 2022, with the phenomenon becoming more even across

Figure 1. Breakdown of Company Decisions To Leave Russia, by Region.



Source: Leave Russia Project, Kyiv School of Economics

the three regions in 2023 and 2024 (see Figure 1). One reason for this may be the heightened salience of the conflict for CEE countries, particularly Poland, which has received more Ukrainian refugees than the rest of Europe combined. According to one 2022 study, consumers in CEE countries punished companies that stayed in Russia after the invasion, with the largest decreases in net favorability of views for these companies observed in Poland. In another 2022 study in Poland, 82% of respondents said they supported the decision of companies to withdraw from Russia and 50% said they would not purchase products from companies that continued to operate there.[31]

However, looking at the Kyiv School of Economics data, when aggregating decisions to withdraw or suspend operations as "Leave," and those to scale back, delay, or maintain operations as "Stay", there is a significant variation among the CEE countries (see Table 1). For example, in the case of the CEE countries with the largest number of companies in the dataset—Czechia, Lithuania, and Poland—the rate of "Leave" decisions ranged from 56% to 69%. The countries with the lowest "Leave" rate were Hungary and Slovakia, and those with the highest were Bulgaria and Romania, though in their case based on a small number of companies. In the case of Romania, as explained below, the country's increased trade with Kyrgyzstan suggests that companies there may be circumventing sanctions.

Although the early EU sanctions packages did not directly prohibit much of the trade with Russia, especially in sectors outside finance, high technology, and dual-use goods, there was a significant wave of CEE companies withdrawing from the country. This phenomenon had been largely completed by the time of the sixth package in June 2022. But withdrawals continued well into 2024 as companies finalized their divestments by, for example, selling to local management or external investors. Withdrawals were driven by companies anticipating further

Table 1. CEE Company Leave or Stay Decisions (as of October 2024).

	Leave	Stay
Bulgaria	6	1
Croatia	3	4
Czechia	28	22
Estonia	10	10
Hungary	5	12
Latvia	6	10
Lithuania	18	8
Poland	39	19
Romania	3	0
Slovakia	2	10

Source: Leave Russia Project, Kyiv School of Economics

sanctions, logistical and financial difficulties, and concerns about public perception, particularly in CEE countries like Czechia and Poland. All this confirms that self-sanctioning, rather than legal compulsion, shaped the early corporate response in Central and Eastern Europe to Russia's invasion of Ukraine.

Sanctions Evasion

There are still areas of business—in particular non-luxury apparel and pharmaceuticals—in which Western companies can legally operate in Russia, despite the logistical and financial challenges associated or the public backlash. However, the continued existence of these legal avenues can inadvertently provide cover or create ambiguity that some entities may exploit for "Russia-washing"; that, is, presenting a misleading picture of their disengagement. Such conduct is amplified by challenges regarding corporate transparency. The 2022 ruling by the Court of Justice of the European Union restricting public access to information in registers of ultimate beneficial ownership of companies has further complicated transparency efforts, creating a patchwork enforcement landscape in which shell companies can more easily conceal Russian connections.[32] Such information is now primarily accessible to public authorities and those who can demonstrate a legitimate interest rather than being open to public inspection.

Some CEE companies have faced accusations of "Russia-washing". For example, in 2024, one report alleged that LPP, a leading Polish apparel holding, had not genuinely exited Russia despite its announced divestment in 2022.[33] It claimed that LPP's former Russian stores continued selling identical products to those available in Poland, facilitated through intermediaries, with the divestment characterized as a nominal transaction designed to conceal ongoing business activities. LPP strongly refuted these allegations, with its chief executive officer stating the company had ceased operational and commercial activities in Russia as of May 2022, and that it had sold its Russian business to an unrelated investor without repurchase options.[34] LPP acknowledged supplying goods to the new owner through a transitional agreement involving independent purchasing agents, but maintained these transactions, projected to represent only 3% of LPP's sales in 2024, were conducted at cost and did not generate profits.[35]

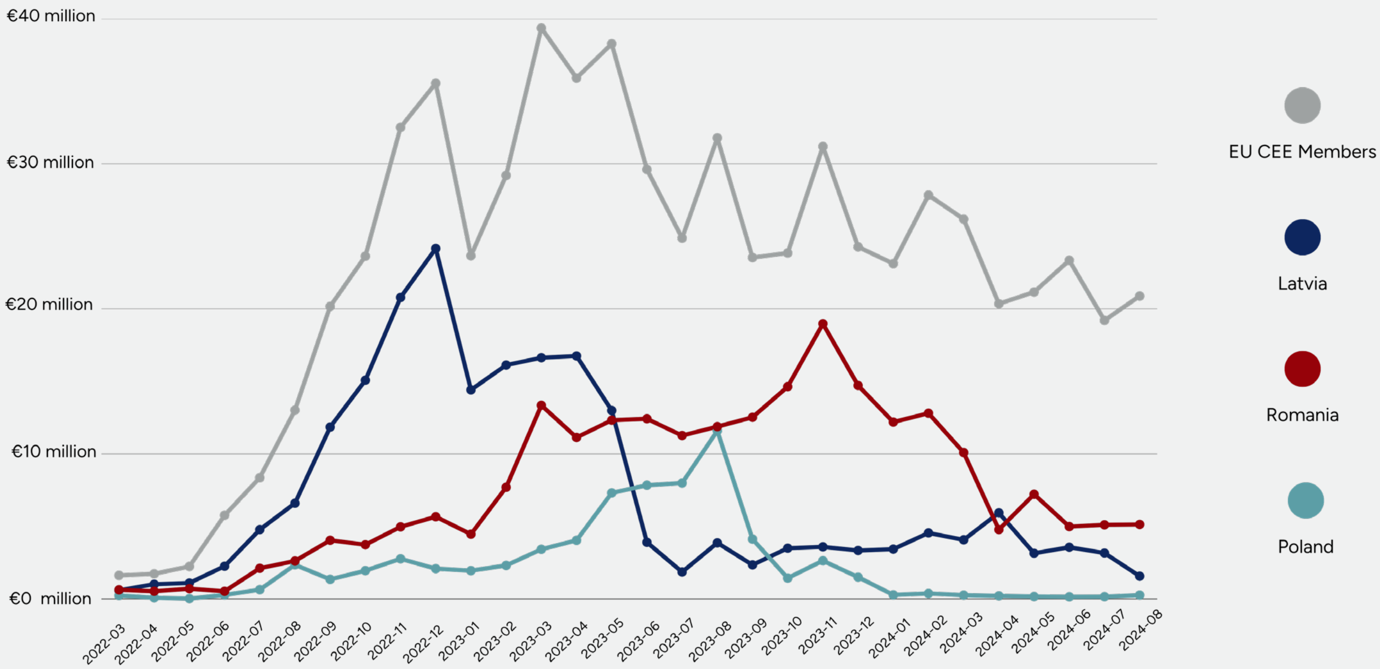
Companies can use multiple layers of legal entities across multiple jurisdictions to evade the sanctions on Russia. These entities are mostly shell companies set up specifically for this purpose, although some have a prior business history. For example, in October 2024, the Bulgaria-based GNO Investment was designated by the US Department of the Treasury for sanctions evasion. The company is a part of a network alongside the Turkish company Mirex Havacilik and the Bulgarian firm Mirex BG, all three of which are controlled by a Turkish national.[36] This network collaborated with representatives of the Russian defense group Rostec in Türkiye to manufacture defense equipment in there, avoiding restrictions on direct shipments to Russia.

The effectiveness of sanctions against Russia is also challenged by vulnerabilities at EU border crossings.

The effectiveness of sanctions against Russia is also challenged by vulnerabilities at EU border crossings. These include limitations in the capacity of customs officials to scrutinize complex ownership structures and the widespread exploitation of transit systems that obscure the final destination of goods. According to reports, customs officials at the Lithuanian-Russian border, for instance, do not have access to paid platforms that would allow them to check who are the ultimate beneficiaries of the intermediary and receiving companies in third countries and Russia respectively, and whether these are sanctioned (although there are free alternatives). Only 6% of goods transiting through the Lithuanian-Russian border have their origin in Lithuania,[37] and purportedly a large portion of them only transits through Russia to their final destination in Kyrgyzstan and Kazakhstan. However, in fact, goods worth at least $1 billion "vanish" in Russia, based on an analysis of what Estonia, Latvia, and Lithuania say they export to Kazakhstan and what Kazakhstan says it receives from them. This "import gap" is a key component of broader circumvention efforts involving EU export-controlled goods. In May 2023, one estimate was that these efforts were helping Russia and Belarus offset approximately 40% of the decline in their direct imports of goods from the EU following the imposition of sanctions.[38] Russian business media have released handbooks and guides on how to evade sanctions, where transit via third countries is provided as one mode of evasion.

This pattern of sharply increasing exports from EU countries to Russia's neighbors, likely facilitating sanctions circumvention, extends to other countries. Kyrgyzstan, like Kazakhstan a member of the Eurasian Economic Union with Russia, is a glaring example. Exports from CEE EU member states to Kyrgyzstan increased from €14.3 million in 2022 to €146.6 million in 2023 and to €355.5 million in 2024, with Latvia, Poland, and Romania the countries most involved (see Figure 2). This strongly suggests that Kyrgyzstan is increasingly operating as a channel for goods from these CEE countries to enter the Russian market, bypassing direct trade restrictions.

Figure 2. CEE EU Member States Trade With Kyrgyzstan, 2022–2024.



Source: Eurostat.

Sharply increasing transportation costs and disruptions on direct routes to Russia created an environment conducive to the use of third-country channels, which became in turn more attractive. The price of road freight transport has seen the largest rise. For example, the cost of running a truck from Central Europe to Moscow rose from around €3,200 before the sanctions to around €15,000 in April 2022.[39] This primarily stemmed from the sanctions regime's impact on logistics: established direct EU-Russia routes became less viable (often necessitating transshipments at the border and longer journeys), competition among carriers decreased, and fuel prices rose.[40] These logistical challenges and inflated costs on direct routes, alongside efforts to circumvent sanctions, contributed to a 36% decrease in Russia's recorded imports from the EU between January and November 2022.[41] Simultaneously, the transit of goods to Russia via third countries—including Belarus, Kazakhstan, Türkiye, and the United Arab Emirates—increased significantly, as such routes offered means to bypass restrictions or to obscure transactions, rather than necessarily providing lower freight costs.

The primary way in which the few Western companies still exporting to Russia transport goods there is "sale-in-transit". This involves European suppliers contracting with intermediary companies in countries friendly to Russia. Typically, a second contract is then signed between the intermediary company and a Russian buyer while the cargo is in transit or stored in a customs warehouse in one of the Baltic countries. The goods are then shipped directly to Russia without being exported to the third country first. This allows European goods to be "resold" to Russia, albeit with increased delivery times and higher transaction costs resulting from the complex logistical arrangements and the involvement of intermediary companies based in third countries.

According to one investigation, at least 70 Lithuanian companies helped send over €130 million's worth of dual-use goods to Russia through these schemes, in more than one transaction, between March 2022 and August 2023,[42] often through intermediaries in Central Asia. These goods, which can be used in Russia's war industries, included microchips, electronic components, and other items from the international Common High-Priority Items list—a catalogue of 50 dual-use components compiled based on items that investigators have repeatedly retrieved from Russian missiles, drones, and tanks on the Ukrainian battlefields.[43] The Lithuanian companies involved in these exports range from electronics and car-parts traders to logistics companies and customs brokers. When confronted with the findings, these companies claimed they were unaware that the goods would ultimately end up in Russia, with some denying any involvement in the exports altogether.

Financial Institutions and Sanctions Exterritoriality

The United States plays a key role in shaping the sanctions regime on Russia, primarily through extraterritoriality based on its dominant position in global finance. The dollar's status as the world's reserve currency enables it to enforce compliance by European entities by threatening to cut them off from the US financial system. US laws like the International Emergency Economic Powers Act and the Countering America's Adversaries Through Sanctions Act empower Washington to impose secondary sanctions on foreign entities engaging with sanctioned parties, as seen in the executive orders implemented between 2014 and 2024 targeting Russian activities. These secondary sanctions do not require direct US jurisdiction; instead, they exploit the fact that most international transactions, especially in dollars, pass through US banks or correspondent networks, subjecting them to US law. By threatening to block access to these financial channels, imposing fines, and adding actors on its Specially Designated Nationals List, the United States can effectively police European entities' adherence to its sanctions on Russia.

This is demonstrated by the case of Austria's Raiffeisen Bank International (RBI) and Hungary's OTP Bank, two banks that play a critical role in enabling Western companies to operate in Russia despite sanctions. They have been crucial financial gateways, handling a significant portion of Russia's foreign-currency transactions and acting as intermediaries for many Russian banks' currency settlements. Their ability to process international transfers has been particularly important, as most Russian banks have been cut off from the global financial system due to sanctions. With limited competition from sanctioned Russian banks in cross-border settlements and their non-sanctioned status allowing them to handle international transactions, they have benefited greatly from the exit of other Western financial institutions from the country.

As these banks handle a significant portion of Russia's foreign-currency transactions, particularly in US dollars, they fall under the jurisdiction of the US Treasury's Office of Foreign Assets Control (OFAC) and are vulnerable to Washington's extraterritorial reach.

RBI is the largest Western bank still operating in Russia and is considered "systemically significant" by its central bank. RBI handles approximately half of Russia's foreign-currency transactions and is a financial lifeline for millions of Russian clients needing to send or receive euros and dollars. This dominant position means it is a vital link between Russian businesses and the international financial system, thus facilitating the continued operation of Western companies in the country.

In May 2024, the United States threatened to restrict RBI's access to the US financial system if it did not reduce its Russian ties, a move described as a potential "death sentence" for the bank. The European Central Bank had also been putting pressure on RBI to reduce its Russian exposure. The OFAC launched an investigation into RBI's Russian activities in early 2023 and closely monitored it for potential sanctions violations. US officials visited Austria to encourage RBI and other banks to examine and to mitigate their Russian exposure. This pressure campaign led to RBI suspending all outgoing US dollar payments from Russia from 2024, reducing its Russian loan business by 60%, and announcing plans to "drastically reduce" its Russian operations.[44] "However, in October, Russian authorities blocked RBI's latest attempt to sell its Russian business to local investors, reportedly citing its role for processing payments for TurkStream pipeline gas deliveries worth approximately €3.8 billion to EU states in the first eight months of 2025. As mentioned above, also in October, RBI was named in the decree enabling faster nationalization of foreign companies' assets. At that time, RBI had accumulated around €7 billion in profits trapped in Russia.[45]

After initially playing a small role, OTP Bank has become increasingly important as an alternative for Russian companies, particularly after RBI introduced restrictions in its services in 2023.[46] It has experienced significant growth in its corporate client base, especially after September 2024 following the curtailment of RBI's operations in Russia, and has seen profits from its Russian operations increase 150-fold.[47] This growth has positioned OTP Bank as another key player enabling Western companies to maintain their presence in Russia. Chairman-CEO Sándor Csányi acknowledged in April 2022 that OTP was feeling pressure to leave the Russian market,[48] while Hungarian media reports confirm that OTP was under pressure from Western governments demanding its withdrawal from Russia.[49] The Hungarian National Bank responded in 2024 by issuing directives to OTP Bank requiring reductions in its corporate loans and deposits in Russia.[50] While OTP has reduced its corporate loan portfolio in the country by 85% since early 2022[51] and its branch network by 39%, other indicators show significant growth there. By the end of 2023, the bank's assets in Russia had doubled to RUB 354.6 billion, corporate client funds had increased by 138.8%, and individual deposits had grown by 38.9%.[52]

The exterritorial nature of US sanctions, while partially effective, is not a sustainable long-term solution to the shortcomings in EU sanctions enforcement.

Despite these banking-sector restrictions creating barriers to Russian business, significant enforcement gaps remain. A media investigation from 2024 revealed a significant weakness in the EU's sanctions regime against Russia, with companies like Hungary's Matrix Metal Group and the Cyprus-based Noratec Holdings managing to ship sanctioned electronic components to Russian defense contractors.[53] In response, the United States has added Matrix Metal Group and other companies to its Specially Designated Nationals List, an example of policing EU companies for violations of EU sanctions that were not enforced by the member states.

The exterritorial nature of US sanctions, while partially effective, is not a sustainable long-term solution to the shortcomings in EU sanctions enforcement. The EU's sanctions only apply on its territory and to EU citizens wherever they are located, and they only create obligations for non-EU persons or entities if these conduct their business at least partly within the EU.[54] The EU's territorial approach creates jurisdictional arbitrage opportunities, where companies circumvent sanctions by operating through non-EU entities, using third-country intermediaries, or structuring transactions outside EU jurisdiction. This dynamic creates mounting pressure for the EU to expand its own extraterritorial reach, as territorial sanctions in a globalized economy prove inherently leaky when major economic actors can simply relocate operations beyond the sanctioning authority's jurisdiction, suggesting the EU may need to consider expanding its sanctions' extraterritorial reach to match US enforcement capabilities.

In practice, financial institutions through their procedures effectively extend sanctions beyond their legal scope by making continued ties with Russia impractical for most companies. Banking institutions enforce sanctions compliance through know-your-customer (KYC) frameworks that function as de facto regulatory mechanisms extending beyond formal government restrictions. Continuous KYC monitoring systems identify and block transactions linked to sanctioned entities in real time. Financial institutions across CEE have implemented continuous KYC updates that track the evolving sanctions against Russia through integration with databases such as OpenSanctions and through transaction-monitoring protocols for high-risk accounts. This creates barriers to maintaining business relationships with Russia through three primary channels: transaction rejection when payments involve Russian entities, increased administrative burden for companies with Russian ties through extensive documentation requirements, and elevated compliance costs that make maintaining Russian operations financially unsustainable. This fuels self-sanctioning by CEE businesses that choose to stop their Russian operations even when not directly subject to formal restrictions.

Industrials and Energy

The data from the Kyiv School of Economics and Yale-CELI show which CEE country-sector combinations have the highest number of companies still operating in Russia (see Table 2). This mainly concerns companies that had a significant presence or trade ties with Russia prior to the full-scale invasion of Ukraine in 2022, rather than transshipment shell companies. Consequently, the number of companies in this analysis is low. They either continue their operations within the bounds of the sanctions regime or have faced investigations suggesting that they are operating in breach or circumvention of legal restrictions.

Czech Industrial Companies

Czechia's sanctions law came into force on January 1, 2023. The state's human capacity was initially inadequate, with the Sanctions Department of the Ministry of Foreign Affairs operating with just one department head and three clerks by mid-2023. This limited Czechia's capacity to create evidence packs and implement sanctions effectively.[55]

Table 2. Country-Sector Combinations for CEE Companies Still in Russia.

	Industry	Companies
Czechia	Industrials and Manufacturing	10
Czechia	Energy and Natural Resources	6
Hungary	Pharmaceuticals and Healthcare	3
Latvia	Pharmaceuticals and Healthcare	3
Lithuania	Industrials and Manufacturing	3
Croatia	Pharmaceuticals and Healthcare	2
Hungary	Finance and Payments	2

The scale of sanctions evasion through gray exports from Czechia is evident. Between 2021 and 2022, its exports to Türkiye jumped from €1.94 billion to €2.55 billion, while exports to Kazakhstan increased from €192 million to €667 million (a 247% increase) and those to Kyrgyzstan surged from €6.8 million to €34.8 million (a 412% increase).[56] The existing legal framework has limitations. For example, prosecutors cannot pursue money-laundering charges without proving predicate offenses (that is, the underlying crimes that generated the illicit funds), allowing suspicious transactions via flow-through accounts (temporary accounts used to obscure money trails) to continue. This is particularly problematic as the Security Information Service has identified that Czech companies, often with hidden ownership structures, are the primary actors in Czech sanctions evasion. The Register of Ultimate Beneficial Owners system, managed by the Ministry of Justice, has proven inadequate for elucidating these ownership structures, with documented reliability issues that hinder effective sanctions enforcement.

Czechia was the sixth-largest supplier of machine tools to Russia between 2011 and 2021, ahead of China and the United States. Exports to Russia decreased from $3.95 billion in 2021 to $1.56 billion in 2022 and $731 million in 2023, including a decline in machinery exports from $1.8 billion in 2021 to $172 million in 2023.[57] However, this masks exceptions that raise concerns about sanctions effectiveness. Exports of exports of numerically controlled machine tools increased significantly, from $1.13 million in 2021 to $16 million in 2022, accounting for 19.3% of Russian imports in this category. Similarly, exports of heat exchange units rose from $7.21 million in 2021 to $18.9 million in 2022, positioning Czechia as the second-largest supplier to Russia, behind Germany, with a 7.1% market share. Exports of machines used to shape minerals also increased, from $7.2 in 2021 to $11.1 million in 2022, amounting to 13.3% of this market, here too second only to Germany.[58]

These trends are particularly concerning given the documented post-invasion involvement of several Czech manufacturers in Russia's industrial supply chains. Czech manufacturers exported machine tools such as machining centers, milling boring machines, CNC forging presses, lathes, and coating equipment. Evidence has been found of machines produced by companies such as Tos Varnsdorf, Škoda, and Kovofinis (as well as the Slovak company Aquaflot) making their way into Russia's missile-production complex. Labara assisted in the illegal export of cars to Russia via Türkiye, and Versvet assisted Russia's Radioavtomatika in importing electronics despite being under sanctions. Kovosvit Mas, a Russian-owned company based in Czechia, continued to export dual-use heavy machinery to Russia even after the beginning of the full-scale invasion and associated EU sanctions via a Turkish shell company.

ŽĎAS is a clear example of how industrial companies continue exporting critical equipment to Russia despite the sanctions.[59] The company, which specializes in metallurgical equipment, supplied spare parts for metal-rolling mills and related industrial equipment to Russian customers throughout 2022 and 2023, with individual transactions reaching values up to $298,000. ŽĎAS used methods of circumvention common across the industrial sector. These include exploiting gaps in Harmonized System (HS) product-classification system with certain equipment categories prohibited but related spare parts not, using third-country intermediaries in the likes of Lithuania, Türkiye, and Uzbekistan to obscure the final destination, and employing alternative payment methods in renminbi and rubles. The company's ability to maintain exports through these channels while technically complying with sanctions highlights the need for more comprehensive controls that address complete equipment and component parts, as well as for closer monitoring of trade flows through third countries.

PBS Velka Bites is another case of a Czech company whose products reached Russia via a parallel import scheme, with goods diverted to Russia through third countries due to the company's failure to adequately screen its customers.[60] Components it makes and critical for Russian Mi-8 military helicopters have reached Russia via intermediaries in India and Kazakhstan. An investigation found that in 2022–2023 the Russian-linked Indian company Space Era Materials and Processes supplied the sanctioned Kazan Helicopter Plant in Russia with 20 Czech-made Safir helicopter power units valued at $8.5 million.[61] PBS Velka Bites had previously sold these to the Indian Air Force as well as to a Kazakh aircraft-repair plant with ties to the Russian defense industry.

Energy Sector

Russia's previous leverage in its economic relationship with CEE countries was primarily built on natural-gas exports. Prior to the 2022 invasion of Ukraine, Russian gas accounted for nearly 50% of consumption in CEE countries, and for over 80% in several ones, such as Hungary and Latvia.[62] By comparison, Russian gas accounted for just over 20% of consumption in Western Europe. Had it come online, the Nord Stream 2 pipeline would have further cemented this dependence and asymmetric relationship, with Russian gas exports to the EU expected before 2022 to increase.

EU sanctions regarding natural gas proved particularly challenging to implement, with no significant restrictions included in the first 13 packages. Instead, the reduction in gas imports from Russia was primarily driven by Moscow's actions, including its "gas-for-rubles decree" and suspension of Nord Stream 1 pipeline operations.[63] It was not until the EU's 14th sanctions package in June 2024 that the first restrictions on Russian gas were introduced, including a ban on EU ports reselling Russian LNG and prohibitions on financing Russia's planned Arctic and Baltic LNG terminals.

Oil sanctions were implemented more comprehensively and earlier, with the EU introducing a ban on imports of seaborne crude oil in December 2022, followed by restrictions on refined petroleum products in February 2023. While some landlocked states received temporary exemptions for pipeline imports, the measures covered approximately 90% of EU oil imports from Russia

However, the transition was not without controversy. Poland's energy conglomerate Orlen systematically reduced its Russian exposure, becoming one of the first European companies to cease maritime imports of Russian crude and achieving 70% supply diversification by late 2022. Nevertheless, in June 2023, deliveries of Russian oil to Unipetrol, its Czech subsidiary, were reported to have increased by 430,000 tons from May 2023 to June 2023, representing a 16% rise in Russian oil flows to the EU via the Druzhba pipeline.[64] Orlen attributed this to infrastructure constraints in Czechia that prevented full coverage from alternative sources. The situation highlighted the challenges of completely severing energy ties with Russia, particularly for companies with landlocked refineries historically dependent on pipeline infrastructure. This was further emphasized when Russia suspended oil deliveries to Poland via the Druzhba pipeline in February 2023, allegedly due to payment issues. By this point, Russian oil accounted for only 10% of Orlen's supply needs, the company having diversified its sources to include deliveries from other producers. One major setback to the process was the botched attempt at setting up a trading arm of Orlen in August 2022. Orlen Trading Switzerland became embroiled in controversy with alleged sanctions violations concerning oil imports from Iran and Russia as well as a financial loss of about $300 million on failed oil deals.[65] Both the alleged sanctions violations and the subsidiary's financial losses are currently under investigation by Poland's authorities.

The approach of Hungary's oil and gas company MOL in response to the invasion of Ukraine has been radically different from Orlen's. It has reinforced its ties with Russian suppliers, and it continues to receive about 2 million metric tons of Russian oil annually by using the EU sanctions exemptions for landlocked countries, accounting for roughly one-third of Hungary's oil imports. In 2022, Hungary also signed an additional deal with Russia's Gazprom for increased volumes of natural gas, on top of its existing 15-year contract for 4.5 billion cubic meters annually.

As of October, the EU's Druzhba pipeline exemption remained in place and no set end date, allowing Hungary and Slovakia to continue importing Russian crude oil through it.[66] In 2024, Hungary sourced 86% of its crude from Russia, while Slovakia remained nearly 100% dependent on Russian oil,[67] with their crude imports together exceeding the 2021 level by 2%. In June, the EU waiver that had permitted Slovakia's Slovnaft refinery to export Russian-refined fuel to Czechia expired. Slovnaft reports securing alternative non-Russian crude to maintain deliveries to Czechia, while continuing to use Russian crude domestically under the pipeline exemption.[68] Croatia's Janaf pipeline operator claims it could fully supply MOL's Hungarian and Slovak refineries if supply through the Druzhba pipeline stops, though MOL disputes the economic viability of this.[69] The pipeline briefly halted operations after an attack on a Russian pumping station in August, with the two governments and MOL reporting minimal disruption.[70]

In October, the United States imposed full blocking sanctions on Rosneft and Lukoil, which together account for about half of Russia's oil output. This extends the legal risk of secondary sanctions to companies purchasing Russian oil products and may accelerate the divestment of Lukoil's assets in Romania and Bulgaria.

Conclusion

While the number of them still operating in Russia is smaller than that of Western European companies, companies from Central and Eastern Europe have played, and some continue to play, a significant role in the trade and business relationship with the country since 2022 despite the sanctions regime. While a few CEE companies continue to operate in Russia openly, many provide dual-use goods to the country through shadow exports via countries such as Kazakhstan and Kyrgyzstan. The experience of companies in Czechia's industrial sector and of the energy sector across the region highlights the overall complexity of the sanctions regime, the bottom-up nature of investigating the cases of sanctions violation, which is often driven by investigative journalists, and the insufficient oversight of companies in industries that are critical for continued operation of Russia's war machine.

The implementation of sanctions on Russia has revealed critical deficiencies across Central and Eastern Europe in transparency about ultimate beneficial ownership of companies, which create gaps that can be exploited for sanctions evasion. Despite EU requirements, implementation varies across the region, with Czechia's Register of Ultimate Beneficial Owners having particular weaknesses in properly listing Russian nationals.[71] While all CEE countries have adopted the EU standard 25% ownership threshold for determining ultimate beneficial ownership, access to and verification of this information differs substantially across them. Poland's register is open to the public and free of charge, and there can be a fine of up to PLN 1 million for noncompliance. Hungary's system is accessible only to authorities with legitimate interest and does not include direct monetary penalties.

The implementation of sanctions on Russia has revealed critical deficiencies across Central and Eastern Europe in transparency about ultimate beneficial ownership of companies.

A more fundamental issue is the lack of adequate institutional capacity for sanctions enforcement across CEE countries, which is reflected in the staffing issues countries such as Czechia face. As one analysis puts it, "national authorities and national banks—which act as a vital line of defence require a systemic solution for hiring more staff to oversee sanctions enforcement."[72] The Baltic states have recognized this deficiency, signing an agreement in May 2024 to enhance enforcement efficiency through interagency cooperation. However, as the abovementioned analysis notes, "without professionally dedicated specialists, the tracking of transactions and uncovering circumvention is effectively outsourced to thinktanks or investigative journalists", which can be a partial solution only if the public has easy access to company registers and ultimate beneficial ownership data.

The EU sanctions policy faces uncertainty as, since its start in January, the Trump administration has neither lifted nor materially expanded the United States' Russia sanctions, while pivoting to a more tariff-based strategy. The administration has let its predecessor's January measures take effect but largely paused new Russia designations while issuing threats of "major" sanctions on Russian oil and of tariffs on the United States' NATO and other allies relating to purchases of Russian-oil.[73] Meanwhile, the United States declined to back a cut to the G7 oil-price cap.[74] The administration has also taken a different approach to enforcement; for example, the Department of Justice has disbanded its Task Force KleptoCapture that focused on sanctioned Russian oligarchs.[75] The United

States' extraterritorial leverage still matters, but its actions have become less predictable, though the Countering America's Adversaries Through Sanctions Act makes a wholesale rollback unlikely without Congress approval.[76] This raises the premium on EU coordination and national enforcement capacity, especially for the Baltic states and Poland relative to more hesitant CEE countries such as Hungary and Slovakia.

The EU and some of its member states have begun addressing these deficiencies through institutional reforms, notably the 2024 directive criminalizing sanctions violations and the enhanced coordination mechanisms that are part of the Baltic states' agreement on sanctions enforcement. Additional reforms should include creating an EU equivalent to the OFAC in the United States, expanding the mandates of Europol and Eurojust to include sanctions enforcement, and significantly increasing staffing levels in national authorities (the latter being particularly relevant for Czechia).

Developing EU capacity requires immediate operational improvements. In the short term, coordination among CEE countries—sharing intelligence on evasion schemes and developing common enforcement practices—offers the most practical approach to maintaining the integrity of the sanctions regime. Medium-term strategies should focus on building a broader international coalition through partnerships with Japan, South Korea, the United Kingdom, and other aligned states to maintain coordinated pressure on Russia, regardless of US policy shifts. Establishing well-resourced monitoring capabilities at the wider international level for industrial supply chains, especially for dual-use technologies where HS code gaps currently enable circumvention is crucial. This approach would enable Europe to maintain effective sanctions against Russia even with potentially reduced US support, and to address the implementation gaps currently evident across CEE countries.

Financial-Sector Monitoring

Financial institutions across CEE countries need a more unified approach to KYC standards that incorporates continuous monitoring systems designed to detect sanctions evasion. Banks should implement real-time, automated sanctions-screening tools that go beyond periodic checks to continuously verify customer data against sanctions lists. These systems must be capable of detecting variations in names, transliterations, and complex ownership structures used to mask Russian connections. A risk-based approach is essential, with banks conducting enhanced due diligence on any customer with potential Russian ties and implementing monitoring transaction for high-risk transactions that can identify suspicious patterns—particularly those involving third-country intermediaries. Improvements should include financial institutions establishing dedicated sanctions-compliance units with independent reporting structures that bypass middle management and provide direct access to board-level decision-makers.

A coordinated regional approach is necessary to prevent jurisdictional arbitrage and to ensure consistent enforcement across financial institutions and customs authorities. This coordination should include regular meetings of national sanctions authorities, secure platforms for sharing suspicious activity reports, and joint training programs for compliance personnel. The Baltic states, along with Finland and Poland, have pioneered this approach with their Agreement on Regional Uniform Sanctions in May 2024, which enhances sanctions-enforcement efficiency through standardized procedures and interagency cooperation. CEE countries should adopt a multi-agency regional model that separates key functions like asset freezes, trade restrictions, and investigation of violations while ensuring seamless coordination between financial regulators and customs authorities. The regional framework should mandate consistent documentation requirements for cross-border transactions, like the “manufacturer’s declaration” currently required for exported goods, and implement cloud-based platforms that enable real-time information sharing between financial institutions and enforcement agencies while protecting sensitive data.

Banks operating in CEE countries should establish dedicated sanctions compliance units with appropriate staffing, expertise, and organizational authority. They should employ dedicated compliance professionals with specialized knowledge in areas such as sanctions screening, transaction monitoring, and investigations. Their responsibilities should include developing sanctions policies, implementing screening systems, conducting regular risk assessments, investigating potential violations, and maintaining documentation of all compliance activities. Independence is critical; compliance units must have sufficient authority to make decisions without undue business influence and adequate resources to conduct their work effectively.

Industrial-Sector Monitoring

One of the fundamental weaknesses in current sanctions enforcement lies in the features of the HS classification system that enable circumventing restrictions on dual-use industrial equipment. The system’s broad six-digit categories fail to distinguish between basic and advanced versions of equipment, which is particularly problematic for machine tools with military applications. For example, 5-axis CNC machine tools used in aerospace and defense applications often fall under the same codes as simpler 3-axis machines with predominantly civilian uses, though some of these could be repurposed for basic military manufacturing tasks. This lack of specificity is increased by inconsistent application across jurisdictions and the HS system’s inability to keep pace with rapidly evolving technology. To address these vulnerabilities, the EU should implement supplementary classification systems that incorporate technical parameters and specifications beyond standard HS and Combined Nomenclature codes, and CEE countries should advocate such reforms at the EU and intergovernmental levels. This should target machine tools, semiconductors manufacturing equipment, precision-measuring instruments, and additive manufacturing equipment that have documented applications in Russian weapons systems.

Strengthening end-user certification requirements would be a further step in preventing industrial equipment from reaching Russian military actors through third countries. Exporters should be required to obtain detailed, standardized end-use certificates that include specific information on intended applications and ultimate recipients, with signed commitments prohibiting transfer to Russia or to Russian-controlled entities. These requirements must be coupled with verification mechanisms, including pre-license checks and post-shipment verification for high-risk transactions. Building on best practices from existing regimes, CEE countries should implement a due-diligence framework requiring exporters to conduct thorough customer assessments, to use public business registries and trade databases to verify legitimacy, and to monitor for red flags such as unusual shipping routes or reluctance to provide end-use information. Special attention should be paid to distributors operating in countries like Kazakhstan, Türkiye, and the United Arab Emirates, with explicit contractual prohibitions on re-export to Russia and mandatory compliance audits.

CEE countries should establish task forces with expertise in monitoring industrial dual-use goods, modeled after successful bodies like the United States' Office of Export Enforcement and the United Kingdom's Export Control Joint Unit. These multidisciplinary teams should combine technical specialists, customs officials, intelligence analysts, and law-enforcement personnel with specific knowledge of industrial equipment and military applications. Czechia, given its role as a significant exporter of machine tools, should create a dedicated industrial-technology monitoring team with specific expertise in CNC machinery, metallurgical equipment, and precision manufacturing tools. This team should establish formal information-sharing protocols with partner countries' enforcement agencies. Data-analytics capabilities should be deployed to detect anomalous trade patterns, particularly through intermediary countries known for sanctions circumvention.

To effectively disrupt industrial supply-chain circumvention, a coordinated approach spanning CEE countries and agencies is needed. This should include systematic analysis of customs and trade data to identify suspicious shipment patterns, particularly involving intermediary countries like China, Kazakhstan, Türkiye, and the United Arab Emirates. Corporate network mapping should be employed to trace ownership structures and relationships between industrial manufacturers and distributors, identifying high-risk connections to Russian defense contractors. These efforts should be supplemented with open-source intelligence gathering to monitor company websites, marketing materials, and social media for evidence of ongoing business with Russian entities. A cross-border collaborative framework should be established to facilitate information sharing between investigative teams across CEE countries, leveraging technical expertise to identify components in Russian weapons systems that originated from CEE manufacturers. There should be a particular focus on developing regional capacity to disrupt the "sale-in-transit" method of circumventing restrictions, in which European suppliers contract with intermediary companies from Russia-friendly countries while their goods are in transit in customs warehouses.

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About the Author(s)

Michal Wyrebkowski leads sanctions and technology policy research at the Yale Chief Executive Leadership Institute. He holds a BSc in economics with concentrations in finance and business analytics from the Wharton School of the University of Pennsylvania. He is also a 2023 ReThink.CEE fellow of the German Marshall Fund of the United States and a Rafal Brzoska Foundation scholar.

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GMF champions the principles of democracy, human rights, and international cooperation, which have served as the bedrock of peace and prosperity since the end of the Second World War, but are under increasing strain. GMF works on issues critical to transatlantic interests in the 21st century, including the future of democracy, security and defense, geopolitics and the rise of China, and technology and innovation. By drawing on and fostering a community of people with diverse life experiences and political perspectives, GMF pursues its mission by driving the policy debate through cutting-edge analysis and convening, fortifying civil society, and cultivating the next generation of leaders on both sides of the Atlantic. Founded in 1972 through a gift from Germany as a tribute to the Marshall Plan, GMF is headquartered in Washington, DC, with offices in Berlin, Brussels, Ankara, Belgrade, Bucharest, Paris, and Warsaw.

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