2024 Is the Year to Defund Russia’s War: The West Holds the Key
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SUMMARY

Two years after the start of Russia's all-out war on its sovereign neighbor, Ukraine is still resisting as Russian attacks continue to destroy infrastructure and human lives. The flow of Russia's fossil fuel revenue combined with corporate taxes paid by foreign companies and the supply of western military tech can explain Russia's ability to continue to wage war and further militarize. The imposition of sanctions by the EU, the US and other G7 states have constrained its economy, but Russia found ways to evade and circumvent sanctions. Closing the existing sanctions loopholes and issuing guidance on the risks of remaining in Russia for the non-sanctioned businesses are of paramount importance to defunding Russia's war machine. Further actions by the West are the key to crippling Russia's capacity to wage war in 2024 and beyond.

Since its inception in July 2022, the B4Ukraine Coalition of over 80 civil society organizations globally has been working to persuade governments and companies to defund Russia's illegal war. Jointly with our members, B4Ukraine has focused our efforts on promoting robust sanctions on the oil and gas as well as the weapons sectors, while also calling on the remaining foreign businesses operating in Russia to protect human rights and exit the market of the aggressor state.

This report summarizes B4Ukraine's collective and individual members' contribution to our shared goals and recommends urgent imperatives and further actions.

Russia's Oil and Gas Sector

- Since the start of the war, the Kremlin amassed €610 billion (or $653 billion) in revenue from its fossil fuel trade. The bulk of these earnings came from crude oil, despite the price cap and the oil embargo adopted by the EU, the US and other G7 countries.

- The so-called “refining” loophole allows Russia to legally ship its oil products refined by third countries such as India and China to the EU and the US.

- Russia's “shadow” fleet of tankers allows it to sell its crude above the es-
established price cap of $60 per barrel. The fact that almost half of Russia's crude oil was carried out on tankers owned or insured by G7/EU constitutes significant leverage for the coalition countries.

- Europe plays a central role in replenishing the Kremlin's war coffers by continuing to buy Russia's liquified natural gas (LNG), currently not subject to sanctions. In 2023 alone, Russia was able to export 50% more LNG to Europe than in 2021.

- The role of western firms — from engineering to oil servicing ones — in aiding Russia's fossil fuel sector with critical technology and know-how remains paramount.

Policy Recommendations for Governments

- Enforce & reduce the oil price cap
- Ban all refined products derived from Russia's crude
- Curb Russia's “shadow” fleet
- Ban Russia's LNG exports to Europe

Russia's Military & Industrial Complex

- Despite introduced export controls, Russia continues to import large quantities of critical military goods. In the first ten months of 2023, it received $8.8 billion ($8.2 billion) worth of the so-called “high priority battlefield items,” according to a recent Kyiv School of Economics (KSE) report.

- A staggering 95% of all foreign parts found in Russian weapons on the battlefield were sourced from producers in the coalition helping defend Ukraine, with 72% accounted for by US-based companies alone. Jointly, Analog Devices and Texas Instruments accounted for almost 30% of all foreign components identified by Ukrainian authorities in missiles, drones, and tanks found on the battlefield.
• The fact that Russia still acquires advanced technology from the West signals its inability to do so domestically or with the help of China. This provides the coalition countries with significant leverage to close the existing export control loopholes.

• Western CNC\(^1\) Machine tools remain the backbone of Russia's military production as there is not a single Russian tank or plane that does not have parts made with foreign-made CNC machines. In 2023, Russia imported 33% more CNCs than in the previous year. Germany (42.3%), South Korea (20.7%), Taiwan (19.5%) were the top three suppliers, collectively accounting for over 82%.

Policy Recommendations for Governments and the Private Sector

• Incentivize robust human rights and end-user due diligence by the private sector of coalition countries

• Target third-country intermediaries

• Align and expand dual-use goods lists

• Criminalize sanction violations in all coalition jurisdictions

Non-Sanctioned Foreign Business in Russia

• As of February 2024, only a small number — 358 foreign firms — have completed a full exit from Russia through sale or liquidation, while 2,138 (or 58%) of those monitored since the invasion remain in the country, according to the most recent KSE data.

• The amount of taxes paid by all foreign companies operating in Russia in 2022-2023 could be at the level of $20 billion (€18.6 billion) annually, as per KSE estimates. This is enough to cover half of Russia's 2022 military budget used to terrorize Ukraine.

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\(^1\) Computer Numerical Control (CNC) machines are fully automatized industrial tools that are widely used in different industries such as aerospace, automotive, metalworking, and electronics. Due to their unique features and accuracy, CNC machines are also critical for the military industry in many countries, especially for the production of weapon hulls, aircraft parts, missile and drone/UAV components, and microelectronics.
• **American, German and Swiss companies** are the most profitable in Russia and have paid the highest amount of profit tax to the Kremlin in 2022, according to a B4Ukraine analysis of the KSE data. There are currently **330 American and 277 German firms in Russia** — including Mondelez International, Philip Morris, PepsiCo, Mars, Metro AG, Bayer and Siemens Energy AG.

• Fast moving consumer goods companies (FMCGs) are amongst the highest earners in Russia, having generated **$17.6 billion (€16.3 billion) of revenue in 2022**. What sets them apart is the use of similar justifications to remain in the market of the aggressor state. They argue to provide “essential” goods and show deep concern for the welfare of their Russia-based employees. These and additional justifications have been scrutinized and debunked in the B4Ukraine report titled “**The Business of Leaving.**”

• In the last two years of war, the Russian government has deliberately raised the price of exit for foreign companies, also increasing the risks of expropriation/nationalization set to rise further in 2024 as G7 governments consider seizure of the Russian Central Bank reserves. The Kremlin has already threatened further retaliatory measures in the form of western company asset grabs.

• B4Ukraine highlights that in the environment of lawlessness, the Russian government **de facto** already controls western company assets.

**Policy Recommendations for Governments and the Private Sector**

• Companies should take immediate steps to responsibly exit the Russian market. In situations where no credible sale option exists, and in the face of clear direct contributions to mass human harm, companies should drop the keys and/or take the case to international arbitration.

• Governments should issue guidance to companies, which set out an expectation to responsibly exit Russia to avoid complicity in war crimes.

• Governments should restrict access to public procurement and/or tax incentives for companies that remain in Russia.
INTRODUCTION

Russia's brutal full-scale invasion of Ukraine on February 24, 2022 became the gravest violation of the established international order since WWII, unleashing devastating human impacts that continue to shake the global conscience and economy. No state in Europe since WWII has been as explicit about its genocidal intent to exterminate another nation as Russia.

Since the start of the invasion, the aggressor state has committed over 125,000 war crimes and crimes against humanity, through attacks on civilians infrastructure, mass executions, sexual violence, torture, and forcible transfer of civilians, including children. More than 30,000 Ukrainians have been killed and injured⁴ and millions more have been forced to flee their homes, creating one of the largest humanitarian and refugee crises of modern times.

In the meantime, the Kremlin has fully placed Russia's economy on a military footing. In 2024 alone, Russia's military spending is set to reach more than $156 billion (€145 billion), a 70% increase relative to the previous year and much more than Russia allocates for social spending.

The intensity of Ukraine's resistance to Russia's aggression impressed the world, prompting G7, EU and other western governments to unleash a program of humanitarian, financial and military assistance to the embattled Ukrainian nation, alongside economic sanctions.

These sanctions, imposed across key sectors, have somewhat constrained the Russian economy, as has the decision of 358 multinational companies to exit fully either through sale or liquidation.

Unfortunately, two years after the full-scale invasion of Ukraine, these measures have proven to be insufficient to deprive Russia of the resources to wage war. The Kremlin has continued to find ways to evade sanctions via existing and newly-emerged loopholes in critical sectors, while further militarizing its economy.

The time is now for the G7 governments to step up their efforts and fully isolate the Russian economy by closing the existing loopholes. 2024 is the year to defund Russia’s war and to ensure that Ukraine is able to restore its sovereignty

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² These calculations do not include currently occupied territories such as Mariupol.
and territorial integrity. On the second anniversary of the full scale invasion of Ukraine, we call on G7 and allied governments to:

- **Strengthen** the current sanctions regime by closing existing loopholes
- **Enforce** the existing sanctions on oil and gas as well as military sectors
- **Define** expectations for non-sanctioned companies

Such steps would ensure that all economic measures are delivering on the promised goal to defund Russia's war efforts.
RUSSIA’S OIL AND GAS

Russia continues to earn billions of euros from its sale of fossil fuel to the coalition countries. Two years after the start of the full-scale invasion of Ukraine, the Kremlin has amassed more than €610 billion ($657 billion) in revenue from its export of fossil fuels. The bulk of these earnings came from Russia’s exports of its crude oil, amounting to €240 billion ($259 billion), €179 billion ($193 billion) of oil products, pipeline gas sale estimated at €88 billion ($95 billion), coal valued at €54 billion ($58 billion) and €47 billion ($51 billion) of Liquified Natural Gas (LNG).

RUSSIA’S FOSSIL FUEL REVENUE SINCE THE INVASION

€610 billion

<table>
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<tr>
<th>Material</th>
<th>Revenue (billion)</th>
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<tr>
<td>Crude + Oil</td>
<td>€419bn</td>
</tr>
<tr>
<td>products</td>
<td></td>
</tr>
<tr>
<td>Pipeline gas</td>
<td>€88bn</td>
</tr>
<tr>
<td>LNG</td>
<td>€47bn</td>
</tr>
</tbody>
</table>

Source: CREA

The EU has purchased an estimated €188 billion ($203 billion) of fossil fuels from Russia since its invasion of Ukraine. The EU is an incredibly important market for Russia’s sales of gas. More than half (53%) of all Russia’s LNG exports have been sold to the EU since the full-scale invasion of Ukraine, exporting €25 bil-
lion ($27 billion) to the bloc. The EU currently has no ban on the flow of Russian pipeline gas or LNG to Europe.

EU PURCHASED MORE THAN HALF OF RUSSIA’S LNG SINCE THE INVASION

€25bn

53% EU’s share of Russian LNG

47% others

Source: CREA

Russia's crude oil, on the other hand, has been subject to sanctions that came into force in December 2022 in the form of the oil import ban and the imposition of the oil price cap at $60 per barrel by the EU and the G7 countries.

These measures have had a positive but underwhelming impact: The analysis by Centre for Research on Energy and Clean Air (CREA) revealed that the EU oil import ban imposed in December 2022 and the G7 oil price cap have cut Russia's export earning from oil by 14% (€34 billion/$37 billion). But loopholes in the sanctions have allowed western companies — including engineering and oil
servicing firms, commodity traders, shippers, insurers, and banks — to continue profiting from Russia's fossil fuel trade. The loopholes in the sanctions reduce their effectiveness at cutting finances that flow to the Kremlin's war chest.

**A “REFINING” LOOPHOLE**

A “refining loophole” in the oil sanctions has allowed Western countries, which have largely banned the import of crude oil from Russia, to import billions of euros worth of oil products from third states, also referred to as laundromat countries.

Once crude has been transported outside Russia and refined into petroleum products such as gasoline or diesel by third countries such as India, Turkey or China, it is no longer considered of Russian origin, and can legally be imported to the price cap countries.

'REFINING LOOPHOLE' EXPLAINED

Source: CREA & Global Witness

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3 Price cap coalition countries consist of the EU, G7 and Australia. Norway and Switzerland also implement the oil price cap policy.
Take the UK, for example. Reports by Global Witness and CREA revealed that in the first twelve months since the adoption of the oil price cap in December 2022, the UK alone imported €660 million ($711 million) worth of oil products derived from Russian crude. During the same time period, the UK’s imports of oil products derived from Russian crude sent €165 million ($178 million) in tax revenues to the Kremlin. It is the equivalent to 28% of the humanitarian aid that the UK has so far provided to Ukraine.

The main issue with the refining loophole is that it increases the demand for Russian crude and enables higher sales in terms of volume, while also pushing up their price. This, in turn, enables the Kremlin to replenish its wartime coffers.

To close the loophole, the G7 governments and the European Union must introduce a full ban on all refined oil products derived from Russian crude. This would disincentivize third countries from importing large amounts of Russian crude — a proportion of which is turned into oil products for export to sanction-imposing countries — and help cut Russian revenues. The low reliance (3%) of sanctioning countries such as the UK on oil products produced from Russian crude means that banning these imports would put no significant inflationary pressure on domestic oil prices.

Based on findings from Global Witness, US Representatives Lloyd Doggett and Joe Wilson already introduced a bill in the US Congress last year aimed at closing the refining loophole in the United States.

**RUSSIA’S “SHADOW” FLEET**

In the last two years since the invasion, Russia was able to increase its access to transport its oil on the so-called “shadow” tankers owned or insured in countries that do not implement the price cap policy. The use of “shadow” tankers undermines the impact of sanctions by allowing Russia to export its crude above the established price cap of $60 per barrel.

Despite the growth of the “shadow” tanker fleet, as of December 2023, 46% of Russia’s crude oil and oil products were carried out on tankers owned or insured in G7 or the EU. This constitutes significant leverage for the price cap coalition of Western nations, to ratchet down the price of Russian oil exports if the policy is monitored and enforced properly. Since the introduction of sanctions until the end of December 2023, thorough enforcement of the price cap would have slashed Russia’s revenues by 9% (€13.1 billion/$14.1 billion).
Despite measures imposed by the EU on the exports of Russia oil, there are currently no barriers in place preventing the Kremlin from delivering its LNG into European ports and the rest of the world. The completion of a major LNG project, Arctic LNG 2, does not only increase the Kremlin's ability to replenish its wartime budget, but constitutes another major carbon bomb, as extensively highlighted by Razom We Stand.

In fact, in 2023 Russian export value of LNG to the EU was 50% higher than in 2021 before their invasion of Ukraine. Belgium, France and Spain are among those European countries importing the largest amount of Russian LNG and made up almost 90% of the EU’s imports in 2023.
Only a complete ban on Russian LNG and its transshipment via EU ports combined with the adoption of sanctions on companies linked to Russia's LNG exports would enable the much needed closure of this important loophole, which, according to CREA, generated €1 billion ($1.1 billion) in monthly export revenue in sales to the EU alone, fueling Russia's wartime budget.

RUSSIA’S LNG NOT SANCTIONED

In 2023, EU imported 50% more Russian LNG than in 2021

90% of EU's LNG imports come via Belgium, France & Spain

Source: CREA
THE ROLE OF WESTERN OILFIELD SERVICES SUPPLIERS

Drawing on B4Ukraine data, the Associated Press revealed how major American providers of oilfield services led by SLB, Baker Hughes and Halliburton, supplied Russia with millions of dollars in equipment for months after it invaded Ukraine. This helped Russia sustain the engine of its wartime economy.

Russia imported over 5,500 items worth more than $200 million (€185 million) from the top five US firms in the sector in 2023.

The technology helped keep some of the world’s most challenging oilfields operating in a sector that provided nearly half of Russia’s federal revenues in 2021.

Shortly before the AP article was published, SLB announced it would halt shipments of technology and equipment to Russia from all SLB facilities worldwide. The company said it was “in response to the continued expansion of international sanctions,” including new EU ones at the end of June.

CRITICAL WESTERN TECH FOR RUSSIA’S OIL & GAS

Throughout 2023, B4Ukraine members, the Anti-Corruption Data Collective and Data Desk, examined how western firms have supplied hardware and engineering services to Arctic LNG 2, a massive and highly strategic liquefied natural gas project in the far north of Siberia.

Their research, published in the top European media outlets — Der Spiegel, ZDF and Le Monde — revealed new details of European firms’ support for the project since Russia’s invasion of Ukraine.

Specifically, Germany’s industrial giant Linde, which initially got involved in Arctic LNG 2 in 2017, continued shipping critical equipment (high-tech heat exchanges) for the project in the window between the sanctions being announced and coming into force. Customs records show the last delivery from Linde arriving on June 1, 2022 — five days after the sanctions deadline. Linde says it complied with all sanctions and made its shipments within the legal period.

Meanwhile, France’s engineering company Technip, which had a €7 billion ($7.5 billion) contract to manage construction of Arctic LNG 2, provided hundreds
of shipments during the implementation period before sanctions took force. It also made deliveries as late as October, but insists that these were not goods covered by sanctions.

Earlier investigations by the ACDC member Data Desk demonstrated how US, UK and Italian companies continued supplying equipment to Arctic LNG 2 after February 2022 — from state-of-the-art turbines provided by Baker Hughes to cryogenic pipe support made available by Hill & Smith.

WESTERN ENERGY COMPANIES IN RUSSIA’S MILITARY SUPPLY CHAIN

In March 2022, a French oil giant TotalEnergies stated that its operations in Russia were “completely unrelated to the conduct of military operations by Russia in Ukraine.” Yet six months after Russia’s invasion, an investigation by Global Witness revealed that a gas field partly owned by the company, regularly supplied a refinery producing jet fuel for Russian warplanes, an allegation that Total later denied.

Using commercially available rail freight data to track fuel shipments from Siberia to the refinery and onwards to air force bases, the investigation showed how Total’s supply chain was linked to fighter jets indiscriminately bombing civilian targets in Ukraine. A subsequent Global Witness investigation similarly exposed how a gas field part-owned by Germany’s Wintershall Dea supplied a refinery, which sold diesel to Russian military contractors.

A subsidiary of the chemicals giant BASF, Wintershall, was found to be selling large quantities of gas condensate, a liquid similar to crude oil, which can be used to produce jet fuel, to Russia’s state giant Gazprom.

Jon Noronha-Gant, senior campaigner at Global Witness said “Any company that supplies Gazprom in Russia risks fuelling the war. Wintershall’s presence in Russia is undermining Germany’s support for Ukraine. The German government should tax its Russian profits at 100% and use them to fund Ukrainian reconstruction.”
In order to undermine the importance of Russia's oil and gas sector to its wartime financing, we call on G7 and EU governments to step up their efforts regarding the following:

- Close the “refining” loophole
- Curb Russia's “shadow” fleet
- Ban Russia’s LNG import into the EU
- Take decisive action to reduce oil & gas consumption and end import dependency to deflate the Russian war economy

**HOW TO STRIP RUSSIA FROM ITS FOSSIL FUEL REVENUE**

- Enforce & reduce oil price cap
- Curb Russia’s “shadow” fleet
- Close the “refining” loophole
- Ban Russia’s LNG
RUSSIAN MILITARY AND INDUSTRIAL COMPLEX

In the aftermath of Russia’s full-scale invasion of Ukraine, the European Union, United States, United Kingdom, and their allies imposed unprecedented restrictions (i.e., export controls) on dual-use goods deemed to be critical for Russia’s military industry and war effort. Initially, these measures had a strong effect: Russian imports of the goods in question dropped sharply in the spring/summer of 2022. However, in the second half of that year, they recovered as supply chains adapted and Russia established schemes to circumvent the sanctions regime.

RUSSIA’S ACCESS TO CRITICAL GOODS

Data on Russia’s foreign trade in 2023 shows two important dynamics with regard to the effectiveness of export controls — or lack thereof: (1) The country continues to be able to import large quantities of critical imports for its military industry. In January-October, 2023, the imports of goods that the sanctions coalition considers to be enforcement priorities — the so-called “high priority battlefield items” — reached $8.8 billion (€8.1 billion). Looking at a broader sample of products important for Russia’s military production, the total was $22.2 billion (€20.1 billion). But (2), trade values have been declining in recent months and are noticeably lower, on average, than in the pre-sanctions period. In addition, there is evidence that Russia is paying large premiums for parallel imports due to involvement of numerous intermediaries, which means that the volume effect is even bigger.

THE SOURCE OF THE TECHNOLOGY

A recent report from a B4Ukraine member Kyiv School of Economics found that a staggering 95% of all foreign parts found in Russian weapons on the battlefield were sourced from producers in coalition countries, with 72% accounted for by US-based companies alone. The trade data also illustrates Russia’s continued reliance on goods from the sanctions coalition: Producers from these
countries were responsible for almost 45% of battlefield goods — and one-third of critical components — imported by Russia in January-October 2023.

The very fact that Russia still acquires advanced technology from the West to be used in its military-industrial complex clearly suggests that — as of now — the aggressor state is unable to produce it internally or receive it from third countries such as China. This provides coalition countries with significant leverage to close the existing export controls loopholes and effectively constrain Russia’s war effort.

**RUSSIAN WEAPONS CONTAIN ONLY 14 RUSSIAN COMPONENTS**

Foreign components in Russian weapons by country of producer

Source: KSE, NACP
CHALLENGES OF EXPORT CONTROLS ENFORCEMENT

What makes the implementation of dual-goods related restrictions complicated is that, according to the KSE study, most of the goods in question are produced in countries that are not part of the sanctions coalition, with China playing the most important role at around 60% in value terms. In addition, the goods ultimately reach Russia via sellers and shippers in third countries — primarily mainland China, Hong Kong, Turkey, and the UAE — which means that they never physically touch the coalition's jurisdiction. This is the case even if the items are produced on behalf of entities headquartered in the coalition that have outsourced parts of their manufacturing, and it creates significant export control loopholes that need to be addressed.

RUSSIA IMPORTED COMPONENTS FOR WEAPONS PRODUCTION WORTH $22B IN 10 MONTHS OF 2023

Origin of Russian imports of critical battlefield components

Source: KSE
CORPORATE RESPONSIBILITY AND SUPPLY CHAIN CONTROLS

The majority of foreign companies whose components were found on the battlefield have suspended operations and no longer sell directly to Russia. As a result, Russian buyers are compelled to operate export control circumvention schemes via third-country intermediaries. **But this fact does not absolve western companies of any responsibility.** More effective export control enforcement will not be possible if the private sector does not step up its efforts to control its supply chains. Once goods have been sold by their producers, it becomes extremely difficult to trace their whereabouts and stop them from reaching Russia.

Companies and others have to implement proper internal due diligence procedures that establish control over where their products move after the initial sale to a distributor. This is particularly urgent for those entities, whose components are consistently found in Russian weaponry on the battlefield, including Analog Devices and Texas Instruments. Together, **the two firms account for close to 30%** of all foreign components identified by Ukrainian authorities in missiles, drones, tanks, etc.

B4Ukraine members have published a [private sector guidance](#) with concrete steps to be taken by businesses to cut Russian military end-users out of their supply chains. In addition, they need to be properly incentivized to do so. For this purpose, enforcement agencies have to demonstrate an ability and willingness to investigate the trade with export-controlled goods and impose meaningful penalties in the case of violations.
China’s role remains paramount as the lion’s share of critical technology is funneled to Russia through mainland China and Hong Kong. The country accounted for close to 70% of final sales and more than 75% of final shipments of battlefield goods to Russia from January to October 2023. For the broader sample of goods critical for Russia’s military industry, the numbers are very similar. The two other countries that play an integral role are Turkey and the UAE. At
At this point, sanctions on intermediaries are incomplete and inconsistent. While it will always be possible to reroute the trade through newly formed entities—a somewhat of a cat-and-mouse game—coalition governments need to impose broader restrictions on the largest players. This would certainly drive up the cost for Russia operating its sanctions circumvention schemes.

**THE CRITICAL ROLE OF CNC MACHINERY**

Western CNC machine tools remain the backbone of Russia’s military production and a window of opportunity to stop the aggressor. There is not a single Russian tank or plane that does not have parts made with foreign-made CNC machines.

Between January-October 2023, Russian imports of CNC machinery surged to $292 million (€270 million), representing a staggering 33% increase relative to the previous year. Key suppliers, including Germany (42.3%), South Korea (20.7%), Taiwan (19.5%), collectively account for over 82%. Taiwanese companies and factories are responsible for most of the increase in Russian imports in 2023.

**TOP 3 SUPPLIERS OF CNCS INTO RUSSIA BY COMPANY HQ**

1. Germany 42%
2. South Korea 21%
3. Taiwan 20%

Collectively these three countries account for over 82% of exports

Source: KSE data for January-October 2023
Most CNC machine sales and shipments to Russia come from China, Hong Kong, and Turkey. However, there are still some direct shipments from the EU (8.6%), South Korea (7.5%), and Taiwan (5.5%). Within the EU, the largest shares belong to Finland, Poland, Germany, Lithuania, and Latvia. NATO member Turkey has been a standout accomplice in terms of shipments of CNC machines and spare parts.

CNC machinery made by key producers has continued to reach Russia since the full-scale invasion from such top producers such as Siemens (Germany), DN Solutions (South Korea), I Machine Tools (Taiwan), Spinner (Germany), and Victor Taichung Machinery Works (Taiwan). Some companies have, however, reduced their exposure to Russia, including Hyundai (South Korea), Fanuc (Japan), and DMG Mori (Germany). In some cases, trade has increased.

**TRADE DATA SHOWS EXPANSION OF RUSSIA'S IMPORTS OF FOREIGN CNCS SINCE THE INVASION, IN MLN USD**

<table>
<thead>
<tr>
<th>Company</th>
<th>2021</th>
<th>2022</th>
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Source: KSE
**ADDITIONAL KEY POLICY RECOMMENDATIONS**

Aside from incentivizing proper due diligence by the private sector and targeting third-country intermediaries, additional steps should be taken to ensure effective and credible export controls. This includes aligning and expanding dual-use goods lists, criminalizing sanctions violations in all coalition jurisdictions, and creating clear standards for compliance via negligence provisions. In addition, the comprehensive nature of 21st century export controls requires that governments significantly expand their institutional capacities. In some jurisdictions such as the EU, this should include the setting up of unified enforcement structures. The coalition also needs to consider improved multilateral cooperation, which should ultimately result in a new multilateral export controls treaty.
CURRENT SITUATION

Russia’s invasion of Ukraine on February 24, 2022 prompted a number of foreign companies to swiftly leave the Russian market due to a combination of mounting material risks as well as ethical and reputational considerations. Big western brand names such as McDonalds, Starbucks and Ford were part of a relatively small cohort of companies willing to make a moral statement in the first months following the invasion. The initial euphoria of corporate exits gave way to the “stay and wait” approach adopted and still maintained by the majority of foreign companies in Russia.

Despite the popular belief in the corporate exodus from Russia according to the KSE data from early February 2024, only a relatively small number — 358 foreign firms — have completed a full exit from the Russian market through sale or liquidation.

2,138 of foreign businesses with Russian subsidiaries at the start of the invasion remain in the country, indirectly contributing to the war through corporate taxes, supply chains and assistance to the Kremlin with its mobilization efforts, as per requirements of the Russian Partial Mobilization Order.

According to KSE estimates, the amount of taxes paid by all foreign companies operating in Russia in 2022-2023 could be at the level of $20 billion (€18.6 billion) annually.
Since its inception, the B4Ukraine Coalition has engaged with the decision-makers from over 180 companies with the objective of persuading them to conduct a responsible exit from the market of the aggressor state. Jointly with our member organizations, we have called on significant multinational companies such as Mondelez International, Unilever, Pernod Ricard, Raiffeisen or the Tinder app owner Match Group to responsibly exit from Russia.

In July 2023, B4Ukraine analyzed the remaining firms in our “The Lucrative Business of Staying” report. Ironically, the majority of the remaining businesses in Russia were found to be headquartered in the United States, Germany and Switzerland. This reality is counterproductive as coalition countries, with the US and Germany being the largest bilateral donors to Ukraine, have collectively contributed over €92 billion ($99 billion) in humanitarian, financial and military aid since the invasion. Indeed, the continuing presence of these companies in Russia undercuts the substantial military and economic assistance as well as diplomatic and moral support that their home country governments have extended to Ukraine as it fights for survival.
## Revenue in Russia

<table>
<thead>
<tr>
<th>Company HQ</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. US</td>
<td>$31bn</td>
</tr>
<tr>
<td>2. Germany</td>
<td>$20bn</td>
</tr>
<tr>
<td>3. Switzerland</td>
<td>$15bn</td>
</tr>
</tbody>
</table>

## Profit tax in Russia

<table>
<thead>
<tr>
<th>Company HQ</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. US</td>
<td>$751mn</td>
</tr>
<tr>
<td>2. Germany</td>
<td>$430mn</td>
</tr>
<tr>
<td>3. Switzerland</td>
<td>$281mn</td>
</tr>
</tbody>
</table>

Source: KSE 2022 data updated in February 2024
In terms of industries, it is worthwhile noting the fast moving consumer goods companies (or FMCGs) such as Mondelez International, Unilever, PepsiCo, Procter & Gamble, Nestlé, and Mars represent the second largest revenue-generating sector after food and beverage companies in Russia.

## THE ROLE OF FMCGS

What sets the FMCG companies apart is the fact that these global players tend to use similar or even identical justifications to remain in the Russian market, generating substantial earnings and thus prolonging Russia’s illegal invasion of Ukraine. B4Ukraine's study titled “The Business of Leaving” conducted jointly

### TOP 5 FOREIGN INDUSTRIES IN RUSSIA BY REVENUE

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industry</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Food &amp; Beverages</td>
<td>$19bn</td>
</tr>
<tr>
<td>2.</td>
<td>FMCG</td>
<td>$18bn</td>
</tr>
<tr>
<td>3.</td>
<td>Alcohol &amp; Tobacco</td>
<td>$16bn</td>
</tr>
<tr>
<td>4.</td>
<td>Automotive</td>
<td>$15bn</td>
</tr>
<tr>
<td>5.</td>
<td>Pharma, Healthcare</td>
<td>$13bn</td>
</tr>
</tbody>
</table>

Source: KSE 2022 data updated in February 2024
Specifically, most FMCGs such as Mondelez International, Nestlé or Unilever claim to be providing “essential” goods and services to the Russian people as well as caring deeply for the welfare of their Russia-based employees. While the essentiality argument is applicable in a handful of cases involving a selective group of companies and industries (such as pharma companies providing life-saving medicines), the FMCG sector players have been deliberately stretch-
ing the definition of essentiality to include chocolates, biscuits, and aftershave. The employee welfare argument is also difficult to reconcile with the obligation companies face in regards to Russia's Partial Mobilization Order as they must help with recruitment of eligible employees and the provision of material support deemed necessary by the Russian state.

**US AND GERMANY IN FOCUS**

Companies headquartered in the United States and Germany top the list of businesses that chose to remain in the Russian market two years after the full-scale invasion of Ukraine.

330 American and 277 German firms monitored since February 2022 are still in Russia. The FMCG sector features especially prominently for the German companies, topping the industry list.

**TOP 5 GERMAN INDUSTRIES IN RUSSIA (BY REVENUE)**

1. FMCG $5.6bn
2. Pharma, Healthcare $2.3bn
3. Consumer goods and clothing $1.9bn
4. Chemical industry $1.8bn
5. Food & Beverages $1.5bn

**TOP 5 US INDUSTRIES IN RUSSIA (BY REVENUE)**

1. Food & Beverages $9.24bn
2. Alcohol & Tobacco $7.83bn
3. FMCG $4.34bn
4. Pharma, Healthcare $2.7bn
5. Energy, oil and gas $1.42bn

Many of the American and German FMCG players constitute well known global household brands.
Since the full-scale invasion, the Russian government has classified the overall corporate tax data. So we rely on profit tax figures provided by the Kyiv School of Economics as a proxy for the overall tax contributions.

4 The fact that the United States and Germany boast the largest number of corporate players in Russia stands in great contrast to these countries' bilateral assistance provided to Ukraine since the invasion. In 2022 alone, German and US firms collectively paid $1.181 billion (€1.096 billion) to the Kremlin in profit tax, an underestimate of the total corporate tax contribution made by western companies in Russia.

Since the full-scale invasion, the Russian government has classified the overall corporate tax data. So we rely on profit tax figures provided by the Kyiv School of Economics as a proxy for the overall tax contributions.
Such a substantial business presence of the American and German companies in Russia undermines the efforts of the two most prominent bilateral donors and allies of Ukraine that continues to fight for the restoration of its independence and territorial integrity. It also legitimizes the war in the eyes of Russian consumers who are still able to buy the products of many western brands. But most importantly, such a substantial business presence of US and German companies highlights an acute need for government intervention in the form of business advisories (guidance) to their businesses remaining in the aggressor state.

**WHY CORPORATE TAXES MATTER**

According to KSE, only in profit tax, the Kremlin received $5.4 billion (€5 billion) in 2021 and $4.8 billion (€4.5 billion) in 2022 from all foreign companies operating in Russia. In 2021, a year before the invasion, a total amount of taxes paid was $25.55 billion ($24 billion). Since the Russian government classified data on corporate taxes in 2022-2023 but, based on other indicators, the estimated amount of taxes paid by foreign companies in 2022-2023 could be as much as $20 billion (€18.6 billion) annually.

Such amounts could have been used to produce 40,000 Iskander missiles, 100,000 Shahed drones and other military equipment used by Russia to terrorize Ukrainian civilians almost on a weekly basis. Combined with the widely-reported militarization of the Russia budget and society, the position of over 2,000 foreign companies remaining in Russia is not only morally wrong, but deeply troubling from a legal and financial risk perspective: their continued presence in the aggressor state does not only help prolong Russia’s illegal war through tax contributions, but also makes them potentially complicit in over 125,000 war crimes committed by the Russian Armed Forces in Ukraine.
THE CASE FOR RESPONSIBLE EXIT

In the last two years since the start of the full-scale war against Ukraine, through a series of legislative initiatives the Russian government has gradually — but predictably — tightened restrictions for foreign companies willing to leave their market. For instance, foreign businesses willing to exit are obliged to sell at a 50% discount while also paying at least a 10% in “exit tax” to the Kremlin, in addition to obtaining a special government permit for any large-scale exit deal.

The most egregious cases of western assets grabs came to light in July, 2023 with the expropriation of assets from the French dairy maker Danone and the Danish brewer Carlsberg. These expropriations by Putin’s cronies were clearly meant to intimidate those considering a departure from the Russia market as both companies were in the process of leaving.

In 2024, the scale and speed of the Kremlin's western asset expropriation might increase dramatically if G7 governments successfully manage to seize roughly $300 billion (€279 billion) in Russian Central Bank frozen assets and channel them towards Ukraine's reconstruction and recovery. Moscow has already threatened the West with retaliatory measures, adding to the mounting risks for those foreign businesses remaining in Russia.

While we acknowledge the plethora of existing challenges faced by companies willing to leave the Russian market at the start of 2024, the B4Ukraine Coalition challenges the recent media narrative that companies have become hostages of the Kremlin. We continue to emphasize the agency that businesses did and continue to have in making responsible decisions, in line with their obligations under the UN business and human rights framework.

Under conditions of lawlessness, the Russian government de facto already controls the assets of businesses that remain in Russia. That is why these companies must pursue an exit strategy.

In situations where no credible sale option exists, and in the face of clear direct contributions to mass human harm, companies should write down the loss and/or take the case to international arbitration or seek other legal remedies. Therefore, dropping the keys and leaving remains a viable alternative to staying and risking having an entire business being nationalized by Putin’s cronies.

According to KSE, the average share of revenue generated in Russia relative to the global share is only 3%, which is ultimately replaceable by other less risky
markets. KSE research also shows that most of those public companies that exited first were able to compensate for the lost share of the Russian market with increased prices of their shares and higher market capitalization.

In order to encourage businesses to exit Russia, the G7 governments have a responsibility to define expectations for businesses that are currently not subject to sanctions. Therefore, the B4Ukraine Coalition has called on the US, UK, and German governments in particular to issue business advisories that would inform their business actors of all material risks associated with continued business operations in the aggressor state and offer guidance on responsible exit.
CONCLUSION

Two years into Russia's unprovoked invasion of Ukraine, a critical assessment of the international response reveals a troubling reality: western businesses are continuing to help sustain Russia's war against Ukraine through the taxes they pay, the supply chains they support and the technologies they provide.

The B4Ukraine Coalition's role has been critical in spotlighting these gaps and advocating for more stringent economic measures. Our efforts have been pivotal in rallying support for the tightening of sanctions and in urging foreign businesses to exit the Russian market. However, more must be done in 2024.

It is imperative that the international community, led by the G7, revises and reinforces the sanctions framework and redefines expectations around responsible business conduct in 2024. Only through comprehensive action on the economic engines for the conflict can the international community deplete Russia's war resources and provide tangible support to Ukraine's struggle for independence and territorial integrity.