Press release

Loopholes in sanctions: EU subsidies can still flow to Russian entities

The EU has imposed massive and unprecedented sanctions against Russia in response to the war of aggression against Ukraine. Despite the wide-ranging measures adopted to limit Russian capacity in waging the war in Ukraine, there are still ways of circumventing the restrictive measures. One such loophole allows companies controlled by Russian oligarchs to access financial support in the form of European subsidies. Czech NGOs from the Resilient Europe project urge the EU member states to close this loophole.

On Tuesday, European Commission President Ursula von der Leyen unveiled in Kyiv the 11th package of sanctions the European Commission has prepared. The Commission wants to sharpen the EU's existing tools, adding more products to the EU transit ban and proposing a new tool to combat sanctions circumvention. However welcome these measures are, Czech NGOs from the Resilient Europe project point out, it is regrettable that even more than one year after the start of the Russian aggression, the loophole from the 5th sanctions package allowing companies controlled by Russian oligarchs to access financial support in the form of European subsidies has not been closed.

Under Articles 5l and 5m of the 5th package of sanctions against Russia, there are prohibitions on the participation of Russian nationals and entities in procurement contracts in the EU. They also include restrictions on financial and non-financial support to Russian publicly owned or controlled entities under EU, Euratom and Member State programmes. *„The fact that sanctioned companies cannot bid for contracts in the EU, but can still benefit from EU subsidies is absurd. There is no reason to let companies controlled by Russian oligarchs draw EU funding. This paradoxical loophole in sanctions packages needs to be closed,"* says **Lukáš Kraus**, head of the analytical unit of Reconstruction of the State. *„Why adopt a ban on the participation of Russian nationals and companies in public procurement while at the same time allowing them to benefit from EU subsidies? If the EU is willing to enact blanket restrictions on public procurement contracts, then it should be ready to extend this measure to subsidies too. This disparity is not only puzzling, but it also undermines our ability to effectively impose severe consequences on Russia for its aggressive actions,"* states **Lukáš Kraus**.

This is not a theoretical problem. Several Czech media (e.g. Seznam Zprávy, Lupa.cz) brought to the attention that the company called NVision Czech Republic, which produces electrical components for the telecommunications and automotive sectors in Votice in the

Benešov region, belongs to the multi-industry conglomerate AFK Sistema of oligarch Vladimir Yevtushenkov, who was sitting with Putin in the Kremlin on the day the war broke out. NVision continues to draw money for training its employees from the European Social Fund through the Czech Operational Programme Employment.

There are many more companies throughout Europe that are controlled by Russian entities and receive EU subsidies. *„We have developed a software that maps ownership ties across more than 100 countries. Our analysis shows that at least 242 of high-risk companies, which have hidden links to sanctioned individuals, keep winning public tenders across the EU - despite sanctions, and many of them receiving EU subsidies - legally. We have to not only use better analytical tools to better implement existing sanctions, but we also need to repair the inconsistencies of sanctions packages,"* states **Jiří Skuhrovec**, director of Datlab, Czech think-tank, which recently published a study, showing that public tenders worth €2.5 billion were awarded to companies tied to Russia since February 2022.

MEP **Mikuláš Peksa** (Greens/EFA), who referred to the Datlab data at the March meeting of the European Parliament's Committee on Budgetary Control on sanctions, provided his exclusive commentary: *„This loophole in the EU sanctions regime is a shameful oversight, and if we are serious about using sanctions as an effective tool, we must address this issue immediately. Otherwise, we cannot expect European citizens to have confidence in the integrity of our processes."*

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About the organizations behind Resilient Europe:

Frank Bold is a law organization operating six branches across three European countries. They have been serving individuals, municipalities and businesses since 1995. They promote corporate and governmental accountability, and provide legal support to civil society in human rights, environmental, and anti-corruption cases. Their offices in Prague, Brno, Ostrava, Kraków and Brussels, provide specific legal consultations to the public and local NGOs. The purpose of the **Reconstruction of the State**, which was launched by Frank Bold in 2013, was to develop a specific legislative and policy response to state capture in the Czech Republic. Political scandals and a lack of real systematic anti-corruption reforms gave momentum to the formation of an unprecedented anti-corruption coalition. It was initially supposed to be a temporary project for 2 years. However, it became an ongoing successful platform for promoting systematic changes (more than 15 passed transparency bills) and defending the core principles of democratic state and the rule of law in the Czech Republic.

Datlab Institute is a Czech economic think-tank focusing on economic data analytics. With its for-profit sister Datlab it belongs to leaders in public procurement data analytics, with clients such as European Commission, EBRD or Open Contracting Partnership. Their experience in processing procurement supplier data from 50+ countries (for instance mapping their owners from tax havens) is extremely useful in tracking Russian influence.