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RUSSIA TOMORROW:
NAVIGATING A NEW PARADIGM

SANCTIONED KLEPTOCRACY:

How Putin's kremligarchs have survived the war—and even prospered

Ilya Zaslavskiy



Russia's full-scale invasion of Ukraine in February 2022 challenged much of the common Western understanding of Russia. How can the world better understand Russia? What are the steps forward for Western policy? The Eurasia Center's new "Russia Tomorrow" series seeks to reevaluate conceptions of Russia today and better prepare for its future tomorrow.

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INTRODUCTION

➤ **B**y the time Russia launched its full-scale war against Ukraine in February 2022, the Kremlin's transnational kleptocracy had achieved substantial global reach. It had penetrated every continent with corrupt practices, boasted abundant finance for its operations, and found every vulnerable strategic point where it could challenge the United States and its allies politically. Crucially, it had also inserted itself in key global financial and natural resources value chains in a way that ensured that it would be extremely difficult for the West to disentangle from it or counter it through sanctions or other measures.

With such a high level of global infiltration, even today's unprecedented Western sanctions are only partially curbing Russia's weaponized kleptocracy. Despite setbacks, Kremlin-led networks are still capable of undermining the West and its allies. This report will seek to answer three questions.

- How and why did the West allow this to happen?
- What is the state of the Kremlin's kleptocratic networks today?
- What policy measures can combat Russian kleptocracy?

HOW DID WE GET HERE?

➤ **U**ntil the end of his first presidential term in 2004, Vladimir Putin was hiding his true intentions for imperial revanchism and deploying weaponized kleptocracy as a foreign policy tool. First, he needed to consolidate power. He also needed to leverage the global economy and rising commodity prices to augment his resources and assets, as well as those of his inner circle. This period of consolidation coincided with an era of [rising living standards](#) (measured by rising personal income, socioeconomic indicators, and other measures) as Russia recovered from the economic crisis of 1998.

Early in Putin's tenure, leading Western politicians—including UK Prime Minister [Tony Blair](#), Italian Prime Minister [Silvio Berlusconi](#), German Chancellor [Gerhard Schröder](#), and even US President [George W. Bush](#)—assisted Putin, sometimes wholeheartedly and sometimes inadvertently, in his kleptocratic exploitation of globalization. So did large Western corporations such as [British Petroleum \(BP\)](#), [Shell](#), and [Exxon](#). Many focused on securing their share of economic benefits in trade with Russia, seeing this as a win-win scenario, while [ignoring warning signs](#), including Putin's brutal war in Chechnya and his suppression of dissent.

The United States was also preoccupied with its war on terror after the September 11, 2001 attacks and the subsequent invasions of Afghanistan and Iraq. At the time, Washington shifted foreign policy attention from Europe to the Middle East, devoting resources to combat al-Qaeda and other extremist groups and, in the process, neglecting transatlantic security.

Putin and his kleptocratic proxies leveraged these US priorities to their advantage, [portraying](#) the war in Chechnya as part of the Global War on Terror—despite Putin and his security services escalating the conflict in Chechnya themselves to [consolidate their grip on power](#). The Kremlin also [pushed a model of trade](#) that prioritized big energy deals, turning Western partners into effective political lobbyists. In the process, it co-opted Western political and economic elites.

Big, high-profile deals with Western majors were the order of the day. A good example was the Tyumen Oil Company (TNK)-BP oil joint venture, which [earned praise](#) from Western media.

Vested interests and naïve Western experts persuaded the public that such deals would lead to Russia's development and integration into the global economy, cementing democratic practices. These beliefs persisted despite warning signs like the [arrest of oil tycoon Mikhail Khodorkovsky](#), the takeover of his Yukos oil company, and the [suppression of independent television channels](#) such as

Vladimir Gusinsky's NTV. The Kremlin presented such moves as part of Putin's battle against unruly oligarchs and, for the most part, the West went along.

In the case of the Yukos takeover, Western governments issued statements about the need for fair legal processes and respect for property rights but did not take strong diplomatic or economic action. I personally observed Western diplomats and energy executives in Moscow in 2006–2008, noting that geopolitics and the desire to maintain stable relations with Russia—particularly given its energy dominance—muted a stronger response from Western governments and investors. In her highly acclaimed book *Putin's People*, Catherine Belton noted that when Rosneft successfully carried out an \$80-billion initial public offering in the West in 2006 (using expropriated assets), the result was “presented as a triumph for Putin as he played host to the [Group of Eight] group of developed nations in St. Petersburg that summer,” protests and the threat of lawsuits notwithstanding.

Russia and its emergent transnational kleptocracy were steadily gaining wealth, technology, and power. As they did, they **began exporting** their own business “understandings” (i.e., criminal informal practices) to the West. Putin, meanwhile, put his weight behind elevating his loyal cadre of “**kremligarchs**”—that is, tycoons with strong connections to Putin's Kremlin regime.

It should be noted that Putin's kremligarchs are qualitatively different from the Boris Yeltsin-era oligarchs, the so-called “seven bankers” who controlled much of the Russian economy in the 1990s and enjoyed independent political power. Instead, Putin's kremligarchs are economic and political agents for the Putin regime with a track record of carrying out **both economic and political operations against the West** on behalf of the Kremlin. They have access to billions of dollars and extensive connections in the former Soviet space and Europe. They are supported by the Russian propaganda machine, as well as Kremlin-connected organized crime groups and the security services.

The term “kremligarch” is, therefore, a more accurate description of Russia's business elite under Putin than the outdated term “oligarch”. While the 1990s oligarchs were powerful businessmen who had significant influence over political decisions, the situation changed dramatically under Putin's rule. As he steadily consolidated power, noncompliant figures like Khodorkovsky were arrested, exiled, or stripped of their assets, signaling the end of any independent power among Russia's wealthy elite.

“Kremligarch” reflects the reality that these individuals are no longer even partially autonomous. Instead, they operate under the Kremlin's direct control, serving as extensions of state power. Their wealth and personal security are contingent on loyalty to Putin, and their economic enterprises thrive only through state contracts, tax breaks, and alignment with Kremlin interests. Their enterprises should not be considered businesses in the Western sense, as there is no free market or private property; the kremligarchs' ownership rights came at the whim of a systemically corrupt judicial system hijacked by Putin's proxies. The term “kremligarch” **highlights** these individuals' roles as custodians of Kremlin assets rather than free-market entrepreneurs, and it helps to dispel the misleading notion that they possess political independence.

In Putin's second presidential term, from 2004–2008, the Kremlin's kleptocratic networks took advantage of rising commodity prices, which leveraged their uninhibited penetration of the global financial system. Putin's kleptocracy worked hard to undermine neighboring states, including Ukraine, through a variety of corrupt political and economic means, such as [corruption in the gas sector](#) and [undermining of other strategic industries](#).

Putin's kremligarchs also expanded their horizons beyond the former Soviet Union and Eastern Europe—moving into Western Europe, the Middle East, Africa, and South America. Examples include the US-sanctioned kremligarch [Viktor Vekselberg's control of mining assets in South Africa](#), kremligarch Dmitry Rybolovlev's use of banking assets and cryptocurrencies to influence politics in [Uruguay](#), and the lucrative operations of the late kremligarch Yevgeny Prigozhin and his mercenary [Wagner Group on three continents](#).

The Putin regime and its kremligarchs have also tested other subversive techniques. The Nord Stream 1 pipeline project [co-opted Schröder](#), who served as German chancellor from 1998–2005 and took an executive position with the project upon leaving office. So flagrant was Moscow's cooptation of the former German leader that his name became a moniker for compromised officials—"Schröderization" refers to the process of Western politicians [being corrupted by Kremlin cash](#).

The Kremlin also became more ruthless and brazen, eliminating whistleblowers who exposed the regime's dark underbelly. The [2006 poisoning of Russian security service veteran Alexander Litvinenko](#), who had defected to the United Kingdom and was cooperating with British law enforcement, [was the most dramatic example](#). This period culminated in Russia's 2008 invasion of Georgia, which had distinguished itself for its [fight against](#) Moscow-backed corruption, its democratic reforms, and its determined effort to join Euro-Atlantic institutions. The West yet again failed to grasp that the invasion was also the [first open military shot](#) in the Kremlin's war on democracy abroad.

The Western response to Russia's 2008 invasion of Georgia was notably muted, as the West failed to impose serious consequences on Moscow. Despite initial condemnation, European leaders, particularly French President Nicolas Sarkozy, [brokered a ceasefire that largely favored Russian interests](#). The European Union and NATO were hesitant to escalate tensions, prioritizing diplomatic engagement over sanctions or military intervention. Under Bush, the United States issued critical statements but refrained from taking meaningful security steps or economic action against Russia, largely due to concerns about broader geopolitical relations and economic interdependence. The passive Western response emboldened Russia, [signaling to Moscow](#) that further territorial aggression in its "near abroad" might not provoke a strong Western backlash.

The 2008 global financial crisis [temporarily mitigated](#) Russia's openly aggressive approach. The crisis caused a dramatic drop in the price of oil—Russia's main economic driver—which led to a [significant decrease](#) in government revenues. This forced the Kremlin to prioritize stabilizing its domestic economy, [curtailing its ability](#) to invest in military expansion and to project power abroad. Russian foreign policy became [more restrained](#) as the government diverted resources

toward supporting key industries and ensuring macroeconomic stability during the downturn.

This was during the period of “the tandem,” when Putin temporarily stepped down as president in favor of his loyal crony Dmitry Medvedev. Putin remained in de facto power as prime minister and returned to the presidency in 2012. During this period, Putin restrained himself from his previous hyperactive and aggressive foreign policy role, while Medvedev **played the role** of a more cooperative president who sought to attract Western investments and could abstain from standing in the way of NATO’s airstrikes against the **Libyan regime**, even if he still advocated for a multipolar world and Russia’s special interests in the so-called near abroad.

Not only did the West refrain from imposing serious sanctions on Russia following the invasion of Georgia, but it did not enact any effective countermeasures to Moscow’s use of weaponized corruption. The West largely allowed business-as-usual trade relations with the Kremlin, while Russia **continued to export** its corrosive practices on multiple levels, including state and corporate levels. These practices ranged from monopolistic abuses by Gazprom in Europe to bribes and **cooptation of the mechanisms** of Western politicians, academics, and other influential figures and institutions. Western policy at this time was defined by US President Barack Obama’s reset with Moscow, which effectively exchanged stable relations for Russia’s acquiescence on sanctions against Iran’s nuclear program and supply routes to Afghanistan.

As a result, Putin’s team was able to leverage the reset to ensure continued appeasement by the West while the Kremlin could continue its global kleptocratic advance, rising military spending, and revival of imperialistic policies toward Russian neighbors.

For Russia, 2012 was a turning point when any hope for far-reaching domestic reform died. Putin formally returned to power following the Medvedev interregnum and made it clear that he would use any means necessary to remain indefinitely in the Kremlin. It was at this time that Putin’s Kremlin also escalated its political warfare against the West, **stepping up military support** to the dictatorial regime in Syria, **openly claiming imperial-style interests** in the post-Soviet space, holding the largest military exercises since 1991, deploying disinformation campaigns (including through adoption of an **anti-LGBT propaganda law in 2013**) to counter Western values, and giving asylum to and amplifying messages from fugitive US whistleblower **Edward Snowden**.

However, even Russia’s forceful and illegal annexation of Crimea, its armed intervention in Ukraine’s Donbas region in 2014, and the shooting down of Malaysian Airlines Flight MH17 were insufficient to awaken the West to the danger emanating from the Kremlin. Western sanctions in response were **unified but tepid**, and business continued as usual.

These sanctions focused narrowly on targeted measures like asset freezes and travel bans on key individuals involved in the violent grab of Ukrainian territory. **Only a few kremligarchs** were targeted and most of them, like Gennady Timchenko, an insider from Putin’s inner circle, already had little economic exposure to the West. While the sanctions caused economic strain in Russia, partic-

ularly with capital flight and a weakening ruble, they were not severe enough to force a policy reversal. This allowed Russia to consolidate its hold on Crimea without facing crippling consequences. Major Western policymakers continued with consumerist, transactional, or outright appeasing approaches to Moscow.

Emboldened by the tame Western response, the Kremlin became more aggressive. In 2015, Russia launched a military intervention in Syria after a request by the government of dictator Bashar al-Assad for military support in its fight against domestic opposition. This bold move, along with the widening scale of operations in Africa by Kremlin-connected mercenary groups like Prigozhin's Wagner Group, showed that Putin's regime was prepared to act as a global arsonist and extortionist in places beyond Russia's immediate neighborhood.

For many experts, Moscow's **increasing belligerence** highlighted that Putin's regime was not just an authoritarian kleptocracy focused on amassing wealth but one driven by a deeply ingrained anti-Western ideology and willing to act on these beliefs even if it meant sacrificing some financial gains.

Finally, after the majority of members of the US Congress acknowledged Russia's meddling in the 2016 US presidential elections, the criteria for sanctioning Russian officials and oligarchs (as the US administration continued to call them) expanded in mid-2017 with the enactment of the Countering America's Adversaries Through Sanctions Act (CAATSA). This marked a significant shift in US sanctions policy against Russia by expanding the criteria for targeting the Russian elite. CAATSA allowed for sanctions based not only on direct involvement in specific actions like the annexation of Crimea or gross human rights violations but also for those close to Vladimir Putin's regime. The law outlined broad metrics such as proximity to Putin, net worth, and documented corruption as grounds for inclusion on sanctions lists. This **widened the scope** of potential sanctions to include individuals integral to Russia's political and economic systems.

While conceptual applicability of sanctions expanded, actual designations lagged. The Kremlin list, published in January 2018, **was initially only a warning**. It included ninety-six Russian oligarchs and 114 senior political figures, **sending a signal** that these individuals were under scrutiny for their ties to the Kremlin. However, this list was not equivalent to sanctions. When the United States imposed sanctions in April 2018, the list was much narrower, **targeting only seven oligarchs**, including only three kremligarchs outside of Putin's tight Saint Petersburg circle: Oleg Deripaska, Viktor Vekselberg, and Suleiman Kerimov, all of whom had limited economic exposure to the United States at the time.

WHERE ARE WE NOW?

➤ **T**he start of the full-scale war against Ukraine should be seen in a dual light. On one hand, it is proof that Putin’s plan to use kleptocratic corruption and hybrid and limited warfare alone was not enough to crush Ukraine’s drive for Western integration. But it is also an example of the consequences of two decades of Western appeasement. When Russia invaded Georgia in August 2008, just as the global financial crisis was hitting, Russia’s economy was at its most vulnerable since 2000. Strong sanctions at this juncture might have deterred future aggression.

By unleashing full-scale war in February 2022, Putin took a calculated risk that the West would be as passive in defending Ukraine as it was in defending Georgia in 2008—or Ukraine in 2014.

It also shows how acceptable and normalized massive violence against peaceful neighbors as a tool of foreign policy has become for the Russian elite, [including the kremligarchs](#). They no longer feel the need to limit their actions only to hybrid war or to create façades and plausible deniability as much as they did before 2022. Russian politicians and economic agents now openly defy international economic institutions, rule of law, and norms. The kremligarchs no longer pretend to be private Western-style businessmen. Instead, they seek [more state support](#) and [try to protect any remaining trade links in the global economy](#). Some, like [Mikhail Fridman](#) and [Oleg Deripaska](#), are providing [various forms of support](#) to the Russian army.

The kremligarchs’ ability to weather the post-2022 Western sanctions shows how resilient and globally entrenched they have become. Russia is now under more sanction mechanisms than [Iran, Venezuela, and North Korea combined](#). Yet even these sanctions can [only partially reduce resources](#) available for the war as Russia continues [to expand its military budget](#).

Western countries have also taken different approaches. US sanctions targeted Russian financial institutions by cutting many of them from the Society for Worldwide Interbank Financial Telecommunications (SWIFT) international payment-messaging system, suspending stock and US dollar exchanges, and restricting access to the global financial system. The United States also stepped up sectoral sanctions against Russian exports of mineral resources and production, as well as restricting technology transfers. The United States sanctioned many, but not all, key kremligarchs (for example, Roman Abramovich, Leonid Mikhelson, and Dmitry Rybolovlev remain unsanctioned in the United States).

The European Union, United Kingdom, and other Western allies aligned with some of the US sectoral sanctions, but did so after the United States took action, and often in a limited way. Instead, they placed much greater emphasis on individual sanctions, designating hundreds of kremligarchs and other political figures

and officials— in numbers greater than those sanctioned by the United States. This reflects priorities, capabilities, and the fact that the Russian elite had used Europe as their primary destination for business and leisure before 2022.

Since 2022, **most kremligarchs** have **simply moved** their funds to Dubai and other Gulf and Asian jurisdictions outside of Western purview. Some found **visa and financial loopholes to continue** their pre-2022 lifestyles and operations. But one thing did not change: their main currency remains loyalty to the Kremlin, not their nominal assets. Not a single prominent kremligarch defected to the West or even spoke unequivocally against Putin’s war of aggression.

This is the result of the Kremlin’s carrot-and-stick policy. In terms of incentives, the Kremlin keeps money flowing to the kremligarchs. Forbes reported that Russia’s wealthiest individuals added \$72 billion to their collective fortunes over the past year, bringing their **combined wealth to \$577 billion**. This marks a recovery from 2022, when their total wealth had plunged to \$353 billion due to Western sanctions. For context, in 2021, Russian billionaires’ total wealth stood at \$606 billion.

Russia’s economy shrank 2.1 percent in 2022 under the pressure of Western sanctions, but it was still able to sell oil, metals, and other natural resources to global markets—in particular to China, India, and the Middle East—and to **increase its kremligarchs’ wealth in 2023**.

Putin has repeatedly touted **the failure of Western sanctions** to cripple Russia’s economy, highlighting that the country’s gross domestic product (GDP) grew by 3.6 percent in 2023, outpacing any of the Group of Seven (G7) nations responsible for the sanctions. There are different views on the quality of this alleged economic growth, with **some Western experts arguing an economic catastrophe** is lurking for Russia beneath its nominal GDP growth, possibly as early as 2025. Russian opposition figure Vladimir Milov **also supports** this view, arguing that Russia’s wartime growth is unsustainable, artificially is driven by state spending, and paints a misleading picture of the country’s economic resilience.

Despite the debate over Russia’s true economic performance, the size of the nominal economic decline or growth is less relevant when it comes to the effect of sanctions on kremligarchs. As long as the political system remains intact and can sustain the war effort, the loyal kremligarchs’ wealth and place in the system are largely preserved.

More important than the carrots are the sticks. The Kremlin has put in place a highly repressive system that commandeers resources for the war effort without any significant resistance, including from the kremligarchs. Putin’s Russia is shifting to a **“mobilization economy,”** in which state power is used to redistribute property, excluding disloyal business figures and transferring their assets to a new, Kremlin-loyal elite, adding new people to the ranks of old kremligarchs. In this system, loyalty to the Kremlin must be proven constantly.

In this sense, the kremligarchs’ staunch loyalty to Putin resembles a Mafia mentality that does not allow one to leave the boss’s operations without explicit permission. The **wave of suspicious accidental deaths** among top Russian officials and important business figures after 2022 is a constant reminder to all kremligarchs that their perceived disloyalty will be punished through Mafia-style executions.

WHAT CAN THE WEST DO ABOUT THE RUSSIAN WEAPONIZATION OF KLEPTOCRACY?

➤ **T**he guiding principle of any policy recommendations is that Western policymakers need to take the kremligarchs seriously as a security threat. They are among the most effective agents of the Kremlin abroad, employing sophisticated kleptocratic methods with the support of Russia's propaganda machine, security services, and organized crime networks.

Such wide acknowledgement will enable Western governments to allocate more resources to establish a systemic whole-of-government response to the threat. Sanctions should target not only family members or nominal owners of kremligarchs' assets, they should also include those who aid various operations of kremligarchs against Western democratic values, norms, and institutions.

Western policymakers should be skeptical of [arguments suggesting](#) that the West try to divide the Russian elite through the selective application of sanctions. There are no credible examples of such tactics working.

Below is the list of improved sanctions that would be more effective in assisting Ukraine and improving Western security against Russian revanchism.

1. Create a multilayered, systemic response to stop imports of electronic chips, other sophisticated equipment, and raw materials used in Russia's military-industrial complex.

Over the last two years, Western media have reported extensively on illegal smuggling or the exploitation of sanctions loopholes that allowed Russia to get access to critical technology to produce drones, missiles, and other weaponry used in Ukraine. Kremlin surrogates and covert agents have been instrumental in these smuggling operations using third countries and sophisticated manipulation of financial mechanisms. [A recent report](#) from the Independent Anti-Corruption Commission shows that, via third countries, as many as fifty-eight Russian enterprises get dozens of parts for Russian jets from up to two hundred enterprises outside of Russia.

Given the scale of such smuggling, imposing sanctions alone is not enough. Sanctions should be monitored closely, and sanctions policies should be **updated regularly** to be effective. Western governments **should ensure** stricter export controls, and manufacturing companies should monitor and analyze the movement of dual-use goods abroad with enhanced due diligence and advanced know-your-customer policies.

Western governments have slowly reacted by increasing staff in the Office of Foreign Assets Control (OFAC), the Bureau of Industry and Security (BIS), and similar bodies in G7 and EU states, expanding the list of prohibited items and passing some of the monitoring responsibilities to the banking sector. These are all useful, albeit limited and reactive, steps.

A more systemic and lasting solution would be not to shift the enforcement burden from the understaffed public sector to the private sector, but to beef up the public sector and create better coordination **“among customs, export control agencies, intelligence services, and financial institutions to map out the entire supply chain and identify evasion tactics.”** With enhanced capacity, the United States **would be better positioned** to implement a robust compliance system for the manufacturing and technology sectors, similar to what was done with banks post-9/11, using collaboration, warnings, and enforcement actions to curb the flow of Western-made components to Russia and ensure adherence to know-your-customer principles.

2. Enforce and expand sanctions on Russian fossil fuel exports by the United States, G7, and European Union.

Russia’s full-scale invasion of Ukraine would not have been possible without its fossil fuel revenues, which have now **surpassed** €780 billion globally and continue to rise.

Stemming these flows requires **better enforcing and lowering** the \$60-per-barrel oil price-cap mechanism created by Ukraine’s Western partners. The West can do this by limiting the number and scope of licenses that facilitate oil trade financing. To improve enforcement, banks’ ability to support the sale of Russian oil above the price cap should be restricted by the US with restriction measures supported by other Western allies. This could be achieved by **tightening the scope** of licenses that allow financing for oil trade by US Treasury and its G7/EU counterparts. They can also enhance enforcement by introducing (or threatening) secondary sanctions against third-country insurers, traders, and shippers who help Russia evade the price cap. This would penalize entities outside of sanctioning nations that assist Russia in circumventing the cap. This would also help improve the attestation mechanism to ensure that buyers and sellers provide shipowners and insurers with adequate pricing information to verify that Russian oil is being sold below the price cap, **thus ensuring compliance**.

Another key is **closing the “refining loophole,”** which allows EU and G7 countries to import oil products—mainly diesel, jet fuel, and gasoline—produced from Russian oil at refineries in third countries such as India, Turkey, or the United Arab Emirates.

The European Union must go beyond its limited liquefied natural gas (LNG) sanctions (and the United States should assist it politically) by adopting a **full embargo** on Russian LNG, as current measures barely affect Russia's gas revenues. With Russia recently surpassing the **United States as Europe's top gas supplier**, a complete ban is essential to stop the **booming trade in Russian LNG** (especially by Novatek, a company owned by kremligarchs Mikhelson and Timchenko), which continues despite prior bans on coal and crude oil.

New oil and gas production and new export projects should be sanctioned. Just as sanctions helped halt the development of Arctic LNG 2, other as yet unsanctioned Arctic projects—including the already functioning Yamal LNG and prospective pipelines in Siberia, from within Russian oil fields to its Arctic ports, and from gas fields in Western Siberia overland to China—should be prevented from realization. US sanctions should counter these efforts. Actions **could include** pushing all LNG service companies out of the sector through the threat of secondary sanctions and imposing further sanctions on new Russian production projects (such as Vostok Oil and the Yamal LNG expansion) along with the corresponding new export flows from these projects.

Western governments should also pressure SLB (formerly Schlumberger) to swiftly exit Russia, as its continued operations and technology support **are crucial** for enabling Russian oil and gas projects, especially following the departure of other Western competitors after the 2022 Ukraine invasion.

3. Create a systemic Western response to the growing problem of the Russian shadow tanker fleet.

Closely related to the question of poor enforcement of the oil price mechanism is a massive illicit development—the Russian shadow oil and LNG tanker fleet—which has been **formed over the last two years** by Russian transnational kleptocracy. This matter is so crucial that it deserves detailed analysis.

In setting up the shadow tanker fleet, Russia has followed other bad actors like Iran, Venezuela, and North Korea, which have been under various embargos for many years and have developed their shadow fleets to circumvent sanctions. Russia, however, has taken this kleptocratic endeavor to the next level.

The G7 and EU oil price cap was introduced in 2022 to prevent Russian oil exporters from legally selling crude oil at more than \$60 per barrel, with the goal of reducing Russia's oil revenue and its ability to wage the war against Ukraine. The necessary condition for this measure to be effective is a ban by the UK and other Western governments on Western insurance companies providing **protection and indemnity (P&I) insurance** for Russian oil cargo sold above the price cap.

In response, learning primarily from Iran's experience over the last two decades, Russia has created an unprecedented shadow fleet of hundreds of oil tankers whose primary goal is to sneak oil above the price cap without proper P&I insurance. This enabled the Kremlin to largely circumvent the cap and to add hundreds of billions of dollars and euros to its war chest. Multiple kremligarchs from **Novatek**, Sovcomflot (and its newly set up proxy companies in the Gulf countries), **Rosneft**, Lukoil, Rosatom, and **other entities and proxies are involved in this massive endeavor**.

While there are varying estimates regarding Russia's financial ability to increase such [shadow fleets](#) at the same rapid pace, what it has already achieved is staggering. Just in the last two years, the shadow tanker fleet directly servicing Russian oil exports is estimated [at between three hundred and 1,400 vessels](#). No one knows the number for sure because Russia has invested billions of dollars in this new shadow market and elevated it to a massive and global phenomenon with multiple destinations including Gabon, Liberia, Cameroon, Palau, the Cook Islands, Saint Kitts and Nevis, Vietnam, the Marshall Islands, and Panama acting as flag-of-convenience states. This means that Russian proxies can operate hundreds of ships that fly flags from countries with lax maritime regulations, making it nearly impossible to track ownership and the true origin of cargo.

Through its shadow tanker fleet, Russia is also exporting other corrupt practices, using offshore accounts, cryptocurrency, and illicit finance to pay for change of ownership, circumvent local maritime regulations, and hire uninsured and otherwise "flexible" vessel staff. Companies frequently hire crews that might not have strong moral principles or industry standards, and that are ready to switch off transponders, manipulate automatic identification systems, forge documentation, do dangerous ship-to-ship transfers in open seas, or engage in other operations that would obscure ship routes or crude origin from G7 or EU authorities.

Worryingly, around [80 percent](#) of these shadow oil tankers are more than fifteen years old and unreliable, and they represent a serious risk of malfunction, collision, spillage, or other human and environmental damage. Given the enormous reach of the Russian shadow fleet, it is only a matter of time before a major incident occurs. Such a disaster could result in massive amounts of taxpayer money spent in countries around the world to clean up oil spills, as well as shipping companies spending huge sums on damage caused by old uninsured vessels. The increasing risk of disaster can impact both the global environment and that of countries in whose waters these accidents occur, as well as legal shipping. The escalating situation presents [significant risks](#) to compliant vessels, the environment, and the affected countries overseeing the waters in which these incidents occur.

The Atlantic Council's [Elisabeth Braw](#) is right to point out that the potential danger is a choice by Russia, which is instrumentalizing the shadow fleet and deliberately passing all risks associated with it to coastal states.

In turn, Russia is weaponizing the export of corruption and undermining international rules, of which the shadow fleet is just one example. Allowing hundreds of potentially dangerous old vessels with owners and crews open to illegal activity should be seen in the larger context in which [Russian hackers](#) try to [damage Western infrastructure](#) and [commercial ships engage in massive espionage against strategic maritime assets](#). The Russian military deliberately provokes [NATO ships and warplanes](#), and the Russian navy tries to [illegally interfere](#) with the [global maritime trade in the Black Sea](#).

To respond to the growing problem of the Russian shadow tanker fleet, policy-makers must first consider that the potentially massive threats coming from the shadow fleet are not only about the war in Ukraine and undermining of Western sanctions, but about multiple impacts on the environment and different coastal countries around the world. To address this, the following pragmatic instruments should be used.

- Western allies should enable enhanced intelligence sharing on tanker movements and ownership structures.
- Countries allowing their flags to be used by shadow fleets should face diplomatic and economic pressure from EU and G7 states.
- EU and G7 entities, among others, should **prevent the sale of tankers** to operators who do not comply with the price-cap policy, and **to Russian or undisclosed buyers**.
- OFAC and European sanctioning agencies should step up their sanctioning of individual oil and LNG tankers from a few vessels to hundreds, and should also step up enforcement of oil price-cap implementation.
- The United States, European Union, and Western allies should enable greater coordination on sanctions, including bans on P&I insurance and maritime services to LNG tankers licensed by Russia for navigation through the Northern Sea Route in the Arctic.
- New sanctions should be added to target not just the oil itself, but **also all the companies and individuals** across the value chain who facilitate its transport using shadow fleets. If the shadow fleet is downsized and mainstream compliance is tightened, **this would** incentivize Moscow to revert to a volume-over-value export strategy.

Western allies should realize that the price for Russia's military upper hand in Ukraine, achieved through petrodollars, or for massive environmental accidents, is greater than the risk of a spike in global oil prices. As such, the oil price cap should be lowered and secondary sanctions on non-cap countries should be gradually introduced so that all Russian oil exports are banned.

4. Expand the list of Russia's export commodities to be sanctioned by the United States, G7, and European Union.

Russia relies heavily on exporting metals like aluminum, nickel, copper, zinc, and cobalt. But Russia's significance to global markets is limited, constituting no more than 6 percent of global supply in any of these commodities. There is [ample evidence](#) to refute the widespread concerns that imposing sanctions on Russia's metal exports would disrupt the global economy. Of course, there is a difference between export targets with a varying degree of disruption and unintended consequences for Western economies that need to be constantly assessed. That is why, in 2022, the EU [had to choose](#) which particular steel and other metal products it could sanction and decide on long phase-out periods for them. In April 2024, the United States and the United Kingdom [jointly announced](#) a ban on imports of Russian aluminum, copper, and nickel, pushing Russian metal producers to rely even more heavily on China to facilitate production and exports.

Any sanctions in the metals sector will carry a price tag for the West. However, we should not forget that the revenue generated from these metal exports still plays a significant role in fueling Putin's aggressive military actions. Thus, sanctioning more of Russia's [metal export commodities](#)—including the sensitive subsidiaries of NLMK in Europe and among joint ventures of Rusal and Nor Nickel with Chinese companies—is imperative. The West must focus on hampering Putin's ability to finance further aggression, as long as the adverse effects for the West and the global economy are limited.

APART FROM SANCTIONS, WHAT ELSE CAN THE WEST DO ABOUT THE RUSSIAN WEAPONIZATION OF KLEPTOCRACY?

➤ **S**anctions and their better enforcement alone are not a panacea. As Russia continues its war against Ukraine, it is evident that relying solely on sanctions and their enforcement is insufficient to address the multifaceted challenges posed by Russian kleptocracy. The United States and its allies need to adopt a nuanced and comprehensive strategy that goes beyond sanctions. The West should craft an updated containment strategy that recognizes the role of Russian kleptocracy in fueling aggression and destabilization and addresses the root causes of the problem, while minimizing the risk of escalation.

Moreover, Russia's alliances with other authoritarian regimes, such as China and Iran, amplify the risk of broader geopolitical destabilization and that these kleptocracies will continue learning from each other to undermine Western democratic institutions and security.

An updated containment strategy would crack down more forcefully on Russian financial flows and other global avenues of political and economic infiltration. This entails not only targeting sanctioned individuals and entities but also disentangling the Western financial system from the networks of corruption and illicit finance that underpin Putin's regime. The West needs to acknowledge that Russia has chosen to engage in a hybrid war against the West and hot wars against its partners. Western leaders can't afford to keep open business and legal avenues that Russian kleptocracy freely uses. The West must consider options to reduce all trade with Russia, as it did during certain periods of the Cold War, and must designate Russia as a terrorist state like North Korea for its war crimes, political murders, and other horrific actions.

The West must learn from past mistakes and acknowledge the cost of appeasement in dealing with the anti-Western kleptocratic Kremlin regime. Two decades of diplomatic overtures and economic engagement have only emboldened Putin and his kremligarch network and facilitated their expansionist agenda. As the war in Ukraine continues, the West cannot afford to repeat the same mistakes. Instead, it must adopt a firmer stance that prioritizes the defense of democratic values and the rule of law, and that necessarily includes full economic and financial disentanglement from Russia.

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