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Mapping the Russian influence in the EU procurement

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Key findings

- We analyzed big data on companies' ownership structures and linked them to public procurement data.
- We found:
    a. 6.278 companies tied to EU-sanctioned persons,
    b. 3.165 other companies tied to persons on Navalnyj's FBK list or sanctioned by other countries but not by the EU,
    c. 30.092 other companies controlled from Russia.
- Consequently, at least 39.535 companies should not be getting any above-threshold public tenders in the EU.
- They seem to do. **Full sample of 242 procurement suppliers tied to Russia got tenders worth 2,5 bln. EUR since the invasion. Their average win rate did not decline at all in 2022.**
- A possible explanation is that public buyers lack trustworthy data on company ownership structures. We demonstrated that in the Czech beneficiary ownership registry only 35 % of Russian / sanctioned owners are properly recorded.
- Most of the ownership ties leading to sanctioned persons go through 2 or more companies, making them difficult to track for regular business entities.
- EU sanction lists are considerably smaller than those of other countries. This study suggests how further sanctions might be targeted to maximize impact.

We thank to Bureau van Dijk and Opensanctions for pro-bono provision of valuable inputs.

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Background

EU sanctions against the Russian aggression introduced in 4/2022 and further extended on a roughly monthly basis impose complex requirements on all business entities in the EU. It is a difficult exercise to verify whether a legal person should be subject to sanctions. This is especially true for entities without previous experience with anti-money laundering (AML) regulations. Such complexity rises even further with the obligation to identify entities controlled from Russian territory or by the government of Russia, as required by the 5th sanction package from mentioned public authorities (but not exclusively from them).

We aim to show that such an issue might lead to very weak compliance with sanction rules across the EU public sector. We however also demonstrate the feasibility of an EU-wide company screening based on available big data. With such help, public and private entities might be considerably more effective in applying the sanction rules.

Data and methodology

For our analysis, we combine several approaches and datasets to identify potentially sanctioned entities. The primary data sources are:

1. Orbis database of worldwide ownership ties by Bureau van Dijk[1], including data about company beneficiaries, managers, and other registry information.
2. Czech business registry, Beneficiary owners registry.
3. EU, USA, and other sanctions lists, Navalny's FBK lists and relevant person lists published by various bodies in Ukraine. Valued input is also a consolidation of some of these sources conducted by Opensanctions.org.

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[1] The database was kindly provided free of charge. For provision of full results to third parties an extended license needs to be obtained.

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4. Tender electronic daily (TED) registry of public procurement, processed through the DIGIWHIST framework.

We further produce custom software to use these inputs and perform various tasks needed to identify relevant risks:

1. Produce a complete list of sanctioned (or potentially sanctioned) entities, politically exposed persons (PEPs), and their relatives.
2. Identify their direct ties to business entities (such as share ownership), as well as other ties of the Russian government or persons seated in Russia - these, of course, need to be treated separately, due to the different relevance concerning sanctions regulation.
3. Explore ownership structures to identify a network of business entities that are indirectly subject to sanctions as well
4. Identify their role as suppliers of public procurement (TED, national procurement registries using DIGIWHIST project outputs) using available supplier identifications - names, addresses, ids etc.

As a result, we get a list of EU-based companies that **might be subject to sanctions** due to recently (2021+) recorded ties to Russia or sanctioned persons. This approach, as well as any approach working with public sources such as business registries, is inherently lagged. We are likely to falsely identify companies where the sanctioned person has only recently got rid of his shares or influence. Nevertheless, such identified risk might also still be relevant despite the relevant person being crossed out of public registries. This might have various causes - from using proxies to hiding ownership structure to evade sanctions.

An example of such uncertainty might be the company Strabag, which claims to have cut money for Mr. Deripaska, yet he stays its indirect shareholder[2].

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[2]
https://www.strabag.com/databases/internet/_public/content.nsf/web/SE-PRESSE.COM-ADHOCPRE SSE-2022-STRABAG%20SE:%20Kernaktion%C3%A4re%20der%20STRABAG%20SE%20vereinbar en%20neues%20Syndikat%20und%20werden%20unter%20Beteiligung%20der%20Gesellschaft%20

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Consequently, he potentially benefits from any contract awarded to the company, as the value of his shares rises. We, therefore, include Strabag and its daughter companies in the studied sample.

We then further identify a set of tenders, awarded to those companies. Though it needs to be stressed, that due to contract awards data quality variations, **we are only able to identify and examine an ownership structure of a sample of public tender suppliers**, hence the identified volumes need to be treated as minimum estimates of the total volume of risky tenders.

Results

Ties to Russia

We identify 6.278 companies tied to EU-sanctioned persons, 3.165 other companies tied to persons on Navalnyj's FBK list or sanctioned by other countries but not by the EU, and 30.092 other companies controlled from Russia[3]. Consequently, **these at least 39.535 companies should not be getting any above-threshold public tenders in the EU**.

The following map depicts the distribution of the companies across EU countries, though this results does not necessarily reflect only actual size of Russian presence, but also source data quality (following typically from flaws in domestic registries). There are gaps in some countries' data (i.e. Poland, Sweden), where true figures might be considerably higher. Tailored analytics can improve the results in most of the countries (in Czechia we nearly doubled the figure by combining multiple

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ein%20Pflichtangebot%20erstatten#?men1=4&men2=3&sid=4403&h=5&l=EN "28,500,001 STRABAG shares held by MKAO Rasperia Trading Limited ("Rasperia") (indirectly controlled by Oleg Deripaska)."

[3] These have been excluded from receiving public money by the fifth package of restrictive measures against Putin's regime in response to its brutal aggression against Ukraine and its people https://ec.europa.eu/commission/presscorner/detail/en/IP_22_2332

approaches and databases). Such fact might be illustrated by our earlier result, that in **Czech beneficiary ownership registry only 35,5 % likely Russian-owned companies seem to have a correct record[4]**.
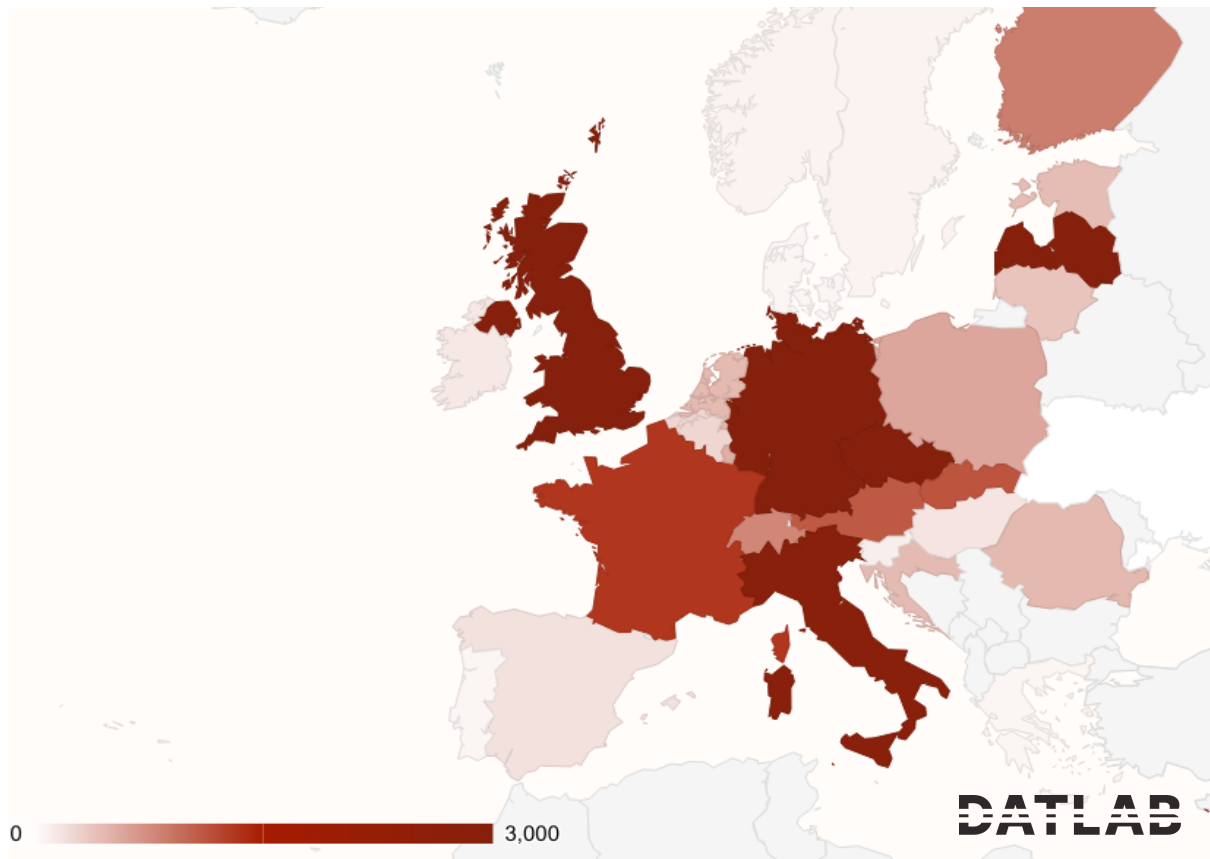

Figure 1 - Numbers of companies with identified tied to Russia and/or sanctioned persons. UK, Germany, Czechia have more than 3000 of such identified companies.

In order to illustrate the complexity of identification (if we would be left alone with national data resources) we further examine the length of ties going from the European daughter company to the Russian / Sanctioned person. We estimate that **65 % of these companies are tied to the sanctioned persons indirectly through an ownership chain of at least 2 other companies**. Again, making it relatively complex to unveil in common supplier scrutiny.

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[4] https://datlab.eu/blog/analyza-spolehlivosti-evidence-skutecnych-majitelu/ (Czech only)

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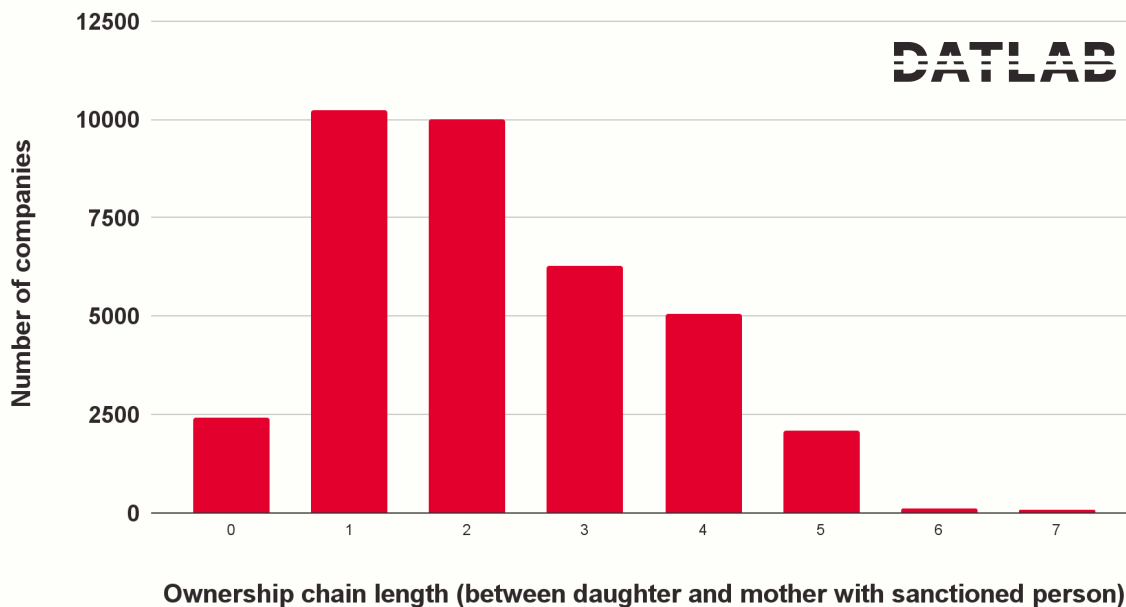## Ownership ties to Russia and sanctioned persons

Figure 2 - Observed lengths of ownership chain leading to sanctioned owner / Russia. Over 65 % of risky ties go through 2 or more companies (and typically 2 or more countries).

Public procurement

We identified 242 companies tied to Russia / sanctioned persons which have been awarded public contracts since 2021. Both in terms of volume and tender count the pace of these companies winning contracts seems unchanged, with regular random variations around long-term average of roughly 200 mil. EUR per month. We observe 2,5 bln. EUR awarded to companies which are (or most recently were) tied to Russia.

It needs to be noted that Strabag and its subsidiaries form roughly 60 % of the total risky procurement volume. Yet the observed trend remains the same even if Strabag is excluded from the sample.
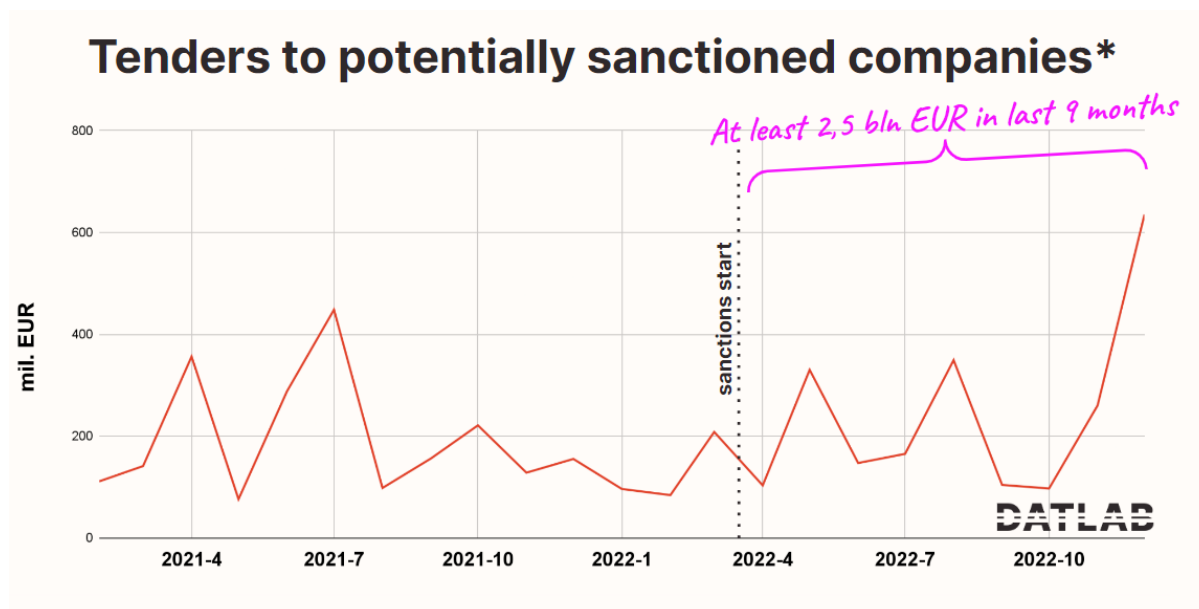
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Figure 3 - Volume of tenders awarded to companies with tie to sanctioned person / Russia shows no measurable impact of the sanctions.

However, these figures are likely incomplete for multiple reasons connected to the quality of procurement and ownership data, following from the possibility of hiding assets through opaque ownership networks in tax havens.

A rough guess is that our sample is missing over 50 % of sanctioned companies, meaning that the risky procurement volume might be considerably higher. Unfortunately, due to the lack of information, neither we nor the relevant contracting authorities may be able to identify them. Our approaches are, however, in the state of proof-of-concept and might be further improved.

There are two main interpretations of our results:

A. The sanctions were unsuccessful, as the Russian influence persists in procurement suppliers. The public buyers may not see the ties and risks we do, or they do not have sufficient evidence to exclude bidders or terminate contracts.

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B. The sanctions were successful, and the Russian capital was quickly pushed out of public procurement suppliers after 3/2022. Thus, all our results are false positives because some of the data on firm structures are outdated.

From our experience of being in advisory role to multiple Czech public buyers, as well as cooperating with multiple branches of OCCRP journalists network, we infer that neither explanation strongly dominates. The majority of the companies in the procurement business indeed have removed the sanctioned persons and/or ties to Russian companies from their observable ownership structures, the minority has not. It remains questionable (and should be a subject of thorough investigation) whether the ties have really been cut, or the ownership ties were blurred to the point where a public buyer does not have sufficient information to exclude the company from the tender.

Sanctions listing

We combined multiple sanctions lists to better distinguish companies tied to Russian government or oligarchs from the others controlled by "regular" Russians. In the process we got an opportunity to compare the scope of various sanction lists - in terms of size, but also intersections. This is important, as it effectively demonstrates the ability of various countries to impose sanctions.
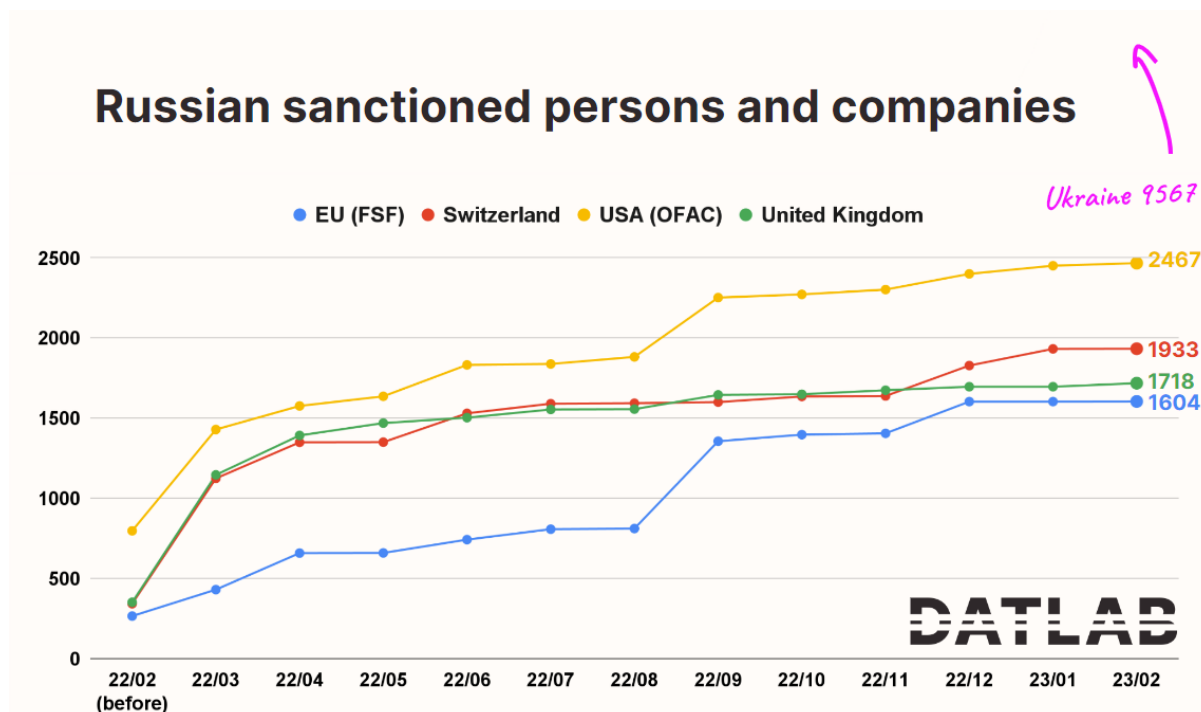
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Figure 4 - Numbers of sanctioned persons and companies tied to Russia in different jurisdictions.

We compared the scope of sanction lists of the EU, USA, Switzerland, United Kingdom and Ukraine. Into our sample we only included sanctioned companies and persons with a clear link to Russia / Ukraine (such as nationality, seat etc.). When there are multiple existing lists (USA, Ukraine..) we compare the one related to asset freezing.

We see that the pace of imposing sanctions strongly differs. Whereas until February 2023 Ukraine imposed sanctions on 9.567 companies and individuals, in other jurisdictions this was considerably less, with the EU being the most conservative actor in the field. We also examined how this is mitigated by national sanction lists within the EU (France, Poland, Belgium, ..) but none of the mentioned countries added a significant number on top of the EU list (the closest to getting 100+ was Poland).

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We further examine, how the sanctions lists overlap. Effectively, EU, USA and UA have targeted 882 same companies and individuals (such as members of the Russian State Duma), yet there are significant differences in further sanctions targeting. Giving concrete examples is not a purpose of this paper, we are only making a point that by comparing various sanctions lists, we might arrive to useful shortcut towards effective sanctions targeting - as for example 804 persons and firms are sanctioned by both Ukraine and USA but not EU. For sanctioning these a reduced amount of work might be necessary, as some evidence has already been gathered by US and Ukraine counterparts.
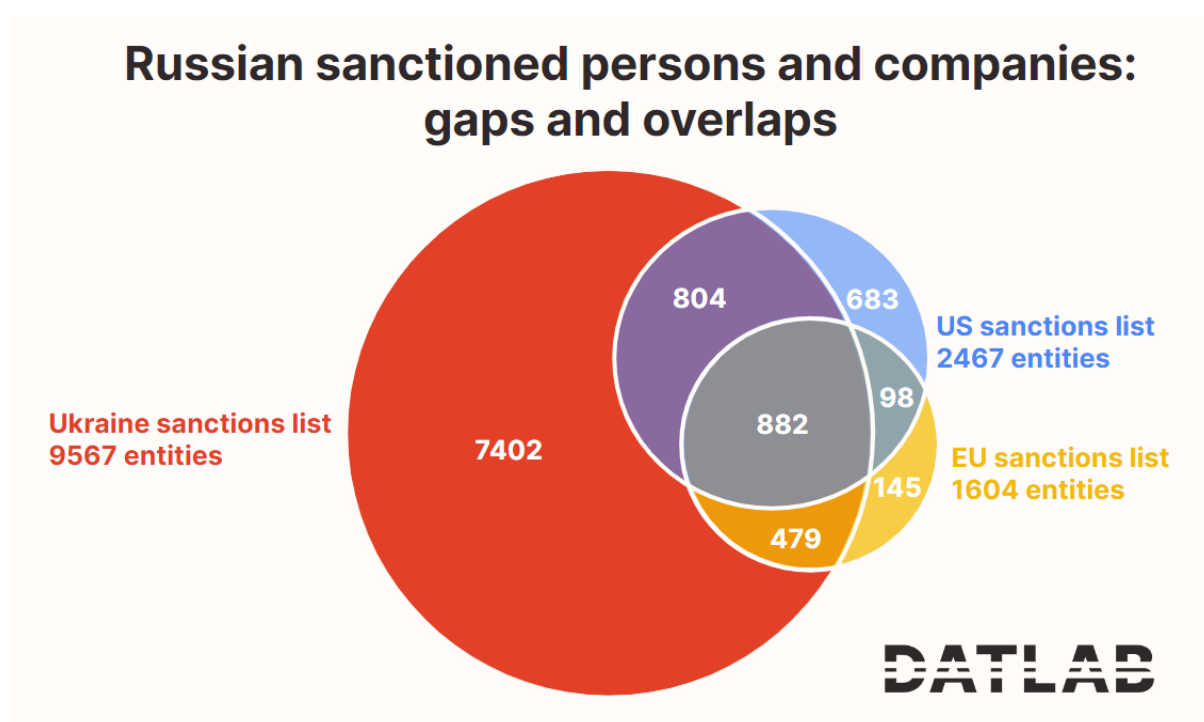

Figure 5 - Overlaps between sanction lists of Ukraine, USA and EU.

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Here are a few examples of persons and firms not sanctioned in EU, but sanctioned in other mentioned countries.

- **Yury Trutnev** - deputy Prime Minister of Russia

- **Maria Lavrova** - wife to Sergey Lavrov

- **Roman Starovoyt** - governor of the Kursk Region, Member of the Russia State Council, United Russia official

- **Viktor Medvedchuk** - pro-Kremlin Ukrainian politician, close friend of Putin

- **Viktor Vekselberg** - Russian oil/aluminium/energy producer, procurement supplier in 7 EU countries

- **MARSHAL.GLOBAL** - Russian asset management company facilitating sanctions evasion

- **Dalzavod Ship Repair Centre** - builds and repairs Russian military ships

However, it is not the raw count of persons, which makes sanctions effective. As stated above, within the EU there are 6.278 companies tied to EU-sanctioned entities. On top of that we see 3.165 companies within EU tied to persons on other sanction lists. Hence roughly speaking that copying US and Ukraine sanction lists to the EU might in general broaden their impact by 50 %. From what we see, a more tailored approach would suffice. In order to maximize impact, the EU could choose to target only the individuals and companies with assets/businesses within the EU (this analysis might serve as a proof-of concept).

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Implications - tools needed

We find that 65 % of identified ties to sanctioned persons have an ownership chain of length 2 or higher, typically spanning over a third country. Hence the standard simplistic tools for checking company owners in local registries might prove inefficient, including national beneficiary owners registries. This necessarily becomes even more difficult by companies attempting to blur their ownership structure in order to evade sanctions. This demonstrates a relative weakness of AML legislation, but more importantly: it results in the potential failure of many public and private bodies to practically follow sanction rules. This is what we document in practice by monitoring tender awards to the companies with recent ties to sanctioned / Russian companies.

Should the sanctions indeed work, both public and private sectors need to be provided with more robust tools to verify company owners as well as the AML regulation to enforce more reliable beneficiary ownership reporting. Otherwise, the sanction rules are likely to be frequently violated - possibly without knowing and without being accountable.

Our Czech website sankce.datlab.eu is a simplistic example of such a tool. Though we do not provide inputs sufficient for legal actions, we offer a robust screening that may trigger further investigations. However, if the EU wants to see its regulations work, it might need to provide the market with more information than just a list of Russian names.

We hope that our output helps in realizing that not only do we fail to track Russian assets, but we also fail to track economic influence in general. Stronger AML rules and their enforcement will likely not become effective until the end of this crisis. But we should take this warning seriously - next time, we may face a similar issue with the influence of China or in curbing the use of tax havens.

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About the authors

In Datlab, we specialize in gathering public procurement data and identifying related risks. In 4/2022 we published a "temporary sanction list" to enable the Czech public sector and journalists to effectively map entities with a high risk of being sanctioned. One month later, we launched an online checking tool sankce.datlab.eu, which the Ministry of Regional Development recommended to public buyers for supplier screening. Currently, the tool is used by 400+ public entities.

Our EU-wide results are used by several OCCRP branches; we are in the process of negotiating their implementation by several governments across the EU.

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