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# Sanctions “Yet to curtail Russia with any compelling effect.”

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by Stuart Todd Mar 26, 2024



Last month both the European Union and US once again stepped up sanctions against Russia in retaliation for its invasion of Ukraine in February 2022.

However, the circumvention of such measures continues to be a major issue, fueling suspicions that to some degree freight transport and logistics providers are complicit, along with their cargo-owner customers, in what amounts to illegal trade.

A recent study by the IESEG School of Management, based in Lille, in northern France, found “statistical evidence that the EU sanctions are massively circumvented” for so-called “high priority items”, which are subject to EU export restrictions and include manufacturing equipment and electrical components with potential military applications.

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It highlighted a sudden increase in the EU's exports of such items to Turkey, the United Arab Emirates (UAE), Kazakhstan, and other 'Russia-friendly' nations.

## Surge By Third Countries

"The surge of these purchases by third countries is too huge to be entirely caused by an increase in local demand, so that it can be suspected that a big part was thereafter exported to Russia," the study added.

Automotive parts also fall into the "dual use" or "high priority item" category as they could be repurposed and used in the production of weapons.

For that reason, carmakers have an undertaking not to ship cars to Russia. However, if UK auto makers are taken as an example, an extrapolation of export data indicates they continue to sell a significant number of vehicles, especially luxury models, to Russia indirectly via former Soviet states, such as Azerbaijan.

Recent figures from the HM Revenue & Customs (HMRC) show that while direct car exports to Russia have remained at zero, since sanctions were introduced, in January this year UK-manufactured cars valued at £43m found their way to Azerbaijan.

The analysis also reveals that in 2023 the UK exported £273m of vehicles to Azerbaijan – a flatline economy where consumer spending power is relatively low – an increase of more than 1,800% compared with the five-year period preceding the invasion.

Turning to UN international trade data, it indicates that since the invasion of Ukraine, Azerbaijan has recorded an unprecedented increase in car exports to Russia.

This all adds up to weighty evidence that sanctions are being circumvented.

In an interview with *AJOT*, Ram Ben Tzion, co-founder and CEO of digital freight vetting platform Publican Trade Solutions, argued that two years into the war in Ukraine "the sanctions have yet to curtail Russia with any compelling effect."

After Russia invaded Ukraine in 2022, Western nations imposed some of the most extensive sanctions and trade restrictions in history, he noted. "But ever since the conflict began, it (Russia) has cleverly maneuvered itself quickly with alternative routes for both imports and exports."

# Profits in Opaque Trade Structures

According to Ben Tzion, “eager” buyers of Russian petroleum products and other commodities have been making significant profits, by building complex and opaque trade structures and proxy companies in Asia and the Middle East.

“To satisfy the Russian consumer demand for Western brands, parallel import routes from neighboring countries have been established. Special efforts have been invested in sourcing highly-regulated or sophisticated products (drones, spare parts for airplanes, software products, navigation systems) via specialized traders in Europe and the free trade zones of the UAE.”

Despite legislation being in place and the repeated publication of packages of economic and individual restrictive measures, the enforcement of sanctions is still lagging, he said.

“The US and EU have constantly extended and expanded the list of named entities and individuals, yet, in an interconnected economy, with very limited diligence and inspection, decisive impact remains a serious challenge.”

Coordination and collaboration of various governments and agencies, remain a key factor in the success of the sanctions, he added.

“It's not enough to leave all entities to verify their integrity independently. Standardizing smart processes at the border with greater real-time visibility into every part of a shipment's supply chain provides greater visibility to assess where sanctions are truly being enforced and where they continue to be vulnerable to Russian maneuverings.”

As to the possible complicity of shippers and exporters and the freight transport and logistics industry – notably airlines and maritime carriers – in the circumvention of sanctions, Ben Tzion replied: “Carriers and forwarders have many times opted for a ‘don't ask don't tell’ policy, aiming to maintain what he describes as “plausible deniability.”

He continued: “Many logistics operators have settled for the bare minimum in terms of compliance checks. There is no reason to suspect this approach will change, until significant enforcement measures are taken, and substantive penalties are applied. This

industry standard is not unique to trade sanctions on Russia, it has been fueling all forms of illicit trade for years. The emergence of AI-powered technologies for digital vetting, could disrupt this practice, as it will allow regulators and customs agency enhanced visibility and targeting capabilities.

## Suspicious Auto Exports

Returning to the suspicions that UK automobile exports, as well as those from the EU, to ex-Soviet states, are ultimately ending up in Russia, Mike Sturgeon, executive director of ECG, the Association of European Vehicle Logistics -whose members include operators of car-carrying vessels, railway wagons, river barges and road transporters – was dismissive of any insinuation that its members were party to any contravention of sanctions against Russia.

“The vehicle logistics industry has been extremely careful to observe the sanctions since they were introduced. Many carrier members have suffered a significant drop in volume as a result of these sanctions, but I have never heard a single person question them,” he said.

“Of course, our members receive shipment requests from the manufacturers and will usually not know more than the name and address of the consignee – they certainly have no control over vehicles being sold on.”

Ram Ben Tzion highlighted that one of the main methods to bypass trade sanctions is transshipment, and air cargo is the quickest and most secure way for high value items to get through.

While US and EU airlines no longer operate to Russia, as part of the sanctions, according to data from digital flight information provider, OAG, a number of airlines, including prominent cargo carriers, continue to serve this market.



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