Russian malign economic influence and illicit finance operate in a financial gray zone that is a clear and present danger to U.S. national security as well as transatlantic security. The Kremlin Playbook 2 found evidence that some countries facilitate or enable Russian malign economic influence (Austria, Italy, and the Netherlands); some countries are recipients of Russian malign influence as it adapts to exploit internal weaknesses (Montenegro, Romania); and one country has the attributes of both an emerging enabler and a classic recipient (the Czech Republic). By allowing Russian economic influence to cycle through their systems, enablers actively participate in the weakening and discrediting of their own democratic structures.

The Enabling Ecosystem

Enablers of Russian malign influence present key features that create an ecosystem for the Kremlin to achieve its end:

- **Open economies with developed financial and banking systems** that are part of the core European financial infrastructure.

- **Sophisticated, permissive, at times opaque business and legal environments** with regard to company law, taxation, and incorporation.

- **Highly developed corporate service provider sectors** (lawyers, accountants, incorporation agents, etc.) support complex financial schemes and company structures.

- **National authorities’ oversight capabilities are overwhelmed** by the complexity and multi-jurisdictional nature of Russian schemes.

- **Large national economic players are close to power circles** and can receive political support of their financial interests, some of which are tied to Russia.

When enablers facilitate illicit financial flows, they jeopardize the integrity of open market economies, and ultimately, create a threat to national security.¹ Shell companies and corporate facilitators like banks and accountants also facilitate these flows. Naturally, tactics that remove profits from the reach of tax authorities (and thus state revenue) are not necessarily illegal. Yet in the case of malign influence, these tactics are designed to operate just below the threshold of illegality.

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The sheer size of financial flows exposes how much the Kremlin relies on the enablers’ financial networks to invest and send money across Europe and abroad to offshore centers. In Italy, Austria, and the Netherlands alone, Russian foreign direct investment (FDI) stocks have expanded from just €5.4 billion in 2006 to close to €160 billion at the end of 2017. In the Netherlands, Russian companies’ assets have jumped from €13.2 billion in 2007 to around €96 billion in 2017.

Enablers are attractive for Russian malign influence because of their deep connections throughout the European Union, particularly through companies that have an extensive network of branches and subsidiaries across Europe.

An underappreciated element of Russian malign influence is the exposure of European businesses to the Russian market and their long-standing business ties with Russian companies. Companies invested in Russia with access to high-level officials can sometimes attempt to soften their governments’ approach to Russia.2

Key Recommendations to Counter Russian Influence

Our democracies must initiate a massive transparency and accountability offensive to respond to this threat. The Kremlin has repeatedly used its integration into the U.S. and European financial systems to exploit Western institutional weaknesses. Illicit finance has reaped the benefits of a globalized financial network, while law enforcement and national security actors have remained bound by national rules and borders. Our key recommendations are:

Create a transatlantic Intelligence, Surveillance, and Reconnaissance (ISR) system for financial flows that would provide an integrated database and a common operating picture for national security, financial intelligence, and law enforcement actors.

The European Union should strengthen its reporting and regulatory requirements for ultimate beneficial ownership (UBO) by closing disclosure loopholes. The United States should work with European partners to create international standards for UBO disclosure.

Elevate money laundering as a priority threat to national security within the Treasury and Justice Departments and encourage European allies to do so in their national jurisdictions. The European Union should strengthen its anti-money laundering system and close loopholes.

Improve the tracking of tax evasion and enhance asset recovery efforts across borders.

Elevate the risk level of corporate service providers in illicit finance and money laundering activities for both the United States and the European Union.

Address the key risks and loopholes allowing the evasion of sanctions, particularly in the European Union.

Harness the potential of the Global Magnitsky Act in targeting human rights violators and kleptocrats, as well as people who assist these perpetrators, and encourage European allies to speed up the adoption of an EU-wide Magnitsky Act.3

End the use of the so-called golden visas in the European Union; the United States must increase the transparency of investment visas.

2 Rachel Sanderson and Christian Oliver, “Italy accused of blocking tougher sanctions on Russia,” Financial Times, July 13, 2014, https://www.ft.com/content/ad743cae-0a8a-11e4-be06-00144feabdc0.