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# Policy Brief:

## Recommendations for Combatting Sanction Circumvention

### FALCON – GA101121281

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#### 1. Who is this for?

This brief seeks to inform EU policymakers and officials involved in preparing legislation and policy initiatives to detect, prevent and combat sanction circumvention.

#### 2. Context

FALCON (Fight Against Large-scale Corruption and Organised Crime Networks) is a three-year Horizon Europe research project in anti-corruption. FALCON develops new data-driven indicators and AI-based tools to strengthen the global fight against corruption by following an evidence-based interdisciplinary approach. This policy brief summarises the main results of the analysis of sanction circumvention under the FALCON Project.

Sanctions are restrictions imposed by governments or international bodies to achieve political, security, or economic objectives. They can take many forms, from prohibiting trade with a particular country to freezing the assets of specific individuals or companies. Economic sanctions have become a central instrument of foreign policy, particularly in response to Russia's invasion of Ukraine in 2022. The European Union has implemented multiple rounds of restrictive measures targeting individuals, financial institutions, and key sectors of the Russian economy. However, the effectiveness of sanctions is increasingly challenged by the growing prevalence of

#### Executive Summary

- ▶ Circumvention of sanctions reduces the intended effect of economic sanctions by reducing pressure on high influence actors and state economics.
- ▶ Harmonisation of data, rules, enforcement, and rapid cross-border information sharing between states can greatly reduce the scope and effectiveness of circumvention mechanisms.
- ▶ Investment in advanced technologies and oversight mechanisms can help prevent sanction circumvention before transfer of assets even occurs.



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sanction circumvention. Sanctioned actors often exploit regulatory loopholes, intermediary jurisdictions, and complex financial or trade networks to bypass restrictions.

### **3. Policy Recommendations**

#### **3.1. Build an Integrated EU Data Ecosystem for Sanctions Enforcement**

A critical structural weakness in the EU's ability to counter sanction circumvention is the fragmentation of data across Member States and policy domains. Key datasets such as beneficial ownership registers, bank account registries, company records, and real estate databases remain insufficiently interconnected, limiting the capacity of authorities to detect complex ownership structures and trace financial flows.

The European Commission should prioritise the creation of a fully interoperable EU-wide data ecosystem. This would involve linking existing national and EU-level databases through common technical standards and introducing harmonised unique identifiers for legal entities and individuals. Such identifiers would enable cross-border matching of data and significantly improve transparency in ownership structures.

In addition, access to these datasets should be expanded for competent authorities, including financial intelligence units and law enforcement agencies, under clearly defined legal conditions. While respecting data protection requirements, the EU should also facilitate secure cross-border data sharing between Member States.

The importance of data integration is well established in the literature on corruption risk detection, which highlights the value of combining administrative datasets to identify anomalies and high-risk patterns (Fazekas et al., 2016). The FALCON project similarly demonstrates through the use of the FALCON knowledge base, and development of Corruption Intelligence Pictures (CIPs), that linking company, financial, and asset data is essential to uncovering sanction circumvention schemes.

#### **3.2. Harmonise Sanction Circumvention Rules and Enforcement Across Member and Third Countries**

Regulatory fragmentation across the EU remains a major enabler of sanction circumvention. Differences in legal definitions, enforcement practices, and exemption regimes create opportunities for sanctioned actors to exploit the most permissive jurisdictions within the Union. To address this, the EU should establish a uniform legal definition of sanction circumvention, supported by minimum enforcement standards applicable across all Member States. This should include harmonised rules governing asset freezes, travel bans, reporting obligations, and penalties for non-compliance.

Sanctions may also be circumvented through intermediaries operating in third countries that have not adopted EU sanctions but maintain open customs arrangements with sanctioned

states. In such cases, goods can be exported to these intermediary states before being re-exported to sanctioned actors. For example, German exports to Kyrgyzstan increased by approximately 699% in Q1 2023 compared with Q1 2022, based on data from the Federal Statistical Office of Germany (2023). Such patterns raise concerns about the potential re-export of controlled goods to Russia.

Current exemption regimes are being applied inconsistently and may be exploited to maintain access to restricted assets or services. Particular attention should be paid to the standardisation of said regimes, focussing on greater clarity and consistency. This would reduce legal ambiguity and strengthen enforcement outcomes.

Evidence also suggests that inconsistent implementation significantly weakens the effectiveness of sanctions regimes (Biersteker et al., 2018). EU-level assessments similarly highlight that divergences in national legal frameworks undermine collective enforcement efforts (Europol, 2018). A more harmonised approach would help close regulatory loopholes while enhancing legal certainty for both public authorities and private-sector actors.

### **3.3. Strengthened Oversight of Professional Enablers and Intermediaries**

One of the most prevalent methods to conceal beneficiaries in sanction circumvention, is via offshore accounts, high-risk or third jurisdictions, combined with the use of professional facilitators and other figurehead structures, shell companies, front companies and other legal arrangements (FALCON policy brief (Cascone et al., 2025)).

These professional intermediaries, such as lawyers, accountants, and corporate service providers, can play a central role in facilitating sanction circumvention. For example, they may design and manage complex ownership and financial structures that obscure beneficial ownership and enable the movement of assets across jurisdictions.

However, despite their central role in facilitating complex financial and corporate structures, oversight of professional intermediaries remains uneven across the European Union. While financial institutions are subject to relatively stringent anti-money laundering (AML) and counter-terrorist financing requirements, their obligations are often limited in scope, inconsistently applied, or weakened by professional secrecy and self-regulation regimes. For example, legal professionals may invoke confidentiality or legal privilege to restrict reporting obligations, particularly where advisory services are concerned.

The EU should therefore expand the scope of its AML and sanctions compliance frameworks to ensure comprehensive coverage of professional enablers. This should include:

- Stronger due diligence obligations when establishing corporate structures or managing assets
- Clearer reporting requirements for suspicious activities linked to sanctions
- Enhanced supervision and coordination among national regulatory bodies

In parallel, the Commission should promote capacity-building and guidance initiatives to support compliance within these sectors. This includes developing typologies of sanction circumvention schemes and providing practical tools for risk identification such as the FALCON Advanced Corruption Risk Assessment (ACRA) tool. Introducing compliance incentives for intermediaries such as protections or rewards for reporting suspicious activity could further reduce the financial incentives associated with facilitating sanction evasion.

Professional enablers operate at a critical junction between legal and illicit activity, making them key targets for regulatory intervention (Coole et al., 2018). Strengthening oversight and incentives in this area would significantly disrupt the infrastructure that supports sanction circumvention. This approach reflects a “carrot-and-stick” strategy, combining stronger enforcement with incentives that encourage intermediaries to cooperate with sanctions compliance efforts.

### **3.4. Invest in Enforcement Capacity and Advanced Analytical Capabilities**

Even where legal and regulatory frameworks are robust, their effectiveness depends on the capacity of authorities to enforce them. Across the EU, enforcement efforts are often constrained by limited financial resources, insufficient technical expertise, and weak coordination between agencies.

The EU should prioritise targeted investment in enforcement capacity, focusing on both national authorities and EU-level bodies. This includes strengthening financial intelligence units (FIUs), supporting specialised investigative teams, and enhancing coordination through agencies such as Europol and Eurojust.

At the same time, the EU should accelerate the adoption of advanced analytical tools, including artificial intelligence, network analysis, and big data techniques. These tools can help identify complex patterns of ownership, detect anomalies in financial transactions, and prioritise high-risk cases.

The use of risk-based monitoring systems, building on indicators developed in projects such as FALCON, can further enhance detection capabilities. Research shows that data-driven approaches are particularly effective in identifying corruption risks and illicit financial flows (Fazekas et al., 2016).

By combining increased resources with technological innovation, the EU can transition towards a more strategic and intelligence-led enforcement model, capable of addressing increasingly sophisticated forms of sanction circumvention.

## **4. Policy Implications**

Combating sanction circumvention is a complex challenge that requires not only advanced technological capabilities but also sustained multilateral cooperation between states. Effective enforcement depends not only on EU Member States, where sanctions are established, but also

on the cooperation of external actors such as non-member states and intermediaries operating within global financial and trade networks. A central challenge therefore lies in incentivising these external actors to comply with sanction regimes, particularly where facilitating sanctioned transactions may provide economic or financial benefits.

Implementing the policy recommendations outlined in this brief would help address these challenges by:

- a) Improving the early detection and prevention of asset transfers that may facilitate sanction circumvention.
- b) Enhancing harmonisation and cooperation between EU authorities, Member States, and relevant third-party actors, enabling faster intervention when assets are in the process of being transferred.

Strengthening these mechanisms would significantly reduce opportunities for sanctioned actors to exploit regulatory gaps and would enhance the overall effectiveness and credibility of EU sanction regimes.

## 5. References

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## 6. Further Reading

FALCON: D2.5 Anti-corruption legislative measures and international policy landscape. 2024.

[FALCON D2.5 Anti-corruption-legislative-measures-and-international-policy-landscape\\_Summary.pdf](#).

FALCON: D2.3 Comprehensive report on the cost of corruption in the EU. 2024.

[FALCON D2.3 Comprehensive-report-on-the-cost-of-corruption-in-the-EU\\_public.pdf](#).

## Glossary

<b>AI</b>	Artificial Intelligence
<b>ACRA</b>	Advanced Corruption Risk Assessment
<b>AML</b>	Anti-money Laundering
<b>EU MS</b>	EU Member States
<b>LEA</b>	Law Enforcement Agency
<b>CIP</b>	Corruption Intelligence Picture

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## Project Details

FALCON (Fight Against Large-scale Corruption and Organised Crime Networks) is a three-year Horizon Europe research project in the field of anti-corruption. It addresses the significant challenges of the global fight against corruption by developing new, data-driven indicators and tools following an evidence-based, multi-actor and interdisciplinary approach.

FALCON comprises 25 partners from 15 countries.

**Coordinator:** Jenny Adamopoulou, Institute of Communication & Computer Systems (ICCS)

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