The Russian invasion of Ukraine has led to the collapse of Europe’s longstanding Ostpolitik. Accommodating Russia, even when its foreign policy undermines European security, is no longer defensible. This provides a historic window of opportunity for transatlantic cooperation in reinforcing democratic institutions and upholding liberal international order. If anything, the war in Ukraine has made it clear that governments must urgently address political corruption and state capture, which have led to widespread democratic backsliding and allowed the Kremlin to increase its economic and political influence in Europe.

This malign influence builds on the confluence of interests between Kremlin-supported Russian oligarchs and their local counterparts. Given the EU’s rule by consensus on key issues, Russia’s clout in some European countries often undermines the EU’s strategic priorities, in turn weakening the very foundations of its liberal international order. A strategic decoupling from the Kremlin-led campaign of state capture in Europe should be a transatlantic foreign policy priority. Weakening Europe’s unity on sanctions and economic diversification is the Kremlin’s greatest desire.

The roots and mechanisms of Russia’s aggression were unmasked by CSD’s analysis of the Kremlin Playbook, which revealed a complex and multilayered strategy. Leveraging European energy dependence on Russian hydrocarbons is now a widely recognized aspect of that strategy. However, the broader corrupting effect of illicit Russian financial flows entering European financial hubs and the capture of traditional media by Russian-enabled local oligarchs have not been

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sufficiently addressed as genuine long-term political and economic risks.

There are three main areas which require an urgent and coordinated transatlantic response in the aftermath of the Russian invasion of Ukraine:

- **Political corruption**, enabled through the unimpeded flow of illicit funds which the Kremlin uses to undermine the integrity of public governance.

- **Media capture**, whereby Russia transforms its media sector footprint into influence on public attitudes.

- **Russia’s economic footprint**, channeled by local proxies in high positions and strategic sectors, with Russia’s energy market dominance being the key leverage.

Policymakers on both sides of the Atlantic must conduct a detailed mapping exercise of Russian influence in European economics and politics in order to assess the extent to which it stymies the development of a concrete and targeted policy strategy.

**Rolling back state capture**

**Why it matters:** Conventional anticorruption policies have run out of steam, and anticorruption campaigns no longer have the same effect they did 20 years ago. Consequently, political corruption has become institutionalized as a form of state capture, with even anticorruption institutions themselves being appropriated for partisan and corrupt ends. Coupled with the free flow of illegal Russian funds – no less a fuel of political corruption in Europe than oil and gas – state capture is turning into the preeminent security risk in Europe. The security of democracy will always be compromised unless illicit Russian money is kept away from decision makers.

**Policy options:** Two concurrent policies would produce a tangible result: exposing and targeting the loci of political corruption, and increasing the level of AML enforcement against Russian financial flows in both Europe and America.

The first step is to assess the nature and scope of the threat, by identifying the government institutions and decision-making processes that have been affected by institutionalized political corruption (state capture). Europe needs an evidence-gathering mechanism capable of verifying the existence of capture practices across various economic sectors and regulatory institutions. The initial application of such a mechanism to selected countries in Europe has revealed different sources of risk and levels of governance vulnerabilities. Its further regular use across Europe should involve a broad coalition of civic actors; in fact, such an alliance would match the use of non-state actors by the Kremlin in its efforts to capture governmental decision making in Europe.

The second arm of an effective response to Russian capture is concerted transatlantic action against illicit money and rogue assets through the effective enforcement of the unprecedented sanctions against Russia following the invasion of Ukraine. There is an urgent cause for screening and halting all Russian strategic investments in Europe linked to Russian state-owned companies and oligarchic networks close to the Kremlin.

**The big picture:** To prevent Russian companies from evading sanctions and effectively track and seize the assets of Kremlin-linked energy companies and oligarchs, the EU should prioritize halting Russian illicit financial flows, including by accelerating the rollout of the newly designed Anti-Money Laundering Authority (AMLA). AMLA should coordinate its actions closely with U.S. FinCEN and the financial intelligence institutions in each EU member state. Enforcement of transparency requirements for companies’ beneficial ownership is also especially vital, as is stricter security vetting of investments by third parties in European companies or operations.

**Enablers:** The EU and the U.S. will not be able to counter political corruption without pursuing the enablers of the Kremlin’s economic and political influence.

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2 Stoyanov, A., Gerganov, A., and Yalamov, T., *State Capture Assessment Diagnostics*, Sofia: Center for the Study of Democracy, 2019, and Galev, T., and Gerganov, A., *State Capture Deconstructed: Risk Measurement in Vulnerable Economic Sectors in Europe*, Sofia: Center for the Study of Democracy, 2021. The diagnostic tool tracks the correlation between a country’s level of capture risk and its susceptibility to Russian influence. For instance, assessments have shown that, rather counterintuitively, Czechia scores lower than Italy and Spain on state capture vulnerabilities. Czech institutions have been more robust in ensuring market competition and preventing the large-scale penetration of Russia’s economic footprint.

3 This is particularly relevant to the financial hubs in Western Europe (the Netherlands, Liechtenstein, Luxembourg, the UK, Cyprus), which regularly receive Russian capital seeking to enter the European economy.
Despite the focus on the military campaign in Ukraine, the West should not lose sight of the ongoing efforts of Kremlin-linked actors to maintain their footprint in the fabric of the European political and economic system. This is a race against time, as Kremlin-linked oligarchs and their intermediaries across Europe attempt to sever their formal business ties with Russia. It is crucial to close glaring loopholes in the financial transparency governance regimes that allow law and accounting firms, investment brokerages, and non-profits to aid Russian companies, along with enabling individuals to hide the true ownership of their assets, launder the profits of illicit activities, and gain a foothold in strategic sectors such as financing, media, and political campaigns.

Rolling back media capture

**Why it matters:** Although much has been said about Russian disinformation and propaganda in Europe, the truly significant structural threat – the Kremlin’s direct and indirect corporate foothold in the media sector – remains unaddressed. While manipulated content does have a malign influence on the public (the immediate danger being diminished public support in Europe for Ukraine’s war effort), the deeper and longer-term effect is caused by Russia’s penetration of the entire media infrastructure, especially in Central and Eastern Europe. This is achieved by purchasing media companies and technical infrastructure (directly or by proxy) and subsequently exercising shadow editorial control, providing financial and logistical support to Kremlin-friendly outlets, capturing advertising concentrators (businesses managing the media/PR budgets of companies), exploiting underpaid or unskilled journalists, etc. Disinterested in small Eastern European media markets, western investors have left them up for grabs by Russian buyers or their surrogates, for whom political ends could trump profit.

**What’s next:** The Kremlin’s presence in the critical nodes of Central and Eastern Europe’s media infrastructure can only be displaced by the creation an equally distributed network of publicly funded and independently run media. Its scale should match the magnitude of the Russian foothold, as its long-term goal is not simply to counteract disinformation with fact-checking, but to reinvigorate the civic nature of journalism and broadcasting as a crucial element of democratic culture.

To this end, the model of U.S. government support for media freedom in CEE in the early 1990s should be revisited. Its success in reinventing public media in post-communist Europe was due to its delivery method – not by government bureaucracies, but through the activism of independent professionals. In addition to providing funding, equipment, and training, such support should be aimed at civic platforms of independent journalism. Possible avenues of assistance include the pooling of broadcasting infrastructure and marketing resources, joint access to news sources, professional mentoring and involvement of Western/American volunteers, etc. The resulting networking effect would both ensure the sustainability of independent outlets and counter the syndication of Russian disinformation among the Kremlin’s numerous media clients in the region.

**It’s the economy**

**The big picture:** In the aftermath of the Russian invasion in Ukraine, both the EU collectively and many member states individually have decided to reduce and eventually end their economic dependence on Russia. blindsided by the scale of Russia’s aggression, Europe found itself painfully unprepared to defend its interests and values, falling victim to its deeply rooted dependence on Russian oil and gas. However, seven months into the war in Ukraine, the EU has introduced several rounds of critical sanctions against the Russian regime that target the energy sector, including the most important source of revenue for the Kremlin – the sale of crude oil and oil products. This has also been the primary source of funding for Russia’s military invasion.

Introducing sanctions is the easy part. Enforcing them may prove much more difficult. Russian continues to send oil to Europe, and has also reduced its dependence on EU clients by shifting sales to India and China, who have been happy to absorb larger quantities of discounted oil. It is becoming obvious that the current level of sanctions implementation

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5 Specifically, the establishment of the International Media Fund in the early 1990s – an initiative with an independent board and private sector volunteers/support – should be emulated.
(which lacks secondary measures to target the insurance and transportation of Russian oil) are not enough to undermine the foundations of the Kremlin’s economic and political power. In fact, they may be further aggravating the situation by consolidating the power of the Putin regime, while at the same time undermining global macroeconomic stability due to their unintended effect of accelerating inflation rates.

Despite the short-term economic pain, the most effective way to counter the Kremlin Playbook in Europe and its aggression in Ukraine is to first decouple economically from Russia, and second, dismantle its oligarchic networks across the continent.

An estimated USD 1 trillion of illicit Russian capital has been invested across Europe since the collapse of the Soviet Union. These funds have been used to capture key assets in strategic economic sectors such as energy, telecommunications, banking, construction, and logistics.

On the eve of the invasion of Ukraine, Russian companies had firmly entrenched themselves in the European economy. In January 2022, Russia controlled EUR

Figure 1. Russian Corporate Footprint in Europe at the End of 2021

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<th>Size of Revenues of Russia-owned Firms in € billion (2021)*</th>
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* Data for Spain, Greece and North Macedonia is from 2020.

Source: CSD, based on corporate databases.
277 billion in foreign direct investment stocks (inward FDI stocks) across the 27 EU member states – up by a third since the introduction of sanctions against Russia following the 2014 annexation of Crimea. The actual Russian investments are likely much higher than the official central bank numbers indicate, as at least 50% of all Russian financial flows to Europe pass through offshore destinations such as Cyprus, the British Virgin Islands (BVI), Ireland, Luxembourg, and the Netherlands, where Russian funds are hidden behind nominal ownerships, trusts, and portfolio investments via third-party investment funds. Russian company assets reached almost EUR 600 billion at the end of 2021, and European banks still held EUR 83 billion in liabilities to Russian companies and individuals, with countries such as Austria, the Netherlands, Italy, and France most heavily exposed to the Russian market.

A majority of Russian corporate investment has gone into oil and gas, mineral extraction, banking, and real estate. The cronyism which lies at the heart of Russia’s economy allows the Kremlin to weaponize Russian investment in Europe and elsewhere for political ends, thanks to their previously mentioned informal networks of enablers. European oil and gas companies have locked national economies into a long-term dependence on Russia, buttressed by their longstanding business relations with their Russian counterparts. Their strategic interests, expressed in lucrative deals for oil and gas exploration and production in Russian-led infrastructure projects or in Russia itself, are now directly exposed to Western sanctions.

Energy has been Russia’s most potent tool for economic influence in Europe. In March 2022, Russia remained the EU’s largest supplier of crude oil, natural gas, and coal, with shares of total imports at 33% for oil, 45% for natural gas, and 50% for coal. Nine member states relied almost entirely on Russian gas on the eve of the Russian invasion of Ukraine: Bulgaria, Estonia, Finland, Slovakia, Latvia, Lithuania, Austria, Czechia, and Hungary.

Meanwhile, Europe’s two largest natural gas consumers, Italy and Germany, have accounted for the bulk of the EU’s growing dependence on Russian gas imports over the past decade. These two countries almost doubled their reliance on Russian gas over this period, and have together dragged Europe into a much closer energy relationship with the Kremlin, spearheading strategic alliances and joint infrastructure projects including Nord Stream and South/TurkStream.

Seven months after the invasion, Russian oil, gas, and mineral extraction companies still operate on the global market through subsidiaries registered in the Netherlands, Switzerland, the U.K., Cyprus, and Germany. These countries have also been the largest hubs for Russian corporate registrations in Europe. Cyprus has become the most vulnerable European country to Russia’s corporate footprint, serving as Russia’s ‘back office’ for corporate ownership obfuscation and tax optimization strategies.

The unprecedented sanctions against Russia have spelled the end of the three-decade-long process of Russian economic and political integration with the West after the Cold War. The U.S., Canada, and the EU have responded to the Russian invasion in Ukraine by targeting the main financial pillars of the Russian economy. There has been a SWIFT ban on ten of the largest Russian banks, as well as a ban on transactions with the Russian Central Bank. Sanctions have also included asset freezes and travel bans on some of the oligarchs with the closest ties to the Kremlin. More than 4000 companies registered in the EU with ultimate beneficial ownership in Russia have been put under sanction (See Figure 2).

Despite this bold move against Russian economic influence in Europe, the sanctions against Russian energy supplies still have a limited impact. By imposing embargoes on Russian oil and coal to pressure the Kremlin to halt its invasion of Ukraine, the EU took for granted that it can decide on its own when and how to scale back its reliance on Russian gas. Instead, President Vladimir Putin proved ready and willing to deploy his most potent economic weapon: cutting Russia’s gas supply to Europe in a bid to undermine its unity on sanctions.

Invest in security: In the smaller, more susceptible economies of Eastern and Southern Europe, Russia’s state corporatism and weaponization of trade must be opposed by a policy of strategic investment by the

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7 Nitzov, B., and Rangelova, K., How to Deal with Kremlin’s Desire to Starve Europe of Energy: The Case of Nord Stream 1 and Beyond, CSD Working Paper, August 2022.


Heart of strategic decoupling is finding a solution to the European energy and climate security conundrum. This would mean ensuring the diversification of the supply of both fossil fuels – to prevent a breakdown of the European economy – and of key resources for the energy transition, which is already locking Europe into dangerous new dependencies.

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**United States and Western Europe.** In economies with widespread governance deficits, systemic corruption, and consequently, heightened risk of capture by illicit capital, U.S. and European investment flows should seek to introduce fair market practices. Increasing Western corporate presence in these countries is the only way to ensure that Russian business practices do not warp economic policies for the benefit of the Kremlin.

Security risks stemming from Russia’s energy leverage should be addressed as a priority in Europe. A sober assessment of the governance deficits in the European energy sector currently being exploited by the Kremlin would be an optimal starting point. The heart of strategic decoupling is finding a solution to the European energy and climate security conundrum. This would mean ensuring the diversification of the supply of both fossil fuels – to prevent a breakdown of the European economy – and of key resources for the energy transition, which is already locking Europe into dangerous new dependencies.¹⁰

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A democracy that delivers. Tackling malign Russian influence in Europe should prioritize dismantling the array of instruments the Kremlin uses to capture media, buy up strategic assets, and subvert political decision making. This can only succeed, however, if the underlying economic and political currents and deep, structural democratic deficits in Europe and the U.S. are addressed.

The brutality of the war in Ukraine has prompted long-overdue action against the grey infrastructure which Putin has created across the continent. Before fatigue from this sanctions campaign sets in, though, urgent action is needed to achieve a thorough de-Putinization of Europe. A joint transatlantic push should aim to transform the current political will into concrete institutional mechanisms which would prevent the Kremlin from ever being able to undermine European democratic order and economic integrity again.