

Evading Sanctions

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Abstract:

The sanctions imposed on Russia in 2022 are the most extensive in modern history, yet at least 26% of pre-war EU exports of sanctioned products continued to reach Russia through third-country intermediaries. Standard quantitative trade frameworks, however, assume full enforcement and cannot quantify the consequences of evasion. Combining Russian transaction-level customs records with a new granular dataset on EU export bans, we document the mechanisms and magnitude of sanctions evasion and develop a quantitative trade model with endogenous transshipment to assess its consequences. Our analysis yields three main insights. First, we estimate that the export bans increased effective trade costs from the EU to Russia by about 27% on average, well below the prohibitive levels implied by full enforcement. This observed level of evasion reduces Russia's real income loss by 22% relative to the full-enforcement scenario. Second, pre-war trade costs predict which countries become transshipment hubs but understate the true cost of evasion: When evasion costs consist only of the additional trade cost from rerouting, Russia's real income loss falls to just 45% of the full-enforcement level. This implies that the sanctioning coalition created substantial additional barriers beyond the costs of rerouting itself. Third, closing just five transshipment hubs in the model reduces imports by an additional 10 percentage points and increases Russia's welfare losses by 22%.

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