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Corporate Responses to Economic Statecraft: Explaining Strategic Choices in the Implementation of EU Sanctions Against Russia by Estonian Private Sector Firms

Master's thesis

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DECLARATION OF AUTHORSHIP

I confirm that I have prepared the thesis independently. All the views of other authors, as well as data from literary sources and elsewhere, have been cited.

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ABSTRACT

While EU sanctions are legally binding in all Member States, the practical part of the implementation is largely done by private companies. This thesis examines why firms who are operating in Estonia and are facing the same regulatory sanctions framework have different responses to EU sanctions against Russia. Some follow only the formal legal requirements, while others act more cautiously and avoid transactions, partners, or goods even when they are not clearly prohibited. Therefore, the study recognises three response types: compliance, overcompliance, and undercompliance. To address the puzzle through a small-N, theory-guided comparative case study based on semi-structured interviews with ten Estonian firms from the financial, energy, and industry/trade sectors supported by background interviews with state officials.

The findings confirm that overcompliance was the dominant response pattern with eight out of ten interviewed companies doing more than they were legally obliged to. One firm was classified as compliant, and one as compliance bordering on undercompliance. The findings also concluded that legal ambiguity did shape the initial response of overcomplying in the majority of cases at the beginning of the sanctions regime that has remained unchanged. Overcompliance was also likely when firms felt reputational risk, but even more so when it was combined with other external pressures. The thesis concludes that company responses depend not only on the law itself, but also on uncertainty and reputational concerns combined with external pressure, sector, internal capacity, and previous dependence on Russia-related business.

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Introduction

Economic sanctions have become one of the central instruments through which the European Union pursues foreign policy objectives. They are used to restrict economic relations, constrain access to resources, signal political disapproval, and influence the behaviour of targeted states, entities, or individuals without resorting to military force (Giumelli, 2013; Hufbauer et al., 2009; Nephew, 2023). In the EU context, sanctions are formally adopted as legal measures, but their political purpose is executed only when they are implemented in practice. This makes sanctions not only a question of foreign policy design, but also a question of everyday economic governance.

The implementation of EU sanctions is especially important in the case of Russia after the full-scale invasion of Ukraine in 2022. The EU adopted extensive financial, trade, sectoral, and individual restrictive measures, which affected not only Russian state actors and sanctioned individuals, but also private firms operating in EU Member States. These companies are required to interpret sanctions rules, screen counterparties, monitor payments, assess ownership and control, check goods and end-users, and decide whether particular transactions or partnerships can be proceeded with. In practice, this means that private firms become central actors in turning sanctions from formal legal measures into concrete economic constraints. The literature therefore increasingly treats firms not as passive actors implementing sanctions law, but as important parts of the regime that translate, interpret, and operationalise sanctions within their own business activities (Besedeš et al., 2021; Giumelli & Onderco, 2021; Ronzitti, 2016; Weber & Stępień, 2020). However, this creates an implementation problem - although EU sanctions are adopted at the EU level and are legally binding across the Union, their daily enforcement is decentralised across Member States and depends heavily on private actors. Firms must often make compliance decisions before all legal guidance is settled, while facing potentially severe legal, financial, and reputational consequences if they make mistakes (McNaughton & Łukowski, 2025; Ronzitti, 2016). The EU sanctions system also contains practical ambiguity as firms may struggle to determine whether a business partner is owned or controlled by a sanctioned person, whether a product falls under a specific CN code or technical restriction, whether an end-user is sufficiently identifiable, or whether a transaction through a third country could still create Russia-related exposure (Giumelli et al., 2022; McNaughton & Łukowski, 2025). These problems are not merely technical since they directly shape how firms decide whether to continue, restrict, restructure, or terminate business relations.

The research puzzle of this thesis arises from this gap between common legal rules and varied firm behaviour. Firms operating in Estonia face the same broad EU sanctions framework and the same national implementation environment, yet they do not respond to sanctions in the same way. Some firms restrict activity more broadly than the law strictly requires and avoid entire categories of Russia- or Belarus-related exposure. Others apply sanctions more narrowly and remain closer to formal compliance. Some adjust immediately, while others move gradually because of existing contracts, technical dependence, or supply-chain constraints. The puzzle is therefore not simply whether firms comply with sanctions, but why firms exposed to the same formal legal regime adopt different response strategies in practice. The understanding of said puzzle is important because the effectiveness of sanctions depends not only on what is written in EU regulations and law, but also on how private firms interpret and implement those rules.

Estonia provides a particularly relevant setting for studying this question. As an EU state bordering Russia, Estonia has direct exposure to Russia-related trade, transit, payments, and possible circumvention risks. At the same time, Estonia's sanctions implementation system is institutionally divided between several authorities, including the Financial Intelligence Unit, the Tax and Customs Board, the Ministry of Foreign Affairs, the Financial Supervision Authority, and law enforcement bodies. The appropriate authority for a firm depends on whether the issue concerns financial sanctions, trade sanctions, services, customs procedures, ownership structures, or possible criminal conduct. This makes Estonia a useful case for examining how EU-level sanctions are implemented in a national frontline context where both state authorities and private firms carry practical enforcement responsibilities.

The thesis asks the following research question: Why do firms operating in Estonia adopt different response strategies in implementing EU sanctions against Russia? To answer this question, the thesis compares firm-level responses across financial services, energy, and industry/trade. It focuses on three response types developed in the theoretical framework - compliance, overcompliance and undercompliance. Compliance refers to proportionate implementation of formal requirements, overcompliance refers to broader-than-required precautionary restriction and undercompliance refers to continued engagement, delayed adjustment, or reliance on permissive interpretations despite sanctions-related risk (Stępień et al., 2024; Weber & Stępień, 2020).

The central argument is that firm responses are shaped by the interaction of regulatory ambiguity and external pressure. In addition to the two main explanatory factors linked to the hypotheses, the analysis also considers internal and structural firm characteristics as case-level factors that may condition how firms respond to ambiguity and external pressure. Regulatory ambiguity increases uncertainty about what is permitted and raises the expected cost of misinterpretation. External pressure from authorities, banks, business partners, clients, and reputational audiences can push firms toward more conservative behaviour. Internal and structural factors, such as firm size, compliance capacity, sector, and dependence on Russia-related inputs or transactions, shape how firms absorb this external pressure and how quickly they can adjust. The thesis therefore does not treat firm response as a direct result of the legal rule alone, but analyses corporate response as an outcome of organisational decision-making under uncertainty, pressure, and uneven capacity.

Methodologically, the thesis relies on small-N, theory-guided comparative case study based on a purposive sample of affected Estonian firms. The primary cases are firms operating in Estonia, while Estonia functions as the bounded national context. The study is based mainly on anonymised semi-structured interviews with firms from the financial, energy, and industry/trade sectors, supported by background interviews with relevant state actors and light public-trace checks where appropriate. The interviews focus on firms' perceived ambiguity, compliance practices, external pressures, Russia-related exposure, and timing and scope of operational adjustment. Since firms' internal sanctions decisions are rarely visible in public sources, interviews provide the most suitable method for identifying how sanctions were interpreted and implemented in practice.

The thesis contributes to the literature on sanctions implementation and economic statecraft as it shifts attention from sanctions adoption to sanctions implementation by examining how private firms operationalise EU restrictions in everyday business practice. It also contributes to research on corporate sanctions behaviour by treating compliance, overcompliance, and undercompliance as observable behavioural patterns rather than as self-declared intentions. Apart from that, the thesis adds empirical evidence from Estonia, a frontline EU Member State where sanctions-related risk is shaped by geography, prior economic exposure to Russia, and a conservative financial-sector environment.

The thesis proceeds as chapter 1 develops the theoretical framework, defining sanctions as instruments of economic statecraft, explaining the EU sanctions implementation problem, and

introducing the typology of corporate responses. Chapter 2 outlines the research design, data strategy, and analysis plan. Chapter 3 presents the empirical analysis. It first describes the Estonian legal, institutional, and economic context, then identifies patterns of firm-level response, and finally explains variation across firms through regulatory ambiguity, external pressure, and internal and structural factors. Chapter 4 discusses the findings and chapter 5 concludes by assessing the hypotheses and examining what the findings imply for understanding private-sector sanctions implementation.

1. Theoretical framework: EU sanctions implementation and corporate response

This section of the thesis will firstly give a brief overview of what sanctions are by definition. Secondly there'll be explained how EU sanctions act as a tool in international politics, but also as an instrument of economic statecraft. In the second half of the theory chapter, there will be more focus on firm behaviour related to sanctions - that being the overall corporate response to said sanctions and also the factors shaping those responses. It'll give an overview of the basic features that matter for firm behaviour: the scope of trade and financial restrictions, the decentralised enforcement set-up, and the role of ambiguity/interpretation in day-to-day compliance (e.g., classification problems, unclear guidance, and uneven enforcement expectations). It acts as a guide to make it clear in which environment the companies are working in and to what they react to. The theory chapter will close with the hypotheses being stated and grounded.

1.1. Sanctions by definition

Sanctions are restrictive measures used by states and international organisations to influence the behaviour of states, entities, or individuals without resorting to military force. First introduced as early as in Ancient Greek and by by the nineteenth century sanctions, in a form of blockades, embargoes, and similar measures, had become a regular part of power politics rather than a distinct humanitarian instrument (Dawidowicz, 2017; Hufbauer et al., 2009). Today, in international law, the legal basis for United Nations sanctions is found in Article 41 of the UN Charter, which allows the Security Council to decide on measures not involving the use of armed force, including interruptions of economic and diplomatic relations (United Nations, 1945). The approach of using sanctions as a possible alternative to military force, was given extensive attention especially after World War I (Hufbauer et al., 2009). In literature they are also often referred to as restrictive measures which indicates the nature of sanctions - that being to make the activity, that the sanctioned country/entity is engaged in, economically insufficient and difficult (ibid). Within the EU, sanctions are understood to be rather an instrument of the Common Foreign and Security Policy and are generally used to either prevent or respond to an ongoing conflict (European Commission, 2025).

Sanctions may be imposed at both international and national levels, organizations such as the United Nations, US, UK and the European Union serving as key authorities in the Western

world. The EU adopts all sanctions implemented by the United Nations Security Council as these measures are automatically integrated into EU law (EEAS, 2025). The EU also adopts independent sanctions apart from the ones imposed by the UN (ibid).
Sanctions come in various forms - this includes arms embargoes, travel bans, asset freezes, trade bans, and broader economic and financial restrictions. A relatively new addition to this list are targeted sanctions, which are meant to direct specific individuals, entities or sectors rather than an entire population. These types of sanctions were introduced in the mid 1990's, particularly after the adverse humanitarian effects of comprehensive sanctions against Iraq (Biersteker, et. al.).

1.2. EU sanctions as economic statecraft and the implementation problem

As it has now been established what sanctions are by definition, the next part now turns to the EU sanctions regime as a specific form of economic statecraft. Within the EU sanctions are not just measures in place, but instruments through which political objectives are pursued by economic means. They are used to constrain access to resources, induce behavioural change, and signal disapproval of conduct regarded as incompatible with international norms. Sanctions are political in purpose, but economic in practice as they sit at the intersection of foreign policy and economic governance.

As sanctions can and should not be interpreted, by their formal adoption, it is important to also understand how they are interpreted, enforced, and applied in practice. Consequently, the second half of this chapter will focus more on what features of EU sanctions matter to companies and it will introduce the implementation problem that comes with it. Although sanctions are adopted at EU level, their day-to-day enforcement is decentralised across Member States and much of the practical burden is shifted onto private actors, including banks, exporters, logistics firms, and other companies. his section therefore first examines EU sanctions as a tool of economic statecraft, then identifies the features of the regime that matter most for companies, and finally introduces the implementation problem as the gap between sanctions as designed on paper and sanctions as enforced in practice.

1.2.1. EU sanctions as a policy tool

To understand what sanctions can do and how they should be used, it must be understood what they are meant to do. According to the Estonian ministry of interior affairs, sanctions are a foreign policy instrument designed to promote or restore peace, international security, democracy, and the rule of law, as well as to uphold human rights and international law, and to advance the objectives of the United Nations Charter and the common foreign and security policy of the European Union (Republic of Estonia Ministry of the Interior, 2026). The EU has made it clear that there are broadly four main reasons for using sanctions - protecting values and security, preserving peace, supporting democracy and the rule of law and influencing behavior (European Council (a), 2026). Thus, there seems to be a broad agreement among scholars and governments that sanctions may serve to coerce behavioural change, restrict specific activities, and signal disapproval of a target's actions. Gary Hufbauer, a leading sanctions expert, argues that sanctions should be viewed not only as coercive instruments but also as communicative ones, as they express disapproval to the sanctioned state, reinforce commitment among partners, and reassure domestic constituencies of the government's willingness to act (Hufbauer, 2009). That being said, it seems that given these reasons on why or when sanctions could be used, it is rather considered as an economic tool and not a military or diplomatic one. The usual goal of sanctions is typically to cause sufficient economic damage to the target in order to coerce them into changing their behaviour (Giumelli, 2013). In The Art of Sanctions, Nephew conceptualises this dynamic in terms of a "pain threshold", arguing that sanctioned actors must weigh the costs imposed by sanctions against their willingness to persist in the behaviour that triggered them (Nephew, 2023). As Gary Hufbauer stated before, it is about signaling as well, but the method itself used to express that disapproval remains economic. He defines sanctions as "the deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations", by which he firmly categorizes the nature of the instrument as economic (Hufbauer, 2009: lk 3).

In light of the above, within multilateral frameworks, the EU has emerged as the most active user of sanctions as a foreign policy instrument - as of December of 2025, the EU had applied over 40 sanctions regimes - that includes both the ones imposed pursuant to United Nations Security Council resolutions and also the ones through the EU's own independent action (European Commission, 2025). One of the core reasons of the EU relying so heavily on

sanctions compared to other foreign policy tools is primarily because it lacks its own operational military force, and sanctions offer the most accessible and effective way to play a role in international security (Giumelli, 2021). In situations where diplomacy is insufficient but military intervention is not possible or desirable, sanctions provide the necessary pressure tool (Giumelli, 2013). Even if the EU possessed its own military force, the cost considerations would still favour the use of sanctions - in some cases it would be cheaper for the EU to impose such restrictive measures as asset freezes or travel bans as they do not have serious negative financial impacts on the economy of the sender (Giumelli, 2021). Additionally, unlike many other foreign policy instruments, EU sanctions target specific individuals or policies, rather than a country or population as a whole, in order to minimise humanitarian impacts (as it has been done in the case of Russia), which is difficult to avoid in the case of military intervention (European Council (a), 2026). Another big reason for using sanctions is when the UN Security Council is paralyzed by opposition or vetoes from major powers. That is because if any of the permanent members of the security council vetoes the possible sanctions (such as Russia or China), then they can not be adopted (Portela, 2005). EU sanctions in such cases act as a complement, allowing the international community to respond even when there is no global consensus (ibid). That comes along with shaping the EU as a "normative power" who is standing for certain principles and strengthening the EU's international actorness and visibility on the global stage (Giumelli, 2021).

As mentioned before, the EU sanctions are generally aimed at countries, specific individuals, organizations or governments whose behavior is sought to be influenced. But, the obligation to implement sanctions lies mainly with all natural and legal persons under the relevant jurisdiction (McNaughton. & Łukowski, 2025). Although this is a shared responsibility, with the public sector playing a critical guiding and controlling role, the day-to-day application of sanctions rules requires action by private actors (ibid). Banks, financial institutions and logistics companies are among the first actors required to apply sanctions rules in operational contexts, for example by implementing automatic asset freezing and implementing internal control systems to identify whether their business partner is on or under the control of a sanctions list (ibid). As sanctions apply to all legal entities, ordinary business operators (e.g. lawyers, real estate agents, exporters) must also ensure that they do not make economic resources available to sanctioned persons (ibid). Non-compliance can result in fines, reputational damage, or criminal liability.

1.2.2. Features of EU sanctions that matter for companies

European Union sanctions affect the daily work of companies on many levels, from supplier selection and complex legal control procedures to payment processing. The main areas include financial flows, trade and logistics. It is important to note that sanctions are definitely not only affecting big corporations - small businesses have to consider risks depending on where they source goods or to whom they sell as well. As sanctions are often considered force majeure, then in terms of contracts that have been signed before one of the parties is sanctioned, they can be typically withdrawn without compensation.

Financial restrictions and asset freezes are one of the most frequently used measures that suspend a company's access to its funds and settlements with partners (Giumelli, 2013 ja European Council (b), 2026; European Union External Action, 2026). For context, as of December 31, 2025, nearly 46 million euros worth of funds were frozen in Estonia (Rahapesu Andmebüroo, 2024). In addition, a deposit restriction of nearly 437,000 euros was applied (ibid).All funds and economic resources of the sanctioned persons or entities in the EU will be frozen immediately and companies are prohibited from making any payments or making resources available to the listed parties (McNaughton. & Łukowski, 2025). Other financial restrictions include a ban on providing insurance, refinancing or loans to certain sectors (e.g. oil or banking) (Giumelli, 2019). For example, in the case of Iran, disconnection from the SWIFT system and a ban on ship insurance were critical (ibid; Giumelli, 2013). Credit restrictions extend to banks and companies from certain countries (e.g. Russia) having limited or no access to EU capital markets, preventing them from taking out new loans or refinancing debt. This also works the other way around as under the EU’s sanctions framework, access to SPFS (Russian version of the SWIFT system) and comparable financial messaging systems is denied to EU actors operating outside Russia (European Council (c), 2026). These measures also extend to non-Russian credit and financial institutions, which are prohibited from relying on SPFS (ibid).

Trade restrictions and embargoes directly interfere with a company's supply chain and sales opportunities. The import or export of certain goods and specific technology is prohibited from specific countries and companies selling products that can be used for both civilian and military purposes (e.g. software, specific equipment) must apply for export licenses from the competent national authorities (ibid). Even if a company does not directly operate in a prohibited area, it must comply with strict due diligence measures to avoid violations.

Companies are required to assess whether a business partner is owned or controlled by a sanctioned individual under the so-called 50% rule, which serves as a key mechanism for extending sanctions to non-listed entities, even though its practical implementation remains ambiguous. (EU Sanctions Compliance Helpdesk, 2026; McNaughton. & Łukowski, 2025).

In view of these considerations, there is also a recognisable separation to be made between trade and financial sanctions. From a commercial standpoint, the key distinction between them lies in whether the limitation targets the movement of goods or the individuals/entities involved in the transaction (McNaughton. & Łukowski, 2025).

Financial sanctions focus on cash flows and assets and are targeted at specific listed individuals and entities (so-called Designated Persons or DPs) to block their access to economic resources (ibid). As stated before, when such people are identified then their assets must be frozen. The main burden here falls on banks and financial institutions, but the obligation applies to all individuals and companies that must implement “know your customer” (KYC) procedures.

With trade sanctions, the company must be aware of the product in detail to assess its compliance with the prohibitions as restricted goods are identified either by CN codes (customs classifications) or by complex technical specifications (ibid). The biggest challenge is the transparency of supply chains - goods can reach a sanctioned destination (e.g. Russia) via third countries (e.g. Kazakhstan), which is a common way to circumvent restrictions (ibid). The Baltic states, Poland and Finland have agreed to harmonise customs controls, which will require, among other things, manufacturer declarations (Eesti Maksu- ja Tolliamet (a), 2024). Said document is a statement by the producer confirming knowledge of the buyer, seller, end-user, end-use of the goods, and attesting that the transaction and any transit through Russia or Belarus do not involve resale, processing, storage, or other activities that could facilitate the circumvention of international sanctions (ibid). After all, financial and trade sanctions are often intertwined - for example, a permitted trade transaction may fail if the financial service or insurance required for it is prohibited by sanctions. Despite the existence of formal rules, sanctions often give rise to significant practical challenges. Their enforcement is decentralized, the rules are legally unclear, and there is no uniform system across countries to detect and punish violations (Ronzitti, 2016 ja McNaughton. & Łukowski, 2025).

While the rules may seem strict in writing, their real impact depends on the capacity and resources of the Member States, which vary considerably (Felbermayr, 2021). The risk

scenarios between each member state are different - for both the companies and the potential sanctions evaders (ibid). Some countries have stricter controls than others and some have stronger penalties. For example, Poland and Spain only use administrative fines, while others can expect long prison sentences (ibid). At the same time, many countries lack sufficient financial intelligence and customs resources to monitor complex international supply chains and identify hidden owners (Ronzitti, 2016) Such nationally designed enforcement models can obstruct cross-border financial intelligence and trade data sharing, while simultaneously creating opportunities for sanctioned individuals to exploit systematic weaknesses, thereby further complicating sanctions compliance for the private sector. (Giumelli, 2022).
It is important to note that not all practical problems are due to malice. Many breaches are unintentional and result from companies failing to navigate through a vast array of complex and ever-changing lists. Small and medium-sized businesses often lack the legal expertise to verify that every customer, product and transaction complies with the international law, while gaps in national regulation often render sanctions ineffective in practice. (Ronzitti, 2016 ja McNaughton. & Łukowski, 2025).

Understanding why sanctions pose practical difficulties leads naturally to an examination of the categories of sanctions that present the greatest implementation challenges for businesses. In the literature, the most frequently brought out category in that regard is how it is extremely difficult to determine whether a business partner is “owned or controlled” by a sanctioned person, especially if that person is not themselves on the list (McNaughton. & Łukowski, 2025). Previously, ownership was understood as a stake of more than 50%, but the guidelines, which were clarified in July of 2024, also include a person who owns exactly 50% of the company (ibid). This broadened the scope of targets and made the identification more stringent. Additionally, while ownership can be measured in percentages, the concept of “control” is not precisely defined in the EU sanctions law in general (for example in Regulation 833/2014) (ibid; European Union, 2024). Moreover, the AML law typically sets a 25% threshold for beneficial ownership, while sanctions require a 50% threshold, which requires companies to manage two different control systems in parallel. The identification of control relies on an exhaustive set of criteria in the guidelines, which makes the decision-making process subjective and complex (McNaughton. & Łukowski, 2025). In the case of multiple people holding smaller amounts in shares, the holdings must be added together (ibid). This means that a company is subject to sanctions even if no sanctioned person individually owns 50%, but their combined holding exceeds this threshold.

Another major challenge for companies is to identify sanctions evasion schemes where targeted entities use third countries, intermediaries, shell companies and complex international networks to procure prohibited goods (Ronzitti, 2016). At times, it can make it almost impossible to determine the actual end point or beneficiary of a transaction without national intelligence (especially for companies not operating in logistics etc.) (ibid). As also previously noted, the overall obligation to provide manufacturer declarations poses challenges for exporters, as manufacturers often lack tools to track the movement of resale, especially second-hand goods or products sold through intermediaries, which makes it difficult to have full control over the supply chain. (McNaughton. & Łukowski, 2025). The same goes for restrictions based on technical specifications - if restricted goods are not identified by clear CN codes (Combined Nomenclature) but by descriptions of the technical characteristics of the product, the responsibility for identifying the restriction lies with the exporter (ibid). This requires the company to have a thorough and specific understanding of the technical details of the product, which is often only available to the manufacturer, but not to other participants in the transaction, such as banks (ibid).

An additional obstacle for companies the difficulty of defining which goods fall into the "dual-use" category and restrictions on goods are often described in technical terms, rather than with clear codes (e.g. CN codes), leaving exporters and banks to determine for themselves whether a product is prohibited (ibid; McNaughton. & Łukowski, 2025; Giumelli, 2019). At the same time, legal exemptions, such as those for humanitarian aid, food, or medical purposes, can create loopholes that allow goods intended for civilian use to be diverted to military purposes or other prohibited activities (Weiss, 1999). The same goes for the so-called borderline cases, it is important to assess whether any legal exceptions may apply as such can act as a "gateway" to circumvent sanctions.

Some sanctions are meant to be "smart", but in reality also pose difficulties for firms - targeted sanctions are intended to spare the civilian population, however it is difficult for companies to manage constantly updated lists of sanctioned individuals and subsidiaries of entities (Ronzitti, 2016). Small and medium-sized companies often lack the resources and specialists to conduct the necessary due diligence on all their business partners and their beneficial owners (ibid).

Taking these factors together, it becomes clear that technical details of all sorts are critical to ensuring compliance. Without their precise analysis, the risk of both unintentional violations and the possibility of malicious parties exploiting legal ambiguity to circumvent sanctions increases exponentially.

1.2.3. Enforcement, decentralisation and ambiguity

Responsibility for the enforcement of EU sanctions is divided between EU institutions and the Member States, with distinct roles allocated at each level. At the EU level, the focus is on sanctions planning, legal framework and high-level coordination. The Council of the European Union sets political direction and adopts legal acts (decisions and regulations) as well as determines the targets and justifications for sanctions (European Council, 2025). The European External Action Service and the European Commission prepare sanctions proposals, provide technical expertise and coordinate the actions of the Member States (ibid). The Commission specifically is responsible for the uniform application of EU regulations in the internal market (ibid). The Court of Justice of the European Union exercises judicial supervision, examines complaints from targets and, if necessary, annuls sanctions if they are insufficiently justified or violate fundamental rights (ibid). From 2025, there is a new unit AMLA (Anti-Money Laundering Authority) in the structure which among other things will carry out certain tasks related to the supervision of targeted financial sanctions (Anti-Money Laundering Authority, 2025). Member States are responsible for the practical implementation of sanctions and enforcement measures within their jurisdiction. Member States must establish national rules to punish breaches of sanctions (administrative or criminal liability) (European Council, 2026). Penalties vary across the EU, ranging from financial fines to long-term imprisonment (McNaughton. & Łukowski, 2025). It is also up to the national competent authorities to decide on humanitarian exemptions (DG FISMA, 2022). The private sector compliance with sanctions is monitored by Member State authorities (customs, financial inspectorates, central banks).

As can be concluded, the enforcement and implementation in the EU is very decentralised, which results in differences regarding penalties and interpretation of EU regulations with the same text and legal content between Member States. This mainly stems from the structure of the EU sanctions regime - although EU regulations are directly applicable, they often contain provisions that delegate specific tasks (e.g. imposing penalties or making humanitarian exceptions) to the Member States (Giumelli, 2022). This means that the regulations act in certain respects like directives, requiring national interpretation and adaptation to local realities. Additionally, the EU has limited competence to harmonise the criminal law of its Member States (McNaughton. & Łukowski, 2025). This leaves countries free to decide whether breaching sanctions will result in administrative or criminal consequences and what

the levels of that will be. As a result, ambiguity does not affect all firms equally. EU sanctions are implemented through a decentralised system that produces uneven information, uneven guidance, and uneven interpretive burdens across sectors and types of transactions (Ronzitti, 2016). Firms operating in technically complex, cross-border, or highly regulated domains face more frequent and consequential borderline cases - such as classification problems, ownership thresholds, or licensing uncertainties - while others encounter sanctions only peripherally (ibid; Giumelli et. al., 2022). Unlike the US system (OFAC), the EU does not have a central licensing agency that provides prior approval for transactions so interpretation is largely delegated to private actors (Ronzitti, 2016). Thus ambiguity becomes an unevenly distributed constraint rather than a uniform one across the internal market.

For a company operating across borders, this brings along new challenges. As there is no central sanctions authority in the EU, companies have to deal with more than 160 different national authorities with different mandates and legal frameworks (McNaughton. & Łukowski, 2025). This raises questions about who exactly is responsible for supervision and which authority to contact for licenses - for example, in Poland, competences are divided between many bodies and fines alone can be imposed by 16 different regional offices (ibid). Different institutional structures and information ambiguity increases transaction costs for companies (Giumelli, 2022). While large corporations have the resources to navigate these systems, small and medium-sized businesses are more vulnerable to violations due to ignorance (ibid). This comes to prove that companies operating in the EU cannot rely on uniform EU practice alone, but must be familiar with the specific laws and working arrangements of the authorities in each Member State where it operates. These institutional features shape the conditions under which firms must interpret and apply sanctions, but do not in themselves determine how firms respond to this uncertainty.

1.2.4. The implementation problem

In sanctions policy, the “implementation problem” refers to a situation where sanctions that appear strong on paper turn out to be weak in practice because states have difficulty effectively implementing and monitoring them (Ronzitti, 2016). This includes both technical and political challenges that prevent sanctions from achieving their objectives. The issue arises when governments must find ways to inform sanctioned individuals and companies of what transactions are prohibited, but parties are intentionally violating them, unaware of the

rules or do not understand how to comply with them. This implementation gap is particularly significant given the instrumental role sanctions play in achieving foreign policy objectives.

Sanctions are a means to achieve a specific foreign policy goal, such as changing behavior and (Giumelli, 2013). Their implementation is therefore inherently political, as it directly shapes who bears the economic costs of sanctions, which transactions are effectively blocked, and how pressure is distributed across sectors and firms. If that fails, it can undermine sanctions' credibility, create loopholes, or generate unintended overreach that harms non-targeted actors (Giumelli, 2013; McNaughton. & Łukowski, 2025; Ronzitti, 2016). Enforcement is what turns a political message into "economic pain," forcing the target to reassess its cost-benefit analysis (Nephew, 2023). When implementation is uneven or incomplete, sanctions may fail to generate sufficient pressure to induce the desired political change.e (Ronzitti, 2016).

If implementation is the mechanism through which sanctions generate political pressure, then shifting responsibility for that implementation to private firms fundamentally changes how sanctions are enforced. Governments increasingly rely on private firms as the primary actors responsible for monitoring transactions and ensuring compliance with sanctions (ibid; Giumelli, 2022). This shift is reflected in the expectation that companies establish internal compliance programmes to identify and manage sanctions risks, conduct due diligence on customers and business partners, and assume responsibility for violations linked to affiliated entities or foreign subsidiaries (ibid). Although sanctions policy is set by states, the practical management of humanitarian exemptions and their day-to-day application is likewise delegated to firms, further internalising enforcement functions within private organisations (ibid). By shifting the primary burden of adjustment to private firms, sanctions enforcement increasingly operates through firm-level reallocation decisions rather than direct, economy-wide state intervention. This delegation enables what are often described as "smarter" sanctions - internationally active firms facing enforcement responsibility can reduce economic flows to the target by exiting or restructuring their activities, while reallocating operations toward non-sanctioned markets (Besedeš et. al, 2021). Because these firms tend to be large and diversified, sanctions can disrupt trade and finance with the target without necessarily producing measurable declines in overall employment or sales in the sanctioning economy (ibid). As a result, firms become central intermediaries through which political decisions are translated into economic constraints, fundamentally altering the nature of sanctions enforcement. This intermediary role means that firms perform functions that go beyond compliance and increasingly resemble enforcement in practice. To operate, they must

pick apart the given sanctions policy and turn abstract legal rules into concrete, everyday actions that actually stop, block, or constrain the unwanted behavior in practice. As governments have limited resources to monitor millions of transactions, the onus of control has shifted to businesses, who must ensure that their business activities do not violate the restrictions imposed (Besedeš et. al, 2021). Firms must recognize risks in every transaction and client or partner through screening, applying enhanced due diligence measures and performing KYC procedures (ibid). They are required to investigate their foreign partners and make sure they are not associated with sanctioned persons (ibid). When risks are recognized, companies are required to freeze the assets, deny services or exit the sanctioned market altogether (ibid; Giumelli et. al., 2022). Through these actions, firms give practical effect to sanctions by reducing financial flows and economic interaction with the target. As a result, the credibility and reach of EU sanctions not only depends on legal adoption or state enforcement, but on how consistently private actors apply restrictions in practice (Besedeš et. al, 2021; Weber & Stępień, 2020). When companies implement sanctions well, the aforementioned everyday actions (screening, freezing assets etc.) will result in tangible economic pressure and thus carry out the political intent enforced by the state (ibid). When companies fail to implement sanctions as is expected from them, then sanctions risk becoming symbolic (Vines, 2012). In this sense, foreign policy outcomes increasingly depend on private enforcement decisions, positioning firms as de facto co-enforcers despite their lack of formal enforcement authority (Ronzitti, 2016).

This co-enforcement role forces firms to internalise enforcement-related risks, creating incentives for divergent compliance strategies under the same legal framework. Depending on the company's resources, market dependence and risk tolerance, they generally choose to either overcomply and be overly cautious or undercomply and be willing to take risks or challenge sanctions. For risk-averse firms, this uncertainty encourages overcompliance, as withdrawing from potentially lawful transactions can be less costly than investing in complex compliance systems or facing the risk of penalties and reputational damage (Weber & Stępień, 2020; Ronzitti, 2016). On the other hand, companies might not limit themselves to just complying with the rules, but choose strategies that de facto ignore the objectives of the sanctions. That is likely to happen when a company has significant physical investments in the target country (e.g. factories or farms) that cannot be moved quickly or when a substantial share of its revenue is derived from the sanctioned market. (ibid). In such situations, continued engagement with sanctioned markets may appear economically rational despite formal restrictions. Conversely, the reallocation of economic activity triggered by sanctions

can also create perceived opportunities, as reduced competition may increase the potential returns to remaining or newly entering market participants (ibid).

In conclusion, the strategic choice between caution and risk-taking is directly related to how much a company is sanctioned to lose in the market and how much its resources are available to find new opportunities elsewhere, rather than by the legal rules alone (ibid). The same enforcement framework can therefore generate both withdrawal and continued engagement as rational responses, depending on how firms evaluate the economic trade-offs created by sanctions.

1.3. Corporate responses to EU sanctions

The previous chapter showed that EU sanctions do not operate through public enforcement alone, but depend heavily on how private actors interpret, internalise, and apply restrictions in practice. In the equation of sanctions being effective, this makes firms act as more than passive recipients of regulation. They are instead acting as a direct outlet of how sanctions are being translated into concrete economic outcomes. However, even though operating within the same framework of rules, companies act differently and their responses are affected by a variety of factors. Differences in resources, market exposure, organisational capacity, and risk tolerance can lead firms to adopt different strategies when confronted with sanctions-related pressure and uncertainty. The objective of this chapter is to therefore examine corporate responses as a distinct analytical problem. Firms are treated as decision-makers, acting under conditions of legal ambiguity, economic constraint, and reputational risk and it will be explained why and how sanctions compliance should be taken as a spectrum of possible responses. The chapter first conceptualises firms as strategic actors, then outlines a typology of corporate responses, identifies their observable manifestations, and finally explains why response should be analysed as an outcome of behaviour rather than as a matter of stated intention.

1.3.1. Firms as decision-makers

Given the enforcement structure and incentive environment, companies can not be treated as just unassertive rule followers, whose behaviour is entirely shaped by legal obligations. The implementation of sanctions requires judgment, risk assessment, and the resolution of competing constraints within organisations (McNaughton. & Łukowski, 2025). Because these choices are made internally and produce systematically different outcomes under the same rules, it is analytically appropriate to treat firms as decision-makers rather than as mechanical implementers of sanctions law.

In the context of sanctions compliance, response primarily refers to the adjustment strategies of companies, through which they attempt to cope with the economic burden and risks arising from political disagreements (Weber & Stępień, 2020). It is not simply an intention or declaration, but considered as an actual and consistent pattern of action by which companies seek to maximize their value and achieve long-term competitive advantage in a changed environment (ibid). By focusing on actual behavior patterns rather than intentions, strategies

can be identified through specific, measurable actions (ibid). For example, effective steps such as redirecting to third countries, freezing investments, or localizing production in a sanctioned market can be derived from the data (ibid). Focusing on behavioral patterns means that strategies can be identified based on objective data without access to internal deliberations (ibid; Besedeš et. al, 2021). As strategies are being divided into concrete categories, it makes it possible to compare firms facing the same legal framework. This approach views response as an outcome that emerges through practice, rather than as a subjective statement about motives or values (ibid).

Sanctions force firms to make trade-offs, because they restrict certain forms of economic activity without fully eliminating uncertainty about what is permitted. The main trade-off is giving up long-term and profitable business relationships in order to meet legal obligations (Ronzitti, 2016). Sanctions often require the termination of contracts, which can directly threaten the financial stability or even the survival of the company, especially if the specific market was vital to the company (ibid). At the same time, companies must balance expensive control systems with the risk of unintentional violations (ibid). As sanctions lists are constantly changing, due diligence requires significant investment to avoid huge fines and criminal liability that can run into hundreds of millions of dollars (ibid). On the other hand, profitability can push companies towards continued engagement as they have to choose between diversification and loss of market share (Besedeš et. al, 2021). In this sense, diversification is a compromise that allows maintaining the number of employees and total sales, but requires rapid adaptation and development of new markets to compensate for lost investments in the sanctioned area (ibid). Reputation is one of the factors, when even if a company's behaviour is legal, they can face negative consequences (Ronzitti, 2016). Therefore, companies need to consider whether exiting the market is necessary to preserve their reputation or whether the vacuum created by sanctions is profitable enough to take informed risks (ibid). Because these goals conflict, firms must choose priorities, which is why a response exists.

Since firms must choose among competing priorities under sanctions, compliance decisions are typically framed as a problem of managing and minimising risk. Compliance decisions expose firms simultaneously to legal liability, financial loss, and reputational harm, and these risks cannot be fully avoided through strict adherence to formal rules alone (McNaughton. & Łukowski, 2025). Furthermore, enforcement of sanctions requires companies to prevent violations before they occur while the applicable rules and designation lists are inherently

dynamic and episodic. (ibid). Considering that the penalties for violating sanctions are severe, ranging from large fines to imprisonment and asset confiscation, which motivates companies to prioritize avoiding worst-case scenarios (ibid). In light of that, sanctions are not a one-time act of law enforcement, but rather an ongoing process of monitoring transactions and mitigating risks (Ronzitti, 2016).

While a risk-management perspective assumes that firms engage in rational calculation, this assumption has important limits in the context of sanctions compliance. Rationality often assumes complete information, but in reality, many sanctions violations occur unintentionally because companies are unaware of specific restrictions or do not understand how to properly comply with them (ibid). Similarly, due to the legal ambiguity of the sanctions regimes and reputational risks, companies find it difficult to anticipate the consequences (Giumelli et. al., 2012). Given all that, sanctions also usually take effect immediately, meaning that firms have little time to restructure their operations, forcing quick decisions that may preclude fully rational deliberation (Besedeš et. al, 2021). As a result, observed strategies reflect bounded rationality - firms respond to sanctions in ways that are reasoned and purposive, but not perfectly optimised. This justifies analysing response as an outcome of organisational practice rather than as a direct reflection of calculated intent.

1.3.2. Typology of corporate responses

Corporate responses for sanctions implementation can be diversified into three main categories - undercompliance, compliance and overcompliance. This distinction is analytically useful because it captures how firms apply sanctions in practice rather than relying on a binary distinction between compliance and violation (Weber & Stępień, 2020). By differentiating between formal adherence, knowingly avoiding and self-imposed restrictions that go beyond law, the typology allows researchers and policymakers to assess the effective impact of sanctions on economic activity (ibid). Moreover, distinguishing between these response types helps identify unintended consequences of sanctions regimes, such as excessive de-risking or strategic circumvention, that may undermine policy objectives (Giumelli, 2013; Weiss, 1999). As a result, the typology provides a structured framework for analysing variation in firm behaviour and for evaluating how enforcement design influences real-world outcomes.

Undercompliance and avoidance of sanctions manifests themselves in practice in a variety of ways, ranging from internal shortcomings to deliberate and sophisticated fraud. It is important to note here that undercompliance should not be mistaken by being accidental, but a rational and planned response (Weber & Stępień, 2020). Such activities may lead to information concealment and opacity, to avoid detection by control systems. Within the category of undercompliance, it is important to distinguish between deliberate circumvention and risk-tolerant legal interpretation. Deliberate evasion is aimed at avoiding the direct impact of sanctions by using covert or surrogate activities (Besedeš et. al, 2021). Risk-tolerant interpretation on the other hand is based on legal loopholes and different implementation of rules between Member States. It is more of a strategic grey area approach. Unlike circumvention, it can be a technically legal activity that exploits unclear wording or exceptions to proceed in a way that does not directly violate the letter of the law but ignores its spirit (Giumelli et. al., 2022). This is a passive and reactive action that relies on regulatory inconsistency within the EU (ibid). Distinguishing between these two forms of undercompliance is analytically important because they differ in intent, legal exposure, and implications for enforcement design.

Having clarified the internal distinctions within undercompliance, it is necessary to define what constitutes compliance under conditions of ambiguity. The backbone of compliance is the use of internal control systems to identify sanctioned individuals, entities or assets before a transaction occurs (McNaughton. & Łukowski, 2025). Usually this contains conducting KYC and CDD checks, identifying beneficial owners and control structures, screening payments and documenting the entire process (ibid). Those internal systems, manuals and rules require guidance from official documents such as “EU Best Practices” and “Guidelines” that provide uniform standards for the implementation of sanctions (Giumelli, 2019). If any ambiguities arise, the company will contact the authorities to obtain interpretations and avoid errors (McNaughton. & Łukowski, 2025). From the angle of proportionality, compliance means implementing sanctions in a way that is targeted and precise, avoiding unnecessary harm to civilians or permitted economic activity (ibid). In this sense, compliance is an analyzed and diligent behavior, which denotes an effort to comply with the regulatory framework to the extent it is intended, not more or less.

In contrast to proportional compliance, overcompliance involves the voluntary extension of sanctions restrictions beyond what the law formally requires. As it might sound to be driven

by irrational fear, it is in fact rather a rational response, as violating sanctions carries very severe civil and criminal penalties, including billions of euros in fines and imprisonment (Ronzitti, 2016). Some do it because doing the due diligence is either too expensive or difficult and for others it is just a way to avoid damaging their reputation (ibid; Weber & Stępień, 2020). Therefore, overcompliance can be defined by broadening of restrictions as a result of self-imposed precaution and not by exaggerated concern.

1.3.3. Observable manifestations of strategies

If response is understood as a pattern of organisational behaviour, it must be identified through observable actions rather than stated intentions. A company's response can be inferred by analyzing consistent patterns of habits (Weber & Stępień, 2020). Since an outside observer does not have access to internal documents, a framework of adaptive strategies is used to determine the company's true stance, broadly categorizing actions into compliance, undercompliance or overcompliance. Systematic comparison and inference of strategies can be observed with a range of external indicators like timing and manner of exit, degree of self-imposed restrictions, extent of restriction, redirection of activity, economic proxies, and also challenging response (ibid; Besedeš et. al, 2021). Broadly categorizing, scope, timing, and intensity are valid indicators of a company's overall choice because they reflect consistent patterns of behavior that reveal a company's internal priorities, resource dependence, risk tolerance and the degree of pressure applied, or the so-called pain threshold even without internal documentation (Weber & Stępień, 2020; (Art of Sanctions, Richard Nephew).

Overcompliance becomes visible through concrete organisational practices that extend beyond formal legal requirements. Such can be voluntary cessation of trade and preemptive exits, refusal to fulfill contractual obligations without even applying for an exception license or redirecting their activities even when they aren't sanctioned (Ghironi et. al, 2025; Besedeš et. al, 2021; Ronzitti, 2016). Companies also may start to avoid certain investments whatsoever or include preventive anti-sanctions clauses in contracts (Vines, 2012; Ronzitti, 2016).

Undercompliance often involves a rapid expansion of business activities to the target country's neighbors or close trading partners meaning that most likely the company is using

intermediate countries, concealing the true end-user or destination of goods (Besedeš et. al, 2021; Giumelli et. al., 2022). Companies can maintain their business ties with sanctioned individuals/entities by operating through foreign subsidiaries in countries that are not taking part in enforcing the sanctions (Ronzitti, 2016). Circumvention can also be identified by direct actions to disguise business relationships, such as creating networks of front companies, forging documents, fraud or using bribery (Ronzitti, 2016). To circumvent financial sanctions, precious metals (e.g. gold) may be used instead of conventional currency or bank transfers to avoid scrutiny by financial institutions (ibid). For example, Russia has demanded payment for natural gas in rubles, and China has made efforts to introduce the renminbi in cross-border transactions (Morgan et. al., 2023). Channels such as INSTEX have also been created to facilitate financial transactions with sanctioned countries (Giumelli, 2019).

Defining strategies based on behavioral patterns, rather than individual decisions, improves the validity of conclusions, because it allows systematic and purposive conduct to be distinguished from incidental error or situational constraint. Individual decisions may reflect temporary misunderstandings, technical failures, or context-specific pressures that do not capture a firm's broader orientation toward sanctions compliance (Ronzitti, 2016). This is useful as it helps to sift out noise, otherwise known as implementation errors made in good faith (ibid). Moreover, sanctions evasion specifically typically often relies on complex and hidden methods, which can only be detected through repeated actions (Besedeš et. al, 2021). Therefore, focusing on patterns is more reliable because it reflects a company's ongoing policy and risk appetite, while individual decisions may hide contextual specificities that may not represent the company's overall strategic direction.

Defining response as a pattern of behaviour rather than as an isolated decision strengthens analytical validity because it allows systematic and purposive conduct to be distinguished from incidental error or situational constraint. Individual decisions may reflect temporary misunderstandings, technical failures, or context-specific pressures that do not capture a firm's broader orientation toward sanctions compliance. By contrast, recurring behavioural patterns provide more reliable evidence of an organisation's underlying policy stance and risk appetite.

1.3.4. Response as outcome, not intention

Taken together, the preceding discussion supports analysing corporate responses to sanctions through a strategic organisational lens. These strategies should be framed based on actual behavior, not perceived intentions, especially that freely chosen intentions can often turn out to be "cheap talk" that does not reflect the actual goals or actions of the parties (Besedeš et. al, 2021). For example, business leaders may publicly warn that sanctions are destroying jobs and markets in order to influence political decisions, which reflects expressed intention to fight sanctions (ibid). However, their actual behavior might show that they are large enough and internationally active enough to quickly find alternative business opportunities, so their actual economic damage is limited (ibid). That said, behavioral analysis provides empirical evidence of actual strategic direction, while expressed intentions are often strategic instruments in themselves, designed to mislead, manage expectations, or appease political audiences (Felbermayr et. al., 2021).

This behavioural definition is particularly important because firms' own accounts of compliance are at times shaped by retrospective justification rather than continuous decision-making logic (Besedeš et. al, 2021). As discussed beforehand, sanctions decisions are made quickly, under uncertainty, and with incomplete information. Since the EU adopts sanctions with the aim to protect human rights and democracy, it can create a stimulus for companies to protect their reputation and morale, thus trying to present themselves as responsible and compliant (European Council (a), 2026). The same goes for legal pressures, as violating sanctions can carry a criminal punishment in some member states (ibid). Firms also tend to downplay ambiguity, confusion, or opportunism since there is a clear stimulus to find and exploit legal loopholes as transactions with the target country are riskier, but also potentially much more profitable (Ronzitti, 2016). That being said, companies tend to use narrative creation as a strategic tool to navigate the complex terrain between reputational damage, legal risks, and economic gain. This means stated motivations cannot be taken at face value and interviews with companies can not be used to measure sincerity or moral intention, but rather to identify observable patterns of behaviour (e.g. descriptions of timelines, procedures, and response pattern). Accordingly, relying on firms' self-presented moral justifications poses methodological challenges, as such accounts frequently operate as strategic devices that obscure economically driven decisions instead of offering transparent explanations of corporate conduct.

1.4. Explanatory framework and hypothesis development

As the implementation problem of EU sanctions and the range of possible corporate responses have now been established, the next part tries to explain why firms facing the same formal legal framework do not behave in the same way. This chapter will shape the explanatory framework of the thesis by bringing together the central factors identified in the preceding sections and organising them into a coherent analytical logic. Corporate behaviour is now being treated as the outcome of strategic assessment under conditions of legal ambiguity, external pressure, and uneven organisational capacity rather than an outcome determined by legal rules alone. The section therefore first presents the core explanatory logic, then specifies the main external and internal factors expected to shape firm responses, and finally formulates the hypotheses to be examined in the empirical analysis.

1.4.1. Core explanatory logic

At its core, corporate responses to sanctions can be understood as the outcome of strategic cost-benefit assessments shaped by legal, economic, and reputational considerations. The nature of sanctions is to create incentives for those involved and force them to make a choice between the campaign goal and their well-being. This applies to the imposers of sanctions, the targets, and the companies involved. For the target country, this means that they must decide whether political concessions are cheaper than the continued economic damage that sanctions cause (Felbermayr et. al., 2021). Countries imposing the sanctions try to find a balance - to impose measures that generate substantial pressure on the target state while minimising adverse effects on the sender's domestic economy (Ronzitti, 2016). For example, European Union member states have preferred smart or targeted sanctions, because they are cheaper for the sender than broad trade restrictions (Giumelli et. al., 2012). For companies who have to comply with sanctions, it's often a decision where they must choose if they will let go of business relationships or not (Ronzitti, 2016). This has been described as a "pain threshold," referring to the level of cost firms are willing to absorb in order to remain compliant. (Art of Sanctions, Richard Nephew). If the expected gains from non-compliance are sufficiently high and the likelihood of detection remains low, incentives to circumvent sanctions increase.

Companies take into account a wide range of changes when responding to sanctions, ranging from complete financial losses to reputational damage. The first evaluation point here might

be the economic costs, meaning that companies must let go of some business relationships and thus lose revenue but they also may face a long-term loss of market share (Besedeš et. al, 2021). Conflict escalation in general bears an uncertainty as it makes business planning costly and risky (ibid). That can mean that at times sanctions will not bring immediate financial loss, but rather limit the possible future investments and growth (Ronzitti, 2016). Some other consideration points for corporations are definitely the legal consequences and the organizational costs. Evading sanctions can mean risking enormous fines, imprisonment or losing licenses (ibid). Beyond this, firms must also consider the reputational costs, which can scare away business partners and consumers (Preble et. al., 2024). This is especially critical for reputation-sensitive or a company listed in stock exchange as the mere disclosure of the accusation may be more harmful than any specific fine (Ronzitti, 2016). Image-related costs are considered to be the most harmful of all of the above. A survey conducted by Deloitte in 2015 revealed that 87% of business leaders say reputation risk is their most important strategic business risk (Raynor, 2022). A company image is considered an invaluable asset, building and keeping it is a long-term process, but damaging it can lead to a permanent loss of trust (Preble et. al., 2024).

However, the benefits of non-compliance vary across firms a lot. Depending on where they operate, they may face a diverse spectrum of regulatory penalties (Giumelli et. al., 2022). Due to the sanctions implementation in the EU being very decentralised, companies may choose to locate in a country with more lenient penalties (ibid). This creates an uneven competitive landscape, placing firms in more strictly regulated jurisdictions at a disadvantage (ibid). However, the biggest factor might be the company size - research shows that companies doing business with sanctioned countries are proportionally larger and more productive (Besedeš et. al, 2021). Large companies have more resources and are thus able to navigate complex regulatory requirements and explore new markets (ibid). Smaller companies may not have these capabilities making it impractical to operate in risky areas (Ronzitti, 2016).

When implementing sanctions, inequalities are created by both the characteristics of the companies themselves and the legal and institutional environment of their country of residence (even if that country is not under sanctions).

Many businesses experience uncertainty depending on how clear and accessible information is from their country's competent authorities (Giumelli et. al., 2022). Some countries have established central and efficient systems, while in others contact details are inaccurate or

authorities do not respond to requests, creating an uneven playing field for businesses in applying for licenses and complying with the rules (ibid). In some cases, the target country of sanctions (e.g., Russia) may provide a "shield" or support to strategically important companies, allowing them to cope better under sanctions than non-strategic entities (Felbermayr et. al., 2021).

On a firm level, the implementation of sanctions creates inequalities between companies operating in the same (non-sanctioned) country, mainly due to the size, resources, productivity and market experience of the companies. The literature suggests that the impact of sanctions is not the same for all business entities, as their ability to adapt to restrictions varies drastically. One of the main factors that creates inequality between companies is company size and resources - companies doing business with sanctioned countries are often disproportionately large and internationally active (Besedeš et. al, 2021). International groups also often have closer contacts with policymakers, which allows them to better anticipate sanctions and adjust their strategies early (Weber & Stępień, 2020). Small and medium-sized enterprises often lack such access to information and may not be able to interpret the political situation correctly (ibid). Large companies find it easier to bear the administrative costs associated with sanctions and carry out complex legal due diligence (Besedeš et. al, 2021). When such companies are also operating in multiple markets, then they tend to have more alternatives (ibid). If one market closes due to sanctions, they can quickly redirect their operations to other, non-sanctioned countries, thus maintaining their overall performance (ibid). Another factor is the productivity threshold (Melitz model), which means that since operating in countries with political risks and sanctions is more expensive, only higher-productivity companies that can absorb the additional costs of entering and staying in the market can operate there (ibid). Therefore, smaller and less productive companies are more easily squeezed out of such markets.

Inequality also arises from how many fixed assets a company has in the destination country (e.g. factories, subsidiaries). Companies with large investments in the target country are forced to resist sanctions or find ways to circumvent them (defiance), while companies that only export can leave more easily (Weber & Stępień, 2020).

1.4.2. External pressures

In analysing firms' responses to sanctions, it is crucial to distinguish between legal pressure and legal certainty. Legal pressure refers to the perceived risk of enforcement, which is a part of coercive diplomacy, that aims to influence the target's cost-benefit calculations (Besedeš et. al, 2021; Giumelli, 2013). It is also quite dynamic by nature, as it is politically motivated and measures are reviewed regularly (Ronzitti, 2016; Giumelli, 2013). By contrast, legal certainty is a general principle of law that requires legal provisions to be clear, predictable and certain (ibid). This helps to prevent arbitrary decisions by making it clear to individuals and businesses what is not allowed and what the consequences are (ibid). As has been stated before, legal certainty in the EU can not be considered to be very high since the sanctions implementation practice tends to be rather uneven along with unclear rules and varied penalties which leaves a lot of room for interpretation (ibid; Giumelli et. al., 2022). As it lays the common ground for companies regarding legal certainty, then two dynamics emerge combining it either with high or low legal pressure. When firms face low legal certainty, but high pressure, they tend to overcomply, as they become scared to make mistakes and face harsh punishments (Raynor, 2022). On the contrary, when companies are confronted with low certainty and low pressure, they begin to optimize the system (Ronzitti, 2016). It marks an important distinction as it shows why simply increasing pressure may not achieve the desired political outcome.

Still, the extent of actual enforcement does not automatically shape firms' perceptions of non-compliance risk. Rather than the frequency or intensity of oversight, it is the severity of penalties and the potential reputational harm that primarily drive deterrence. That is because in a situation of fear, people tend to ignore the actual incidence of risk and focus entirely on the severity of the consequences (Preble et. al., 2024). Even if sanctions are later lifted, market participants' distrust and fear of risks may persist for years, preventing the company from returning to the global economy (Raynor, 2022). When combined with EU's uneven enforcement, even if control is weak, the threat of few but crushing penalties is enough to maintain a high perceived legal risk, which forces companies to behave in a very risk-averse manner.

From a strategic perspective, public pressure alters the cost side of the calculation differently for B2C and B2B firms. As stated before, company brand value is considered a very important asset, meaning that for companies targeting consumers, damaging their image is

often many times far more detrimental than the potential financial fines (Preble et. al., 2024). For firms targeting other businesses, it is important to keep good relations with business partners and investors (ibid). Harming their reputation may end up in losing funding or significant trading partners as sanctions force them to use their contractual remedies (ibid). So depending on the target of the company, it is determined if they are being enforced reputationally by consumers or contractually by business partners.
Among external actors, banks occupy a uniquely powerful position in shaping firms' sanctions behaviour. As they may overcomply, but also avoid some countries purposefully and shift the responsibility to the customer (Raynor, 2022; Ronzitti, 2016). Understandably, banks are, as other firms, scared of the consequences of possible mistakes (Raynor, 2022). For their clients though, it means that at times they are made to prove the legality of their transactions and business partners (ibid). This consequently, makes banks control multipliers since they extend the scope of due diligence that the state would not be able to achieve otherwise (ibid).

This goes to show that sanctions enforcement is multi-layered, with companies being enforced formally by the state, reputationally by consumers, contractually by business partners and financially by banks. Even if the state measures are weak, companies may over-comply due to other factors enhancing the pressure.

1.4.3. Internal and structural factors

Although pressure is what creates the incentive for the company to act, then it is also important to understand how firms absorb and process that pressure. One of the main factors influencing the compliance abilities of a firm is the size of it. Bigger corporations generally have more resources, which translates to employing specialized compliance staff, having alternative markets, implementing internal control systems and being well informed of sanctions updates (Ronzitti, 2016. Although larger firms may have more expertise and competence, their motives may not be the bigger than what they are for smaller companies or differ in nature. A study done on German companies showed that companies engaging in business with sanctioned countries tend to be larger and also very internationally active (Besedeš et. al, 2021). However, the sanctioned entity made up less than 0.1% of the entire capital flows meaning that they are able to adapt better. Thus sanctions are not impacting their overall financial results, meaning that there isn't a concrete economic stimulus to evade

sanctions (ibid). On the other hand, as they are a large firm and if they are able to handle the risks, there also isn't a pressure to leave said sanctioned area (ibid).

Smaller and medium sized companies can go both ways - to undercomply and to overcomply. Undercomplying for them generally depends on their limited technical and legal knowledge, lack of research capacity and sanctions regimes being complicated in their core (Ronzitti, 2016). Overcomplying tends to be a result of acting out of reputational or punishment related risks since they might not survive the consequences of either of them (Preble et. al., 2024). Companies may become excessively risk-adverse even when just hearing of the casualties that others have borne when mistaking sanctions (ibid).

For some companies, fixed assets in a sanctioned area also play a role in processing pressure. As discussed, for bigger firms, the loss of said assets might not be that costly due to them making up only a margin of the general capital flows (ibid). It has also been established that companies tend to protect their reputation and are willing to lose financially for that (Preble et. al., 2024). When a market is being sanctioned, such as Russia, companies that used to operate there, but can't anymore, must do something with their freed up capital and business operations. According to theoretical models, this leads to forced redistribution of resources (Ghironi et. al., 2025).

Another factor affecting how companies assess risks is the sector they are operating in. Different sectors tend to confront different sanctions implementation realities - for example companies in so-called "sensitive sectors" like oil and energy sector, must take specific precautions since they are more likely to face sanctions (Ronzitti, 2016). Manufacturing sectors on the other hand are compelled to pay extra attention to the sanctions list, to be sure what is considered as dual-use and where they can export it to (Giumelli, 2019).

1.4.4. Hypotheses development

Building on the preceding explanatory framework, this section formulates two testable hypotheses regarding the relationship between regulatory ambiguity and corporate sanctions behaviour. As has been now settled, regulatory ambiguity raises uncertainty about what is permitted, which in turn raises the probability of misinterpreting the law. This increases the probability of companies overcomplying rather than under-complying as they are afraid of severe penalties and reputational damage, even after the sanctions have officially ended (Preble et. al., 2024; Raynor, 2022). Despite the possibility of navigating the legal uncertainty as an option, in many cases it is legally risky and cheaper for firms to avoid some markets

and transactions altogether (Ronzitti, 2016). In a cost-benefit framework, inflated expected costs shift firms toward safer options, thus overcompliance becomes a rational risk-minimisation response. Therefore the first hypothesis of said master's thesis states that "if firms perceive sanctions regulation as ambiguous, then they are more likely to adopt overcompliance as their sanctions response" and the second one states that "if firms perceive reputational risks related to sanctions as high, then they are more likely to adopt overcompliance as their sanctions response".

2. Methodology

2.1. Research design and case selection

This thesis employs small-N, theory-guided comparative case study based on a purposive sample of affected Estonian firms. The primary cases are individual firms operating in Estonia, while Estonia functions as the bounded national setting within which the comparison is conducted. The firms share the same broad EU and Estonian sanctions framework, but they vary across theoretically relevant dimensions. The comparison is conducted across firms in order to identify similarities and differences in how companies facing the same formal sanctions framework translated regulatory ambiguity, external pressure, and internal capacity into different response strategies. The thesis uses this variation to examine how different combinations of said factors shape sanctions response strategies. Treating firms as the cases therefore makes it possible to compare how actors exposed to similar formal rules respond differently in practice.

Estonia is selected as the empirical setting because it is a particularly relevant context for studying the implementation of EU sanctions against Russia. Estonia offers a context in which sanctions-related compliance pressures are especially visible due to its high prior economic exposure, where firms have effectively been given de facto executive power over sanctions, making the corporate response a highly relevant issue. Holding this country context constant helps reduce cross-national variation in enforcement systems and allows the analysis to focus more directly on firm-level and sector-level differences.

The firm selection is based on choosing companies who operate in fields that are limited by financial or trade sanctions. This includes industry and trade, financial services and energy services (gas, electricity, fuel). Companies are intentionally chosen to be in different sizes and business models as the aim is to see meaningful variation rather than statistical representativeness. The case selection followed a purposive logic - the selected firms were not chosen with the aim to form a representative sample of Estonian companies, but with the aim to look for relevant variation among firms likely to have faced practical sanctions-related compliance issues. As said, the companies were chosen from sectors that have previously been affected by direct or indirect exposure to financial and trade sanctions. The final sample used in the thesis consists of ten companies as is also shown in appendix 1 - four

financial-sector firms, three energy-sector firms, and three industry/trade firms. Size wise, there is one small firm, three medium-sized firms, and six large firms. Due to the variation across the sample, comparisons can be made based on size, exposure, internal compliance capacity, and response while keeping the Estonian legal and institutional context constant.
The thesis will be carried out on a micro level, but contributes to macro-level understanding as to an extent it allows the results of the study to be used as a basis for future studies in order to explain the systemic or institutional factors underlying the sanctions related issues.

2.2. Method and data

The main data will be derived from interviews carried out with Estonian firms operating in the aforementioned fields. The interviews were focused on how the firm senses the EU sanctions regulations, how they interpret said regulations and what is their perceived risk (legal, financial and reputational). Additionally there was emphasised what external pressures they perceive (banks, authorities, partners, clients), economic reliance on Russia and timing and scope of operational adjustments. Interviews are used since most of the information on companies' compliance with sanctions is rarely publicly available. This made interviews the most viable and informative method for investigating the above stated matters. Interviews were anonymised. Informed consent was obtained in all cases. Firms were approached through professional networks, direct contact, and referrals where appropriate. Where possible, firms with prior exposure to Russia-related trade or financial flows were prioritised, as they are more likely to have experienced meaningful sanctions-related adjustments. Within each company, interviewees were selected based on their involvement in sanctions-related decision-making. In the chosen sample of companies this included executive level staff and head level compliance/risk/AML department employees. The aim is to interview individuals with direct knowledge of the firm's compliance processes and strategic adjustments.
The ideal number of firm interviews was ten, which was achieved. Interviews were conducted in Estonian. With the informed consent of participants, interviews were recorded to ensure accuracy. Recordings were not transcribed verbatim, instead structured notes were taken during and immediately after each interview. Recordings were used to verify and refine notes where necessary.

To mitigate the risk of securing a sufficient number of interviews and for the purpose of enriching the data set, the study did strategically incorporate additional sources and perspectives. This means that additional interviews were conducted with enforcement authorities (FIU) and a state official whose expertise was sufficient but wished to remain anonymous. Both state officials worked closely with sanctions related matters and thus were relevant to be interviewed. These interviews were interpreted differently than those done with firms - they were used to gather context regarding the enforcement environment and clarify interpretive ambiguity. Expert interviews did not determine the classification of individual firms. Instead, they provided contextual understanding that supports interpretation of firm-level evidence.

To support, not replace, interview-based classification, light, non-intrusive public traces were checked that require no respondent effort and no confidential access. Their purpose is to provide contextual verification of observable organisational behaviour and to reduce exclusive reliance on self-reported interview data. Typical checks included publicly available corporate materials such as press releases, webpages, and newsroom posts referring to market exits, shipment suspensions, or new compliance policies. Where relevant, publicly visible website or storefront signals were also reviewed, including blocked shipping destinations, checkout country restrictions, product availability notices, or banner statements about regulatory changes. In addition, Terms and Conditions, FAQ pages, public certifications, industry memberships, official public registers, and publicly available notices, such as published penalties or warning letters, were checked where applicable.

If public traces aligned with interview descriptions, they strengthened confidence in the classification. If discrepancies emerged - for example, if a firm reports early market exit but the website shows continued Russian-facing operations - the case is flagged as discrepant. In such cases, interview notes were revisited and, where appropriate, clarifications are sought. However, the primary basis for classification remains interview-based behavioural evidence unless strong contradictory public documentation exists. This triangulation strategy ensured that the research does not rely solely on self-reported narratives, which may reflect post-hoc justification rather than strategic behaviour. Public notes were not treated as comprehensive indicators of compliance, nor were they assumed to capture internal organisational practices that may not be publicly visible.

2.3. Operationalization

This study examines variation in firm-level responses to EU sanctions in Estonia. The dependent variable is considered to be the firm's reaction to the sanctions regime. Following the theoretical framework, firms are not classified on the basis of how they describe themselves, but on the basis of observable patterns in how they adapt their operations under sanctions. The analysis distinguishes between three possible response types: compliance, overcompliance, and undercompliance.

Compliance refers to cases where the firm appears to implement sanctions proportionately and in line with formal requirements (Stępień, et. al, 2024). Overcompliance refers to cases where the firm imposes broader restrictions on itself than the law strictly requires, for example by withdrawing from transactions, markets, or clients that would still be legally permissible (Stępień, et. al, 2024; Giumelli & Onderco, 2021). Undercompliance refers to cases where the firm continues or preserves business in ways that appear to fall short of the intended effect of sanctions, whether through risk-tolerant interpretation, legal grey zones, or more direct evasive practices (Stępień, et. al, 2024). This approach is consistent with the theoretical argument that sanctions strategies should be identified through recurring organisational behaviour rather than through self-presented narratives.

The classification of each firm was based on several observable dimensions derived from interview material and, where available, light public traces. These dimensions included the scope of restrictions actually applied by the firm, the timing of its adjustments, the intensity and rigor of its compliance practices, the degree of proactivity or de-risking, the nature of its interactions with banks and authorities, and the extent to which the respondent can credibly describe internal procedures and documentary routines. A firm was classified as compliant when the overall pattern suggests that it applies sanctions in a targeted manner and broadly in line with official requirements. A firm was classified as overcompliant when the evidence points to broader-than-required restrictions, earlier-than-required withdrawal, or precautionary self-limitation. A firm was classified as undercompliant when the evidence suggests continued engagement, delayed response, workarounds, or a willingness to rely on permissive interpretations despite substantial sanctions-related risk. Because this is a

qualitative small-N study, the purpose was not to reduce behaviour to a single numeric score, but to apply the same transparent interpretive criteria across all firm cases.

The explanatory factors are operationalised in the same logic - not as abstract concepts, but as observable features of firms and their decision environment. The first explanatory factor is the level of perceived regulatory ambiguity. This is measured through respondents' descriptions of how difficult sanctions rules are to interpret in practice and if they describe them to be unclear. Indicators of higher ambiguity include the responses to the interview questions referring to unclear ownership structures, uncertainty over CN codes or dual-use classification, difficulties in identifying end-users, uncertainty over licensing or derogations, contradictory guidance, or a need to seek repeated clarification from authorities, lawyers, or banks. Lower ambiguity is indicated by the answers suggesting that the applicable rules are relatively clear, routinised, and manageable within the firm's normal operating procedures. Since the theoretical framework suggests that ambiguity is shaping firms' risk calculations, each case will be assessed in terms of whether perceived ambiguity appears low, medium, or high.

The second factor is the level of external pressure - this means that it will be observed to which extent firms report being pushed by actors outside of their organization. Those actors being reputational audiences, authorities, banks, business partners and clients. Indicators of higher external pressure include frequent sanctions-related scrutiny from banks, blocked or delayed payments, repeated requests for documentation, active contact with supervisory authorities, pressure from business partners to terminate or modify transactions, fear of fines or criminal liability, and strong concern about public or reputational consequences. Lower external pressure is indicated by the answers indicating that the firm has not experienced such interventions. External pressure will likewise be assessed comparatively across cases as low, medium, or high.

In addition to the two main explanatory factors linked to the hypotheses, the analysis also considers internal and structural firm characteristics as case-level factors that may condition how firms respond to ambiguity and external pressure. These factors are not treated as separate hypotheses, but they are necessary for interpreting cross-case variation. Firm size is measured using publicly available information on the scale of the company, such as number of employees and yearly turnover. Where exact figures are unavailable, firms may be grouped

into broad categories such as smaller, medium-sized, and larger firms on the basis of the best available evidence. Organisational capacity is measured through indicators such as the existence of dedicated compliance staff, formal internal procedures and screening systems. Market dependence on Russia or other sanctions-sensitive activity is measured through reported reliance on Russian inputs, Russian customers, Russia-related trade or payments, or previous revenue exposure to the sanctioned market. Sector is treated as an additional contextual factor, since different sectors face different sanctions implementation realities and different kinds of ambiguity or scrutiny.

Because access to internal documents was limited, all indicators were designed to be observable through respondents' verbal descriptions of practices, timelines, and interactions, without requiring confidential evidence.

The following factors are contextual and will not explain the differences in response choices between companies, but create a common underlying risk to which all Estonian companies respond: Firstly, the EU sanctions enforcement system is decentralized, which creates general confusion and conflicting legal interpretations between member states (Portela & Olsen, 2023). This is a systemic flaw that affects all EU companies. Secondly, The Estonian enforcement model, where the FIU is responsible for financial sanctions and the Customs Board for trade sanctions, is in a national context (McNaughton & Łukowski, 2025). And as a third factor, due to the Danske Bank scandal and subsequent reforms, the Estonian banking sector cleaned up its database and thoroughly checked all customers (McNaughton & Łukowski, 2025). This is a sector-specific, but common starting point for most financial institutions, which increases the tendency to over-follow already contextually.

3. Analysis: firm-level sanctions responses to EU sanctions against Russia

The purpose of this empirical chapter is to examine how firms operating in Estonia have responded in practice to the implementation of EU sanctions against Russia. The chapter proceeds in three steps. First, it outlines the Estonian legal, institutional, and economic context in which sanctions are implemented, in order to establish the common environment facing all firms in the study. Second, it presents the empirical findings on firm behaviour and identifies the response patterns that emerge from the interview material and supporting public traces. Third, it explains variation across firms by linking the observed response strategies to the explanatory factors developed in the theory chapter, in particular regulatory ambiguity, and external pressure - particularly reputational risk.

3.1. Estonian legal, institutional, and economic context

This section outlines the broader legal, institutional and economic context in which firms implement EU sanctions against Russia. The purpose is to establish a contextual basis to understand under which circumstances do companies in Estonia operate and what are the historic and current connections to sanctions. The section therefore first explains the institutional division of sanctions implementation in Estonia, then discusses Estonia's specific exposure as a frontline state, and finally identifies the main practical risks that sanctions create for firms operating in this context.

3.1.1. Legal and institutional framework in Estonia

International sanctions in Estonia are implemented on the basis of directly applicable Council regulations and Estonian domestic laws (Republic of Estonia Ministry of the Interior, 2026). The main coordinating body in the field of sanctions is the Ministry of Foreign Affairs (MFA), which issues official guidance on the adoption, amendment, and termination of EU and UN sanctions and addresses complex individual cases (RSanS, 2024).

The supervision in Estonia has been divided between several competent authorities. The supervisors that are important to know in the context of said thesis are the Financial Intelligence Unit who is responsible of financial sanctions; the Tax and Customs Board that is responsible for prohibition of import and export of goods; Tartu County Court for Registry

Department registration and participation of a legal entity related restrictions and Consumer Protection and Technical Regulatory Authority who looks after professional, technical and creative services (such as accounting, consultations and media) related sanctions (RSanS § 11, 2024). The criminal investigations into intentional violations are conducted by the Security Police Board (ibid; Rahapesu Andmebüroo, 2026; Kaitsepolitseiamet, 2026). From April of 2025, the Tax and Customs Board is also processing goods related sanction offences in Estonia.

Background interviews with the FIU and a state official further clarify the institutional division of sanctions implementation in Estonia. According to both of the state officials' interviews, Estonia's sanctions system is decentralised in the sense that different authorities are responsible for different types of sanctions and supervisory objects (interviews 11&12). Within this system, the FIU has a central role in relation to international financial sanctions (ibid). Its work concerns both classic blocking measures, such as asset freezes and prohibitions on making funds available, and sectoral restrictions connected to financial services, including restrictions on lending, investment, account opening, payments, and crypto-related services (ibid). In addition, a deposit restriction of nearly 437,000 euros was applied (ibid). This confirms that financial sanctions are not implemented through a single state actor, but through a layered institutional structure in which the FIU, the Tax and Customs Board, the Financial Supervision Authority, the Ministry of Foreign Affairs and law enforcement bodies each perform different functions.

The FIU state official also makes it important to distinguish between sanctions policy-making and sanctions implementation (interview 11). The FIU was described as an implementing and supervisory authority rather than as an actor that determines the political content of sanctions (ibid). Its practical role is to assess sanctions-related notifications, provide feedback on concrete cases, support obligated entities with guidance, and supervise certain actors under its competence (ibid). By contrast, the Ministry of Foreign Affairs is more closely connected to the political and diplomatic level of sanctions and has a broader role in communicating new sanctions packages and changes to sanctions lists (ibid). This division is relevant for firms because the authority they must contact depends on the type of risk involved: financial transactions, goods, customs procedures, services, ownership structures, or possible criminal conduct.

If a company has any questions or faces certain ambiguity regarding a sanction case or interpretation of a new package, then they can contact a competent authority in that area for answers (ibid). From the firm's perspective, this institutional structure means that the appropriate point of contact depends on the substance of the issue. Where the question concerns goods, customs declarations or CN codes, the Tax and Customs Board is the relevant authority. Where it concerns financial sanctions, asset freezes or financial services, the FIU or another financial authority is more relevant (ibid). The MFA may provide general explanations and coordinate between authorities, but it does not normally replace the competent supervisory authority in issuing case-specific interpretations (interview 12). If there is a new package released, then some time after, there is also a Frequently Asked Questions issued by the EU to help companies interpret the package. As long as there is ambiguity, companies are supposed to act within the limits of their knowledge. The interview with FIU indicates that its practical role is highly case-specific (interview 11). In the case of a company facing a potential sanctions breach or case, the FIU may assess whether the person or entity is subject to sanctions, whether the transaction would breach a financial sanction, and whether the measure applied by the reporting entity was appropriate (ibid). However, the FIU does not determine criminal guilt - ff a case involves systematic conduct, large sums, links to military industry, or other high-risk circumstances, the information may be forwarded to investigative authorities (ibid). This is important because it highlights that sanctions implementation in Estonia operates through both administrative interpretation and potential criminal enforcement, but these functions are institutionally separate.

A background interview with a state official further indicates that 2022 marked a significant institutional turning point in Estonia's sanctions system (interview 12). Before Russia's full-scale invasion of Ukraine, sanctions were described as a relatively formal and limited area of work, mainly connected to more distant sanctions regimes such as those concerning North Korea, Syria or Libya. After 2022, however, sanctions became a continuous operational issue (ibid). Therefore, the post-2022 sanctions environment did not only increase compliance pressure for firms, but also required adaptation within the Estonian state apparatus itself.

3.1.2. Estonia as a border- and frontline state

The FIU interview strongly supports the interpretation of Estonia as a sanctions frontline state (interview 11). The interviewee emphasised that Estonia's geographical position has a direct effect on its sanctions risk profile (ibid). As an EU external border state bordering Russia, Estonia has more practical points of contact with Russia-related trade, transit, border control, and potential circumvention attempts than many non-border Member States (ibid). This does not mean that Estonia is exposed to every type of sanctions risk more than other Member States, but it does mean that its specific exposure is closely connected to geography, cross-border movement, and historical economic ties with Russia and Belarus.

According to the FIU yearbook of 2024, the risks related to sanctions evasion in Estonia remain high (Rahapesu Andmebüroo, 2024). That is mainly due to Estonia's geographical proximity and economical or community related ties (ibid). This has also been agreed on behalf of the Ministry of Foreign Affairs who has emphasized that border countries are bearing a common burden regarding controlling the goods coming in or going out of the EU (Välisministeerium (a), 2024). In addition, both the MTA and the Ministry of Foreign Affairs' information on cooperation between border countries emphasize that the third-country and transit dimension is also important for companies, as some of the bans concern goods that are transported through Russia or Belarus even if the final destination is another country (ibid; Maksu- ja Tolliamet (a), 2026).

In 2021, the main import categories from the Russian Federation were mineral fuels, wood/ articles of wood, fertilizers and other chemicals, iron, steel and glass products (Statistikaamet, 2026). In total the value of all imported products was around 2,1 billion euros (ibid). In 2025 the main import categories were much more spread out between smaller and more specific categories including inorganic chemicals, miscellaneous edible preparations, base metals and animal/vegetable fats and oils (ibid). The total value of imported products was 74,5 million euros, which makes up only 3,5% of the goods imported in 2021. The export of goods to Russia in 2021, was mostly made up of mechanical appliances, electrical equipment, optical instruments and plastics. The entire export value to Russia was at about 770 million euros (ibid). In 2025, the export value had decreased by 517 million and mostly consisted of mechanical appliances, optical instruments and cocoa and related preparations (ibid). According to a quarterly analysis made by Eesti Pank, Russia's importance in Estonian imports reached 10% before 2022 and about 38% of Estonian exports came from companies that used Russian inputs (Eesti Pank, 2022). This goes to show that Estonia has been quite

dependent on the Russian market in the past regarding imports, meaning that Russia's influence was not so much manifested as a direct market, but rather through the supply chain. There was no significant decline in the economic outcomes for companies that were exporting goods to Russia previous to the war in Ukraine (ibid). However, companies that were relying on Russian imports were recorded laying off staff and seeing a decline in exports (ibid). All in all, it seems that the previous economic exposure to the Russian market has made sanctions important for companies through indirect factors such as inputs and supply chains rather than through direct market loss.

As mentioned previously, mineral fuels, chemical products and goods used by the manufacturing industry were some of the main product categories imported from Russia to Estonia before the war. The manufacturing sector faced a decline in employment and the loss of cheap imported inputs from Russia affected said sector the most, especially wood and metal production (Eesti Pank (a), 2024; Eesti Pank (a), 2023). Regarding mineral fuels and the energy sector, then in addition to the previous restrictions, in January of 2026, the EU ban on imports of petroleum products from third countries made from Russian crude oil went into force, pressuring the transparency in the supply chains even more (Maksu- ja Tolliamet (b), 2026). However this is definitely not a conclusive list of industries that were heavily affected by sanctions. The logistics sector was among one of those most directly affected as the decline in trade with Russia cut off both transport flows and the export of transport services according to Eesti Pank (Eesti Pank (b), 2024). This comes as no surprise since many border points started doing full customs controls in August of 2024, which emphasizes that sanctions are very directly a part of everyday work for companies in the logistics sector (Maksu- ja Tolliamet (b), 2024). In addition, banks, payment institutions, and virtual asset service providers are visibly affected, as the practical screening of sanctions runs through them. According to the FIU, the number of International Sanctions Reports (ISRs) sent to them has increased 10 times by 2023 (FIU, 2023). Accounting and consultation firms have also been mentioned to most often come into contact with either sanctions breaches or the risk of evasion (FIU, 2025).

The FIU interviewee also cautioned against treating Estonia as uniquely exposed in all respects (interview 11). Different EU Member States face different sanctions-related risks: some may be more exposed through shipping, others through frozen Russian assets, financial structures, or corporate ownership links (ibid). Estonia’s particular risk derives from its

position as a border state and from practical exposure to Russia-oriented trade and transit (ibid). This helps specify the Estonian case more precisely - the relevance of Estonia does not lie simply in high exposure to Russia, but in the way EU-level sanctions intersect with a geographically specific enforcement environment.

3.1.3. Practical risks for entrepreneurs in the Estonian context

As was established in the theoretical framework and has also been emphasized by the Ministry of Foreign Affairs - sanctions evasion can be accidental due to lack of information, but also completely intentional (Välisministeerium (a), 2025). Based on the materials provided by the MFA and the Estonian Tax and Customs board and on what has been emphasized there, the main difficulties faced by Estonian companies regarding sanctions vary throughout the entire client/partnership lifecycle. As a first thing it must be determined if the goods, services, payments or transaction partners are subject to a ban or a restriction (ibid). Secondly, it must be checked if a formally legal transaction may still indirectly reach a sanctioned entity/person, the Russian market or be a part of a circumvention scheme (ibid). That is why the Estonian authorities have insisted on companies to start implementing full due diligence (ibid). The FIU interview also suggests that the risk of unintentional sanctions violations remains significant. Companies may not always understand that they operate in a higher-risk field or that a transaction which appears formally permissible can become problematic when viewed across the entire transaction chain. A firm may, for example, sell goods or provide services to a third-country partner without fully identifying the final destination, end-user, intermediary structure, or possible link to Russia or a sanctioned person. This indicates that sanctions violations are not always the result of deliberate evasion. They may also arise from limited awareness, insufficient due diligence, or an incomplete understanding of the firm's own risk profile. The FIU yearbook of 2025 notes that complex transaction chains involving third countries (e.g. Turkey, Kazakhstan, Serbia) and foreign payment intermediaries are increasingly used to disguise the Russian origin of funds (Rahapesu Andmebüroo, 2024). "Jurisdiction shopping", where activities are moved to another jurisdiction to avoid sanctions, is also common (ibid). Additionally, sanctions are violated by providing services or performing work for a company controlled by a sanctioned person, which is interpreted as indirectly making an economic resource available (ibid). An example is also given of the brokering of broadcasting rights for sanctioned television channels (ibid).

For companies exporting, importing and handling logistics, it creates an extra obligation as they must do more preliminary work than before. They not only have to check if the goods themselves are sanctioned, but also its CN code, origin, possible connection to Russia, end user, final destination and transport route. The European Commission has made it clear that in higher-risk sectors and complex supply chains, it is an obligation to implement enhanced due diligence (European Commission, 2023). That is because the risk does not only include the goods being exported to Russia, but also instances where the goods are moving to a third country where previous trade flow was small or non-existent. The Estonian Tax and Customs Authority export guidelines show that even normal export requires the correct use of the transit procedure depending on the mode of transport, which means that sanction control is directly intertwined with customs procedures (Maksu- ja Tolliamet (c), 2026). Trade sanctions may change the everyday procedures even for companies, who does not trade directly with Russia. The reason is that a company may still sell goods to an intermediary, logistics company, or third-country partner, through whom the goods reach a prohibited market or an end user under sanctions. The Foreign Ministry's newsletter notes that for certain sensitive goods, agreements with third-country partners must include a ban on the resale of goods to Russia or for use in Russia, and adequate legal remedies for its violation (Välisministeerium (a), 2025).

The interview with FIU identifies sectoral sanctions as one of the most difficult areas for firms to interpret (interview 11). Blocking sanctions are relatively clearer, because the central question is often whether a listed person, entity, or controlled asset is involved (ibid). Sectoral sanctions are more complex because they may restrict particular services, types of financial activity, or forms of economic interaction without always providing an immediately clear operational boundary (ibid). The FIU interviewee referred, for example, to questions concerning what exactly constitutes the provision of a prohibited service, when an ordinary financial service becomes a restricted convenience service, or how far a firm must go in assessing the wider contractual and transactional context. This supports the thesis’s argument that regulatory ambiguity is not evenly distributed, but is particularly visible in sectors where firms must interpret complex service- or transaction-based restrictions. The interview also highlights ownership and control assessment as a practical difficulty (ibid). Even where sanctions rules are formally clear, firms may struggle to establish whether a counterparty is ultimately owned or controlled by a sanctioned person. The interviewee noted that sanctioned

actors may use layered corporate structures, foreign jurisdictions, trust arrangements, intermediaries, or legal representatives to obscure beneficial ownership or control (ibid). In such cases, the problem is not necessarily that the legal rule itself is absent, but that the firm may lack sufficient information to apply the rule confidently. This is particularly relevant for smaller companies that do not have access to advanced compliance tools, legal expertise, or reliable information on foreign ownership structures.

However, the interview with the state official also provides an important qualification to firms' claims about regulatory ambiguity (interview 12). The interviewee did not deny that specific unclear cases have arisen, especially in the early stages of the sanctions regime or in relation to new types of restrictions (ibid). Yet, they cautioned against treating regulatory ambiguity as a general explanation for all firm difficulties (ibid). In his view, some business complaints about complexity may reflect genuine interpretive uncertainty, while others may operate as strategic arguments for continuing business with Russia-related markets. Naturally, this state-level perspective is important for the analysis because it suggests that perceived ambiguity should be treated as an empirical claim made by firms, not automatically as an objective feature of every sanctions-related situation.

As was established in the theoretical framework, but was also confirmed in the interview with the FIU, banks and other financial institutions are much more than just objects of state surveillance (interview 11). Estonia's financial sector is no exception to that as the Financial Supervision Authority (FSA) has established that they are not there to make substantive decisions on individual transactions, but that its role is primarily to assess banks' systems and controls (FI, 2026). This means that all financial and credit institutions in Estonia are each responsible for the timely application of such measures (ibid). The interviewed state official mentioned that sanctions would not be practically enforceable if private actors did not apply them in their everyday operations, since public authorities would not be able to pursue every potential violation as a criminal or administrative case (interview 12). However, the FIU interviewee described sanctions control as a resource-intensive system, especially for firms and financial institutions that rely on screening tools (interview 11). Such systems can generate a large number of false positives, only a small share of which may turn out to be actual sanctions cases. Nevertheless, firms must maintain these systems, because they are expected to and failure to detect a real sanctions match may have serious legal and reputational consequences. This creates an important asymmetry: even where the number of

true sanctions cases is limited, the organisational burden of screening, checking, documenting, and escalating potential matches remains substantial.

What might make Estonia's financial sector unique, is its conservative approach to sanctions or AML related risk behavior. Eesti Pank has made a point in 2023 that because of the previous money laundering related cases in Estonia, the domestic financial system has been under a higher level of surveillance (Eesti Pank (b), 2023). Moneyval, which serves as an expert Committee on the Evaluation of Anti-Money Laundering and Terrorist Financing Measures, has rated the Estonian financial sector rather strong in terms of sanctions, but stated that the system is quite cautious with some shortcomings (MONEYVAL, 2022). According to the assessment Estonian banks and financial institutions implement sanctions and AML/CFT requirements systematically, but Estonia's history with money laundering scandals has made the whole sector relatively conservative (ibid). This is also observable since the number of international financial sanctions reports is on a downward trend - 455 sanctions reports were submitted in 2025 (for comparison: 953 notifications in 2022) (Rahapesu Andmebüroo, 2024). Out of the 455, 271 were submitted by credit institutions (ibid). This is most likely due to the reduced risk appetite of credit institutions and the decline in payments to Russia (ibid). But even then, some mistakes were discovered which mainly involved the penalties not being sufficiently effective and adequate sanctions for violating asset freeze obligations not being in place (ibid). It was also mentioned that the supervision and instructions are not always clear or strong enough (ibid).

That being said, caution on behalf of the bank also affects companies that are not in the financial sector themselves. In practice, it means that banks are asking extra questions about the business partner, the beneficial owner, the purpose of the transaction, the origin of the funds, the flow of goods and the final recipient. The bank must be able to understand the client's activity profile, the purpose of the transactions and the origin of the funds based on its own risk model. FSA's instructions also show that restrictions resulting from sanction control, such as closing accounts or suspending transactions, are often intertwined with AML suspicions in practice (FI, 2024). In other words, even if the company itself believes it has a legally permissible transaction, the bank may require more assurance than the company initially deems necessary. In the Estonian sanctions environment, a company's actual ability to act is therefore often two-fold - on the one hand, the activity must be legally permissible,

and on the other hand, it must also be sufficiently transparent, verifiable and risk-based for the bank.

The FIU interview and the state official also confirms that the practical burden of sanctions implementation falls largely on the private sector (interviews 11&12). Public authorities provide guidance, supervision, interpretation, and enforcement, but the initial application of sanctions measures is usually carried out by private actors. In financial sanctions cases, this means that a bank, payment institution, crypto service provider, or other company must screen transactions, identify potential sanctions exposure, and apply the relevant measure where necessary (ibid). If funds or economic resources must be frozen, the obligation normally falls on the actor holding or controlling those resources (ibid). The state therefore does not implement sanctions alone; rather, sanctions operate through a system in which private actors perform the first layer of control.

3.2. Findings: patterns of firm-level response to EU sanctions against Russia

This section presents the descriptive findings from the firm interviews. Its purpose is to identify how firms responded to EU sanctions against Russia in practice and to classify these responses according to the typology developed in the theoretical and methodological chapters. The focus is therefore on observable behaviour: the timing of firm adjustments, the scope of restrictions applied, the intensity of internal compliance routines, the use of additional precautionary measures, and whether firms avoided, continued, or modified Russia-related activity.

3.2.1. Identifying response types from interview material

The interview material shows that firms did not respond to sanctions only by mechanically applying legal prohibitions. Instead, all of the firms described a process of operational adjustment in which sanctions were translated into internal controls, transaction screening, partner checks, contractual changes, and restrictions on certain markets, payments, suppliers, or customers.

As evident from the interviews, the strongest and clearest pattern is overcompliance. This was visible where firms applied broader restrictions than the legal minimum, avoided

transactions that might technically have remained permissible, blocked Russia-related activity as a category, or refused to continue with unclear counterparties even before a formal sanctions obligation was established. Company 2 described this logic clearly, noting that its most important broader restriction was the termination of Russia- and Belarus-related payment transactions, even though “such a general prohibition did not directly exist in law” This pattern was especially visible among financial and energy sector firms and several large firms in energy and industry/trade as can be seen in table 1 (table 1).

On the other hand, some cases are better described as conservative compliance rather than full overcompliance. In these cases, the firm applied sanctions carefully and systematically, but the restrictions remained closely tied to formal legal obligations, public procurement rules, documentary checks, or specific risk signals. These firms did not appear to use legal grey zones, but the evidence also does not show broad voluntary withdrawal beyond what was needed to comply with the law and protect ongoing operations.

One financial-sector case differs from the otherwise dominant de-risking pattern. In an interview with company 3, the behavioural pattern supports the company response to be rather compliance. Instead of an immediate and broad withdrawal from all Russia-related exposure, the firm’s adjustment was more gradual and remained closer to the minimum interpretation of applicable legal requirements. This does not provide evidence of deliberate sanctions circumvention, however, compared with other financial-sector cases in the sample, the firm showed a more risk-tolerant pattern of response, particularly in relation to the timing and scope of restrictions applied to Russia-related financial flows. For this reason, the case is not classified as overcompliance. It is better understood as compliance, bordering on undercompliance. The classification rests on observable behaviour rather than on finding of legal liability: the firm did not present itself as seeking to go beyond sanctions requirements, and its operational adjustment appears to have been less precautionary than in comparable financial-sector cases. At the same time, the interview material does not support treating the case as deliberate evasion, since there is no evidence of covert structures, third-country routing, or intentional concealment by the firm itself.

The industry/trade interviews add a distinct product- and supply-chain-based dimension to the classification that was not recognized in other sectors. On the contrary to energetics and finance, in cases of industry/trade, sanctions exposure was not primarily visible through financial flows or direct sales to Russia, but through suppliers, input goods, product origin, resale risks, and the difficulty of verifying whether formally non-Russian goods could still have a Russian or Belarusian connection. The observable indicators were therefore different

from those in the financial-sector cases. Instead of payment blocking or account restrictions, the relevant behaviour consisted of supplier replacement, refusal of Russian or Belarusian-origin goods, rejection of suspicious customers or intermediaries, requests for origin documentation and case-by-case assessment of whether goods could be redirected to sanctioned markets. Across the industry, the pattern is distinct from full overcompliance as one of the firms discontinued all Russian related business (Company 8), while the other two (Companies 9 and 10) did not continue direct Russian imports, but at the same time they did not immediately avoid all high-risk substitute routes either. At the time of happening, the use of high-risk third-country routes despite awareness of possible Russian-origin flows means that these cases cannot be classified as straightforward overcompliance. It could have also not been classified as undercompliance or sanctions evasion since the interviews did not indicate intentional concealment, false documentation, or proof that the firms knowingly purchased Russian-origin goods through intermediaries. However, interviewees 9 and 10 described these purchases as a short-term last-resort solution after direct Russian sourcing had been discontinued and before long-term alternative suppliers had been secured. The firms were aware that Central Asian routes could carry Russian-origin risk, but the interviews do not suggest that they used these channels to preserve Russian sourcing deliberately. Rather, the temporary solution reflected the practical difficulty of replacing a supply base that had previously accounted for a substantial share of imports. Since the arrangement was temporary and the firms later moved away from eastern supply channels altogether, the overall behavioural pattern of the sector remains as overcompliance.

3.2.2. Overcompliance

Overcompliance is the most visible response pattern in the completed interview material. It appears across sectors, although its concrete form differs by business model. In the financial sector, overcompliance was expressed mainly through payment restrictions, intensified screening, refusal of unclear clients or transactions, and broader avoidance of Russia- and Belarus-related exposure. In energy and industry/trade, it was expressed more through supplier replacement, contract review, refusal of risky counterparties, and avoidance of potential resale or diversion channels.

Overcompliance is the most observable in the financial sector as their response to sanctions has been the most conservative overall. The main exposure to the Russian market was

through customer payments, card use, cross-border financial flows, and client business models. After Russia's invasion of Ukraine in 2022, most of the interviewed financial sector companies restricted all payments and card transactions to Russia and Belarus, introduced or tightened their screening procedures, and began using enhanced due diligence for customers whose activities could be linked to restricted goods, third-country diversion, or unclear ownership structures. However, the move towards a conservative approach was not that abrupt for all financial sector firms as companies 1, 2 and 4 moved very quickly to close or restrict Russia-related payments in 2022, while company 3 described a gradual shift from legal-minimum compliance in 2022 toward a more conservative position in 2023-2024. By the time of the interviews in 2026 however, the observed pattern across the financial-sector interviews is broadly similar - firms describe themselves as unwilling to operate in legal grey areas, and their practices show a tendency to avoid uncertain transactions rather than proceed where a technical legal argument might still be possible. This could be highlighted from the interviews by the firms depicting heightened internal controls. They all described to have written procedures, automated or repeated screening, escalation routines, internal responsibility structures, and (when needed) contact with competent authorities or sectoral forums.

Companies operating in the energy sector also showed rather overcompliance, although in a different operational form. As their exposure to Russian markets was not related to a sales or market dependence, but instead linked to inputs, suppliers, technical equipment, spare parts, energy commodities, existing contracts, or critical infrastructure. The response was therefore also different, but could be considered as overcomplying. As soon as the first sanction packages started arriving in 2022, companies in the energy sector started mapping existing contracts, reviewing counterparties, suspending or reassessing risky transactions, replacing suppliers, and adding contractual clauses intended to prevent goods or equipment from reaching Russia or Belarus. However, in some cases, existing contracts or payments had to be reviewed case by case, especially where goods had already been delivered, safety obligations existed, or continuity of essential services was relevant. Nevertheless, the firms were not observed to have attempted to preserve Russia- or Belarus-related business through alternative channels or evade sanctions. Even when alternative payment or supply routes were considered, they were not used.

In the industry/trade sector, overcompliance appeared through supply chain de-risking rather than through market exit in the narrow sense. Russia was not described as a central sales market, but the exposure arose through input goods, product origin, ownership links, and the reliability of alternative supply routes, which was visible in two thirds of the cases. In the same cases, the field itself was not fully sanctioned, but the risk remained indirectly through Russian or Belarusian origin, oligarch-linked ownership structures, and uncertainty over whether formally non-Russian goods could still be connected to Russian supply chains. In response to that, the firms moved away from the Russian produced goods more broadly than the law may have required. However, as those companies were previously very reliant on Russian input with respondents describing these sources as accounting for a substantial share of earlier imports, those supply chains could not be replaced instantly. Thus, two firms temporarily used suppliers from Central Asian countries after ending direct Russian or Belarusian sourcing. It was described as a short term solution for the time being until the company found new long-term partners. The temporary arrangement is in the compliance-classification sense important, because the firms moved away from the eastern supply channels as soon as they could and at the time of the interviews no longer had those relations. The relevant finding here is therefore not undercompliance, but the fact that overcompliance in industry/trade could take the form of a gradual withdrawal process rather than an immediate clean cut-off.

3.2.3. Compliance

Compared to overcompliant companies, compliance was less represented. In these cases, the firm did not appear to use sanctions-related uncertainty as a reason for broad voluntary withdrawal, but also did not show signs of risk-tolerant interpretation or continued engagement with unclear sanctions-sensitive activity. The response remained close to what is obliged by the law, which could be observed for example with company 7. In their case the firm reviewed contracts, counterparties, and sanctions-related risks, but overall their response was more close to compliance than overcompliance. In their case, the firm took sanctions seriously and adopted all needed procedures and practices where necessary, but the interview did not indicate the company had applied categorical restrictions to all Russia-related or potentially sensitive activity where this was not legally required. Even when amongst the sample, overcompliance was more dominant then compliance should not be understood as

passivity or doing less than needed. The firm did conduct all needed checks, contract review, counterparty assessment, and case-by-case evaluation, but they did not necessarily do more than the law obliged them to. Due to there also not being any evidence of sanctions circumvention or other characteristics that would hint to being undercompliant, the company was not classified so. Amongst the sample, company 7 represents a proportionate sanctions response pattern as its behaviour remained still risk aware, but not to an extent that should be considered doing considerably less or more than they are required. It goes to show that sanctions implementation can still be perceiving of risk and careful, but that does not automatically make a company overcompliant.

3.2.4. Undercompliance

By the strict definition of undercompliance (meaning that there would have been evidence of deliberate sanctions circumvention via falsifying documents, using third countries or concealing documentation) the interviews did not conclude such behaviour. However, company 3 was a case amongst the financial sector, that differed from the general overcompliant practice amongst the interviewees, but it also could not be classified as usual compliance. It is best described as borderline undercompliance as the incidents did not seem to be systematic (rather derived from negligence) and as of the date of the interview, the company had made several improvements and could be compared to other compliant companies. This distinction is important because undercompliance, as used in this thesis, does not only refer to explicit evasion. It also includes delayed adjustment, reliance on narrower legal interpretations, and continued engagement with sanctions-sensitive activity where the firm does not appear to move beyond the minimum required interpretation of the rules.

This classification must be compared and understood within the context chapter of the empirical part of the thesis. As it was established, the baseline for the Estonian financial sector is strongly conservative and tends toward overcompliance. Since they are expected to act as an additional layer of defence and due to this also implement several additional procedures and controls. Against this benchmark, company 3 stands out. During the interview, the respondent framed the firm behaviour as rather compliance than overcompliance. This self-description is not treated as decisive, since the methodology of this thesis classifies firms on the basis of observable behaviour rather than stated intention.

However, the behaviour rather resembles a borderline undercompliant approach where the firm did not show signs of going beyond the legal basis of what sanctions seek, which was usual for the other financial companies interviewed. This could be determined firstly by how the firm described its activities and approach as compliance rather than overcompliance. Secondly, the fact that their transition to restricting Russia-related financial activities was not immediate. And thirdly, since the contextual evidence suggests that the sectoral baseline in Estonia is strongly conservative and tends toward overcompliance, the firm showed great contrast to that. Company 3 shows that even in a highly regulated field such as finance, there exists variation which makes the case analytically interesting. The case also showed that in practice it is quite difficult to determine the difference between compliance and undercompliance. Even when the firm is formally aligned towards compliance, it is still possible to not take enough precautionary measures than firms operating in the same sector and environment. In this case, the question is not whether the firm intentionally breached sanctions, but if the firm just failed to align with the general response of the sector and wider goal of sanctions. That said, the case rather falls in the gray area, making it difficult to differentiate if it should be classified strictly as over- or undercompliance.

3.2.5. Summary of cross-case patterns

When looking at all the cases together it becomes apparent that firm level responses to sanctions were not uniform - even when operating in the same legal framework. The formal classification of the ten completed firm cases confirms that overcompliance was the dominant response pattern in the sample. Eight cases were classified as overcompliance, one case as conservative compliance, and one case as compliance bordering on undercompliance (table 1). No case was classified as deliberate circumvention. This distribution shows that most firms moved beyond narrow list-based compliance, but it also shows that the response pattern was not completely homogeneous. As the empiric data implies, the response to sanctions was rather conservative. However, it took different forms across sectors. For most of the firms the decision to exit or keep relations with Russia did not come as a single decision. The response was a mix of operational changes that included supplier replacement, additional checks on the counterparties, reviewing of contracts, doing enhanced document checks and refusing of transactions or cooperation with counterparties whose relation to sanctioned entities could not be ruled out. The conservative approach was the most apparent in the financial sector, which is expected to screen clients, transactions, ownership structures, and possible links to

sanctioned persons or jurisdictions before state authorities become involved. In the light of this, companies 1, 2 and 4 described adopting broad measures that went beyond the legal necessity stated in the sanctions packages. Similar precautionary behaviour was also visible in the energy and industry/trade cases, where all companies adjusted supplier relationships, reviewed existing contracts, and avoided counterparties or product flows that could create sanctions-related risk.

The second pattern visible from the interviews involves the actual exposure to the Russian market. In most cases across the sectors, Russia was not described as the central sales market. The involvement was rather related to payments, customers' business activities, suppliers, raw materials, spare parts, technical equipment, logistics routes, or possible resale channels. This indicates that sanctions affected firms even when they were not directly selling to or operating in Russia. This exposed the firms to a different kind of compliance complication since the question was not only if the firm had Russian clients or assets, but whether its transactions, inputs, counterparties, or goods could indirectly create sanctions exposure.

As a third pattern derived from the firm interviews, it became clear how sanctions compliance has been embedded into the daily routine of companies that are exposed to such risks. Even when the response in the beginning of sanctions was mainly described as rapid and uncertain, then firms had to map the risks and make the decisions even before all guidance had been settled. Since then, it has been a part of their daily compliance routine through screening documentation, escalation routines, contractual clauses, supplier checks, and customer due diligence.

Since ambiguity of the sanctions regime is the basis of the first hypothesis, it is important to emphasize that firms did not describe it as a constant and equally intense problem throughout the sanctions period. Across several interviews covering all sectors, respondents indicated that ambiguity was highest in the initial phase after the 2022 escalation, when sanctions packages changed rapidly, guidance was still developing, and firms had to make operational decisions before all interpretive questions were settled. During the making of the interviews, most firms did not describe ambiguity as a general continuous issue. For example, according to company 2 it was rather said to appear more selectively, in specific borderline cases such as ownership and control assessment, sectoral restrictions, end-use verification, product classification, third-country exposure, or whether a particular service or transaction fell within the scope of a restriction. What makes this pattern important is that in terms of the

analysis, it shows that the effect of ambiguity is temporal as well as substantive. As it has been more than 4 years since the first sanctions packages started to come out, firms have had time to develop internal procedures and hire or train specialists, but as sectoral practices stabilised, ambiguity became embedded in compliance routines rather than experienced as a constant crisis condition.

When it came to classifying the firm behaviour, the boundaries between undercompliance, overcompliance and compliance were not always sharp. Across all sectors, there were firms that applied sanctions in a legally grounded but highly conservative manner, making them difficult to classify as merely compliant like companies 9 and 10. In the financial sector it appeared by firms avoiding unclear financial flows, in the energy sector some firms restricted supplier relationships despite operational continuity constraints and in the industry/trade sector firms were moving away from Russian goods without where the sector itself was not fully sanctioned. Here the line between specifically compliance and overcompliance becomes blurred because if the firm avoids certain areas of transactions, countries, suppliers, or counterparties without them being formally prohibited it by definition should be classified as overcompliance. However, the constraint here is that these actions may still be legally grounded. The firm is not acting irrationally or outside the law, but is applying the law in a very conservative way. When it comes to compliance and undercompliance, a firm may not violate sanctions or try to evade them, but it may still apply the rules more narrowly or slowly than comparable firms in the same sector. Such behaviour is not enough to classify a firm to be undercompliant, but the actions taken also indicate a rather risk-tolerant approach. An example of this is the company 3, where the less precautionary adjustment to sanctions supports classifying it as compliance bordering on undercompliance.

Company code name	**Sector**	**Size**	**Recognized response pattern**
Company 1	Medium	Finance	Overcompliance
Company 2	Large	Finance	Overcompliance
Company 3	Large	Finance	Compliance, bordering on undercompliance

Company 4	Large	Finance	Overcompliance
Company 5	Large	Energy	Overcompliance
Company 6	Large	Energy	Overcompliance
Company 7	Large	Energy	Compliance
Company 8	Medium	Industry/trade	Overcompliance
Company 9	Small	Industry/trade	Overcompliance
Company 10	Medium	Industry/trade	Overcompliance

Table 1: Company classifications by recognized pattern

3.3. Explaining variation in firm responses

This section aims to explain why companies operating under the same legal framework opted for different response patterns. While the previous section identified the firm level responses, then this one seeks to understand the variation amongst them. The analysis focuses first on external pressures, then examines internal and structural factors, such as firm size, sector, compliance capacity, and dependence on Russia-related inputs or transactions. Finally, it assesses the role of regulatory ambiguity and explains how uncertainty affected firms differently across sectors and over time.

3.3.1. External pressures

As was established in the theoretical framework, one of the factors companies rely on when making a choice of response, are external pressures. However, from the interview material, this did not appear in a single form of state enforcement, but rather as a wide-ranging pressure environment. Based on the interviews, it's shaped by state authorities, banks, business partners, clients, parent companies, and reputational audiences, consistent with the theoretical framework, which suggests sanctions implementation as a process in which private firms are not only regulated by the state, but also several other actors (table 2). The empirical data suggests that this pushed the firms toward more conservative responses, although the exact mechanism differed by sector (table 2).

External pressure seemed to be the most visible or prominent in the financial sector (table 2). As was presented in the previous part of the empirics, Estonian finance sector has a conservative baseline, which seems to stem from the high expectations set to them as they operate as a de-facto first line of defence. All of the companies interviewed from this sector described sanctions now as a routine part of their daily obligations mainly involving transaction monitoring, escalation procedures, screening tools, and internal responsibility structures. Thus, it was apparent that the pressure to overcomply did not stem from the formal wording of sanctions law alone, but also from the expectation to not become a channel by which sanctioned funds, products or people could move through. Since the entire sector was classified as mainly overcompliant, this sector-specific pressure point could be one of the reasons for that. Another dimension of external pressures important in the financial sector was the reputational dimension. The empirical data suggested the reason for that to be because financial institutions depend on trust, correspondent relationships, and the ability to demonstrate robust internal controls. In practice, firms tended to refuse unclear transactions, restrict Russia- and Belarus-related payment flows, and ask for additional information even when a transaction was not automatically prohibited. Therefore, external pressure came from two directions - firstly, financial firms had to consider possible supervision by state authorities and secondly, the firms were expected to prevent sanctions related transactions and spot the so-called red flags themselves. Nevertheless, it was also evident that even in such a highly pressured sector, external pressure did not mechanically determine firm behaviour. Because firm behaviour was not identical with company 3 differing from the overall conservative approach, it's important to know that external pressure was powerful, but not fully determinative.

For other companies outside of the financial sector, financial service providers (especially banks) often appeared as an indirect but important source of external pressure. Four out of six non-financial sector companies clearly described experiencing bank pressure either via banks asking additional questions about counterparties, payment routes, beneficial ownership, product origin or the final destination of goods, but also banks blocking the payments. Energy and industry/trade firms did not only have to ensure that their activities were legally permissible, but also had to make their transactions sufficiently understandable and verifiable for banks. Company 7 even considered using payment providers instead of a bank to complete some transactions. This clearly defines banks as control multipliers, because even if the state did not intervene, firms could still face pressure through the financial infrastructure

needed to complete transactions. Thus, bank pressure encouraged firms to avoid certain counterparties or supply routes that would be difficult to explain, document, or justify.

In the energetics sector, reacting to external pressures took a different form - since they had to maintain continuity of essential services, existing contracts, and supply reliability, even external pressure did not lead to immediate categorical withdrawal. It resulted in companies reviewing contracts, reassessing suppliers, adding sanctions-related clauses, and evaluating counterparties case by case. The pressure itself took the form of regulatory expectations, business partners, and the need to avoid reputationally or legally risky supply relationships, but due to the aforementioned continuity constraints, the outcome was often conservative rather than sudden exit from all potentially sensitive relationships.

In the industry and trade sector, external pressure applied mainly through supply-chain relationships. Firms not only had to respond to the formal sanctions, but also to the expectations of customers, suppliers, and contractual partners. For two of the three interviewed companies (companies 9, 10) in that sector sanctions risks arose through origin, ownership links, oligarch-controlled companies, and uncertainty over third-country routes. In practice, both firms ended up overcomplying, because continuing to use such goods would have created practical, reputational, and partner-related risks. Even in cases where the transaction could have been technically possible, firms had to consider whether it could be documented, accepted by partners, and defended if questioned later.

When looking at the sectors overall, reputational pressure played an important role, but its form varied (table 2). In the financial sector, companies worried most about trust, supervision, and the possibility of being seen as a weak link in the sanctions regime. Industrial companies' reputational risk was linked more to the origin of goods, association with Russian or Belarusian supply chains, and the possibility of being connected to circumvention routes. The energy sector had a unique effect of broader political sensitivity of energy dependence after 2022, which resulted in the companies experiencing reputational pressure. Across all sectors, firms appeared sensitive to the possibility that legally arguable conduct could still be commercially or reputationally unacceptable.

All in all, the empirical data suggests that external pressures generally pushed firms toward overcompliance. This scenario was the most prominent where pressure came from multiple directions at once - legal expectations, bank scrutiny, business partner demands, and reputational risk. Out of ten interviewed companies, this was the case for six firms. Nevertheless, the external pressure was very sector specific and did not express oneself in the

same way. In finance it created a strong conservative baseline, in energetics it operated through supplier and contract review under continuity constraint and political pressures, in industry it expressed through supply-chain verification, product origin, and partner acceptability. In the sample, external pressures therefore help to explain the dominant overcompliance, but not the variation between firm response patterns. That variation must also be assessed through internal capacity, market dependence, and regulatory ambiguity in the following sections.

3.3.2. Internal and structural factors

Since the cross-sectoral dominance of overcompliance can be linked to external factors, it does not fully explain the variation between the firms adjusting to sanctions. The empirical data showed that internal and structural factors were the ones that shaped how exactly the firm absorbed said pressure and translated it into operational decisions. The internal and structural factors were the compliance capacity of the firm, firm size, the business model, overall dependence on Russian inputs or market and how the company is able to replace said Russian input without interrupting the operations.

Depending on the size of the company, their organizational capacity could be assumed to be more developed. Small and medium sized companies had fewer specialised compliance resources, however the empirical data suggested that they may respond to sanctions through practical restructuring and categorical avoidance, rather than through highly formalised compliance systems. In medium sized firms, the main response was to play it safe - they simplified their exposure as much as they could so they would not have to start building complex monitoring systems, which in the end just resulted in overcompliance. Smaller and medium sized firms being overcompliant could also be a sign of them avoiding risks that could end up costly or too complicated to manage. Large firms reported to have more intricate and formalised internal procedures, which was the most prominent and routine in the energy and financial sector. They also had clearer responsibility structures and more capacity to follow and track changes in the sanctions regime. In the financial sector, all respondents described that they do or have screening systems, transaction monitoring, escalation routines, and dedicated compliance or risk functions. In the energy sector it was visible by companies reviewing suppliers, beneficial owners and contracts more in depth and generally also case by case. However, firm size did not seem to be the deciding factor in response pattern selection.

Due to company 3 being classified as borderline undercompliant then it could be suggested that organisational capacity does not automatically lead to overcompliance. Firms might have all the tools and capability to manage the sanctions risk, but the final response still depends on how conservatively that capacity is used.

The decision of what the internal capacity was going to be used for seemed to partially depend on the sector - companies were facing the same sanctions framework, but the internal work required to implement it differed by business model. In the financial sector, capacity meant identifying risky clients, payments, ownership structures, and transaction flows. In the energy sector it meant managing technical continuity and contractual agreements, but also politically sensitive supply relationships. In the trade and industry sector, firms needed to assess product related data, third-country routes, and possible resale or diversion. Companies were responding depending on their business model, which largely meant solving different operational problems despite the sanctions framework being the same for everyone.

Another factor shaping the companies choice of response was their overall dependence on the Russian market pre-war of 2022. Naturally, firms with less dependence - meaning that Russia-related exposure was marginal, indirect, or easily replaceable - were able to adjust more quickly and categorically. On the other hand, firms with heavy reliance on the Russian market and strategic interest there, were experiencing more difficulties breaking off the ties. These issues were the most visible in the energetics and industry and trade sector. In the trade sector companies 9 and 10 temporarily had to use Central-Asian routes to substitute the Russian imports that had previously made up almost half of their inputs. At the time of the interviews, long term partners from the west had already been found, but it goes to show that high input dependence did not essentially prevent de-risking, but it made it rather gradual than immediate. In the energy sector, firms could not always respond by immediately terminating every potentially sensitive relationship. Ties to Russian input were largely related to safety obligations, but also to infrastructure, existing contracts, technical equipment, energy inputs and service continuity, which meant that Russian related commitments required more careful sequencing. As a result, companies in the energy sector assessed contracts and relations case-by-case to manage exposure, but also keeping in mind the aforementioned factors. In those firms' cases, the long term sanctions related action plan was clearly conservative, but the transition itself just happened slower due to large dependence on

Russian input or sectoral specificities. Therefore, overcompliance did not appear here as a fast complete withdrawal.

Across all sectors, internal and structural factors do provide clarity on the variation within the general pattern of conservative response. While external pressure seemed to be the deciding factor to push firms towards overcompliance, internal characteristics determined the speed and design of how it was going to be done. Even when larger firms had more developed internal capacity to deal with sanctions compliance, then the firm size did not decide the overall response type. Smaller companies tried to simplify their exposure to Russia and avoid such relations when possible. Firms who already had low exposure were able to depart from the market quicker, while those with more dependence moved through staged adjustment. These findings suggest that firm responses were shaped not only by how much pressure firms faced, but also by how easily they could reorganise their operations in response to that pressure.

3.3.3. The role of regulatory ambiguity

An important point regarding regulatory ambiguity that came up in the majority of the conducted interviews was the changing effect of it. When interviewees were asked about the role of regulatory ambiguity, then the intensity of it was characterized to be more dynamic than the theoretical framework originally had suggested. On one hand ambiguity did not affect all firms equally, but on the other it also varied throughout the sanctions period. For the majority of the companies, it mattered most in the early phase after the 2022 escalation, when firms had to respond to rapidly changing sanctions packages before guidance, internal routines, and sectoral expectations had stabilised. When interviews were being conducted, many of them no longer described ambiguity as a constant daily obstacle - it was described to appear in more technical and specific ways, but overall seemed to be embedded into the routine operations of compliance work.

That said, the first finding related to regulatory ambiguity is that it’s momentary. When sanctions packages towards Russia were first introduced in 2022, the environment was specified as fast-moving and uncertain. The packages were being adopted faster than proper guidance could be developed and firms were left with the choice to make operational

decisions before all interpretive questions were settled. However, this played an extensive role in how firms initially responded, which in the majority of cases was choosing the safer option. Companies started to avoid transactions or contracts that had any vagueness to it, but also limit their overall exposure to the Russian market. Therefore, ambiguity did contribute to companies overcomplying, however it was most apparent when the first sanctions packages were released, because companies had to make a decision whether to continue, pause, or withdraw from Russia-related activity. As was mentioned, the role of ambiguity seemed to be dynamic - over time companies learned how sanctions affect their specific business model, set up internal procedures and when needed also consulted with regulators, banks or authorities. In that way, ambiguity became more manageable as it became more embedded into the routine, but it did not mean it disappeared. Consequently, the interviews suggested that as regulatory ambiguity did have an intense initial effect followed by a response then over time it just became a regular part of compliance work.

When the interviews are assessed in a sector specific way, another finding emerges relating how exactly regulatory ambiguity was experienced. For the energy sector, ambiguity arose through contractual relationships - more precisely whether a supplier relationship, spare part, payment, or contract could create sanctions exposure, while also maintaining safety and service continuity. This was different from just legal uncertainty and was expressed more operationally. The energy sector was also unique since all vague business relationships could not be solved by just terminating them. They had to go case-by-case and review each link rather individually, because existing contracts and technical dependencies had to be managed. Within the industry and trade sector, the approach was similar in the sense of being operational - since firms made the internal decision to move away from Russian trade overall, the problem was not if it was allowed or not. When asked about ambiguity, for example companies 5 and 6 expressed that it played a relevant role as sanctions risk arose through oligarch-linked ownership structures.

In the financial sector, ambiguity was experienced through ownership and control, client risk, transaction purpose, and whether financial flows could indirectly involve sanctioned persons or jurisdictions. Firms were clear that blocking sanctions were not difficult to interpret, because it just required screening. On one hand, companies had a hard time identifying the full risk profile, because a counterparty was not directly listed, but had possible ownership, control, or business links to sanctioned actors. On the other hand, the difficulty laid in understanding how the sanctions regulation itself applied to financial products, services, or

internal banking processes, which was experienced in three out of four financial companies. One example that was brought up multiple times concerned the EUR 100 000 deposit restriction, which interviewees described as legally and technically difficult because it was not always immediately clear what should count as a "deposit" for the purposes of the restriction. More specifically, it was unclear how to treat other claims apart from the normal account balance like securities-related proceeds, interest, dividends, or funds credited to an account after the threshold had already been exceeded. The second example was more related to restrictions on the provision of payment or financial services. One financial sector company referred to later sanctions packages where concepts borrowed from payment-services regulation had to be applied to actual banking products. For a financial institution it was difficult to interpret, because one product could contain several legal and technical service components, so it became hard to distinguish which products were within the scope of the restriction. Other examples included trade-related sanctions being assessed from a financial perspective, identifying if a customer's transaction or business model included restricted goods and the concept of control being rather ambiguous since control could exist through various ways that were not captured by a simple percentage calculation. There was also confusion regarding pre-existing contracts and exemptions, as if a firm could still rely on an earlier contract after new sanctions had entered into force. However, respondents indicated that understanding of such issues developed over time, including through European Commission FAQs and communication with competent authorities.

This sector-specific approach goes to show that regulatory ambiguity should not be understood only as unclear legal wording, because in many times the legal rule may have been relatively clear in abstract terms, but firms lacked the information needed to apply it confidently. The difficulty was often evidentiary and practical concerning things like who ultimately owns or controls the counterparty, where the goods actually originate, whether a third-country supplier is independent, where the goods will end up, or whether a formally legal transaction could still support a sanctions circumvention chain. This makes a relevant point, because it explains why ambiguity remained relevant even after firms had learned the basic sanctions rules.

However, the interview with a state official brings up an important point - firms may refer to complexity or uncertainty for different reasons, and not all claims of ambiguity should automatically be treated as objective legal uncertainty. Some unclear cases are genuine, especially in relation to ownership, control, sectoral restrictions, and new sanctions packages.

However, ambiguity may also function as a strategic argument where firms want to justify hesitation or continued business with sensitive markets. For this reason, this thesis treats perceived ambiguity as an empirical claim that must be compared with observable behaviour rather than accepted at face value. This makes the relationship between regulatory ambiguity and overcompliance conditional - ambiguity was most likely to produce overcompliance where it combined with high external pressure and reputational risk. It was the most apparent in the financial sector, where unclear exposure was difficult to tolerate because mistakes could create supervisory, legal, and reputational consequences. It was also visible in industry and trade, where uncertainty over product origin or third-country routes encouraged firms to move away from Russian and Belarusian goods more broadly than the law strictly required. In such cases, ambiguity increased the expected cost of proceeding, making withdrawal or refusal the safer business decision.

Still, even in the generally risk-tolerant financial-sector, ambiguity did not always lead to immediate or full overcompliance. A firm may respond to uncertainty by remaining closer to a formal compliance logic and adjusting more gradually, especially if it does not adopt the same conservative benchmark as comparable firms in the sector. This does not mean that ambiguity was irrelevant, but shows that firms can use ambiguity differently - some treat uncertainty as a reason to withdraw broadly, while others treat it as a reason to wait until obligations become clearer. The direction of response therefore depends on how ambiguity interacts with external pressure, internal risk appetite, and sectoral norms.

Overall, the interview material supports a qualified version of the ambiguity argument. Regulatory ambiguity did increase the likelihood of conservative responses, but mainly in the early phase and especially where uncertainty was combined with high legal, reputational, or bank-related pressure. Later, ambiguity became less visible as a general problem because firms had absorbed it into internal procedures. However, since ambiguity is what set the companies on the trajectory of overcompliance and none of the companies reported that their response had changed over the years of 2022 to 2026, then it can be settled that they chose overcompliance due to the ambiguity. Therefore, the main finding here is that ambiguity shaped the initial adjustment path and then became institutionalised within firm-level compliance routines, but still remained the reason for the initial response of overcomplying.

Companies	Sector	Response pattern	Main pressure	Main condition shaping response
Companies 1, 2, 4	Finance	Overcompliance	Supervisory and reputational pressure	Low tolerance for unclear financial exposure
Company 3	Finance	Compliance bordering on undercompliance	Financial-sector supervisory and reputational pressure	High capacity, but slower and narrower adjustment
Companies 5, 6	Energy	Overcompliance	Regulatory and partner pressure	Existing contracts and continuity obligations
Company 7	Energy	Compliance	Legal and operational pressure	Response stayed close to formal requirements
Company 8	Industry/trade	Overcompliance	Supply-chain and partner pressure	Russia-related exposure was easier to replace
Company 9-10	Industry/trade	Overcompliance	Product-origin, reputational and third-country risk	High prior dependence slowed adjustment

Table 2: Explanatory factors behind firm-level sanctions response patterns

4. Discussion of Findings

The empirical analysis firstly described in which environment the companies in Estonia operate in. Geographically, Estonia's position makes a big difference since the risk of sanctions evasion rises. Furthermore, Estonia has previously had considerable economic relations with Russia, but the domestic financial sector has been rather conservative, which has made sanctions implementation relevant for local companies. Sanctions implementation can be understood as a practical business problem involving payments, customs controls, ownership checks, product origin, end-users, suppliers, and third-country routes. Therefore Estonian firms are definitely not responding to sanctions solely based on the legal obligation itself, but in a distinct business and geographical environment, where possible sanctions breach or exposure could result in a variety of risks.

When it came to determine the patterns across the empirical data, then it was evident that it was led by overcompliance. Eight out of ten companies were classified to be overcompliant, one as conservative compliance and one as bordering on undercompliance. Companies applied broader restrictions, limited exposure to the Russian market and avoided business opportunities, contracts and transactions that might have still been legally permissible. The methods varied across sectors as the financial sector started refusing unclear transactions and doing additional screening and checks, the energy sector reviewed ongoing contracts and replaced or avoided certain suppliers and the industry sector moved away from Russian goods and avoided certain products or third-country routes. As companies used different methods to overcomply, the reason behind doing so also differed. For conservative behaviour or overcompliance, external pressure played a big part. Across sectors external pressure was experienced via partners, banks, clients and as a reputational risk. While industry and energy sectors saw banks as the main pressurers alongside overall reputational risk, then financial sector companies felt as they were the first line of sanctions control. Due to the recognizable effect of different external pressures, it is definitely evident that companies are not feeling the demand of the legal obligation, but also by various external actors they encounter in everyday business operations. As companies were feeling pressured by various external factors to overcomply, then internal factors were the ones to explain how this is translated into practice. Depending on the company size, their exposure to the Russian market before sanctions regime, business model or compliance capacity of the company, the speed and the method of going through with the chosen response varied. Firm size did not turn out to play a deciding role even when their compliance capacities were more developed. However, the previous

exposure to the Russian market did pose as a considerable factor - firms with lower exposure and who were not facing infrastructure dependency could end the relations with said market quicker than those who did.
Regulatory ambiguity was important and mattered, but not constantly. Companies reported to experience it in the early sanctions implementations phase after 2022 where the environment was constantly changing and guidance had not been developed yet, which drove companies towards a more conservative attitude to be safe. By the time of the interviews being conducted, companies had already got used to it in a way that it had been embedded into their compliance routines and overall approach. Therefore, while regulatory ambiguity did have a noticeable impact on the companies choice of response in the beginning of the sanctions regime, then 4 years later it was not experienced the same way.

The empirical findings provide a look into the process of decision making and response pattern shaping on the firm level. That said, Estonia had created a high-risk sanctions environment, in which companies did not treat sanctions only as formal legal rules. Sanctions are rather understood as something that is connected to the companies in several different ways which created various business related risks. Taking these risks into the consideration, the dominant pattern amongst the sample was to overcomply - meaning that most firms did not only ask whether an activity was strictly prohibited, but also whether it could be documented, explained to banks or authorities, accepted by partners, and defended reputationally. While this approach was shaped by regulatory ambiguity in the beginning of the sanctions regime then external pressure made sanctions-related mistakes costly, and internal factors determined how quickly and in what form firms could adjust. Even when the conservative approach did not look the same across firms, it was evident that this variation could be explained by regulatory ambiguity, external pressure, and internal or structural characteristics.

5. Conclusions

This thesis examined why firms operating in Estonia adopt different response strategies in implementing EU sanctions against Russia. As a first course of action, the thesis determined what exactly is the implementation problem with sanctions - as the legal obligations are the same for all, then in practice firms interpret these sanctions differently. This created the research puzzle which was not about a matter of assessing if a company formally complies with sanctions, but rather why do they respond differently when facing the same legal framework. In order to achieve this objective, a theoretical framework was laid out that treats EU sanctions as instruments of economic statecraft whose effectiveness depends on implementation. Due to sanctions being implemented by private firms then they become important as they are the ones who must translate the legal restrictions into practical implementation. Therefore the theoretical framework also considered private firms as decision makers who are operating under a set of factors like legal ambiguity, various external factors and uneven organisational capacity. Then, it was established that firms tend to choose between three response strategies: compliance, overcompliance, and undercompliance.

The thesis carried out a theory-guided small-N comparative case study of firms operating in Estonia in the financial, energy, and industry/trade sectors by carrying out interviews with them. The precondition for all firms was that they experienced sanctions implementation under uncertainty, pressure, and uneven organisational capacity. Companies were classified to undercomply, comply or overcomply based on a set of observable behavioural patterns such as the timing and scope of restrictions, the intensity of compliance routines, the degree of de-risking, the handling of Russia- and Belarus-related exposure, and interactions with banks, authorities, customers, suppliers, and business partners. How companies characterized themselves was not taken into account so firms were classified on the basis of observable behavioural patterns.

The main empirical finding is that overcompliance was the dominant response amongst the sample. This is due to eight out of ten companies responding in a way that could be classified as overcompliance. One company was classified as conservative compliance, one as compliance bordering on undercompliance and no companies were found to be engaging in deliberate sanctions circumvention. An important point here was that corporate response cannot be reduced to a simple compliant/non-compliant distinction. Most firms did not

merely apply sanctions at the narrow legal minimum, but adopted broader precautionary restrictions, especially where Russia- or Belarus-related exposure was difficult to rule out.

The answer to the research question of why firms operating in Estonia adopt different response strategies in implementing EU sanctions against Russia, is that firms respond differently, because they experience the same legal framework through different combinations of uncertainty, pressure, capacity, and dependence. Overcompliance was most likely when regulatory ambiguity or sanctions-sensitive exposure overlapped with high external pressure and low tolerance for reputational or legal risk. While regulatory ambiguity determined the initial response pattern in the beginning of the war then external pressure was what pushed the companies more specifically towards conservative behaviour. How the companies responded in practice relied more on the internal and structural factors like the size of the company, sector, ethical concerns, dependence on the Russian input and the extent of their compliance capabilities. However, these factors did not determine the general direction of response on their own, since most firms in the sample still moved toward overcompliance. Internal factors rather determined how it was carried out in practice depending on the aforementioned elements. Based on that, the role of regulatory ambiguity was not as constant as the theoretical framework had suggested - companies explained that they experienced ambiguity rather in the initial phases of the Russian sanctions regime, when the legal and operational environment was changing quickly. By the time of the interviews, ambiguity had been embedded into the routine of compliance work and appeared mainly in borderline cases. Still, since ambiguity shaped the initial response pattern of overcompliance and no company reported to have changed their approach over time then it can be understood as one of the initial drivers towards overcompliance. Nevertheless, with the changing nature of ambiguity, the theoretical expectation, that it directly produces ongoing overcompliance, can be refined as its effect rather depended on the timing and how companies interpreted it over time.

The first hypothesis stated that if firms perceive sanctions regulation as ambiguous, then they are more likely to adopt overcompliance as their sanctions response pattern. When looking at all of the conducted interviews, eight out of ten companies were classified as overcomplying, one as conservative compliance, and one as compliance bordering on undercompliance. The dominant response of overcomplying is consistent with the expectation that uncertainty can push firms toward broader restriction rather than risk-taking. Still, the link between

overcompliance and regulatory ambiguity seemed to be rather conditional as ambiguity was most likely to produce overcompliance where it was combined with high external pressure and reputational risk, which was especially relevant in the financial sector.

Overall, regulatory ambiguity was mostly experienced in the beginning of the Russian invasion of Ukraine in 2022. Since the environment was rather uncertain and, due to sanction packages being released quickly, also fast-paced. However, since the guidance was not developed at the same pace then companies were required to still make a choice of response pattern before all regulatory peculiarities were settled, most of them chose the safer option of doing more than required. That being said, the first hypothesis has a basis here since ambiguity did contribute to the likelihood of conservative responses. It is still important to note that since ambiguity was not experienced in the same way for the past four years (being at the highest in the beginning of the war), when conducting the interviews, companies did not treat it as a daily problem to tackle - instead, ambiguity had become more technical and case-specific and mostly embedded into the routine work. This means that ambiguity shaped the initial adjustment path, but later became institutionalised within compliance routines. However, since ambiguity is what set the companies on the trajectory of overcompliance and none of the companies reported that their response had changed over the years of 2022 to 2026, then it can be settled that they chose overcompliance due to the ambiguity. Therefore, the first hypothesis would be supported, because it is evident that ambiguity did contribute to the companies overcomplying, but only under specific conditions.

The second hypothesis stated that if firms perceive reputational risks related to sanctions as high, then they are more likely to adopt overcompliance as their sanctions response pattern and the findings partially support this. The interviews made it clear that reputational risk is a very ongoing concern for companies when it comes to sanctions compliance. As with the first hypothesis, it was also the most evident in the financial sector, where companies are under strict supervision and very sensitive to trust. Additionally, it was also visible in the energy sector where reputation was connected to the broader political sensitivity of energy dependence after 2022 and industry/trade companies, where it was more related to the origin of goods and possible circumvention. In the industry sector, companies tended to be also concerned if a transaction could be defended to banks, partners, authorities, customers, or the public.

Nevertheless, the evidence does not support the stronger claim that reputational risk was the primary driver in all or most cases. In practice reputational risks were also related to other

forms of external pressure like ethical concerns, bank scrutiny, partner requirements, documentation demands and possible legal liability. This does not undermine the hypothesis, because it does not claim that reputational risk acts alone. Rather the findings show that reputational risk increased the likelihood of overcompliance especially when it was overlapped with other external factors. It was often a question how companies would decide to translate this risk into action - energy sector companies saw some complications due to operational continuity and existing contracts and for industry sector firms, the overall response to reputational risks was also shaped by input dependence. Both sectors saw banks as the first level of defence as they often required additional information or documentation on several transactions. Financial companies felt reputational risk through a strong conservative baseline built on trust and supervision. Therefore, the second hypothesis is partially supported with the qualification that reputational risk operated as part of a broader pressure environment rather than as an isolated cause of overcompliance.

All in all, the first hypothesis can be supported and the second one partially supported. Ambiguity increased uncertainty about what was permitted, while reputational risk increased the expected cost of being associated with sanctions-sensitive activity even where the legal position was not fully clear. Since ambiguity shaped the initial response pattern in 2022 and the response has not changed since then, the first hypothesis can be supported. The second hypothesis can be partially supported due to reputational risks playing an important role when companies chose to overcomply, but it was rather a part of a broader pressure environment than an isolated cause of overcompliance. Furthermore, when either ambiguity or reputational risk overlapped with for example external or internal pressure, the dominant response tended to be to overcomply. When the choice of response was made to overcomply, then it was rather a question of the company´s dependence on Russian inputs, existing contracts and obligations on how fast the response would be.

The findings of this thesis contribute to the overall literature on sanctions implementation by showing that corporate sanctions behaviour should be analysed as a behavioural response pattern rather than as a formal legal status or self-declared intention. While it is analytically useful to make the distinction between compliance, overcompliance, and undercompliance, then in practice these categories are not that easy to differentiate - because of this, it is useful to study the companies' actual behaviour. As an example of this, in the sample, there was a large financial sector company that did not take part in sanctions evasion, but its slower and narrower adjustment made it difficult to classify as ordinary compliance in a sector where the

baseline was strongly conservative. As mentioned before, the thesis refined the theoretical understanding of regulatory ambiguity. While the theoretical framework suggested that to be rather a constant factor that companies face, then the empirical data proposed a different approach - ambiguity should be understood as a temporal and sector-specific factor. The findings agree that ambiguity is relevant, but over time its effects are formed and regulated by external pressure, internal capacity, and organisational routines.

The study did have several limitations to the conclusions. Firstly, the results are not generalisable to all Estonian or EU firms mainly due to the limited number of companies. However, because the sample was purposefully selected to include firms most likely to be affected by Russia-related sanctions, it was still sufficient for identifying initial patterns in firm response strategies and their drivers, while more robust findings would require a larger sample. Additionally, the findings should not be transferred to other EU member states due to the unique situation of Estonia as a specific frontline EU Member State. It is analytically useful due to Estonia's geographical position, prior exposure to Russia, and conservative financial-sector context, but as other member states' situations may vary, it would be risky to make generalizations on such a scale. The companies might also try to frame their behaviour in a way that presents the firm as responsible or cautious, which is why the self-description was not accounted for in the thesis in a way their observable behaviour was. For the same reason contextual interviews, evidence and limited public traces were used as an additional layer of confirmation.

Beyond the given hypotheses, the empirical findings also suggest some additional propositions for future research. Firstly, high dependence on Russian input does not lead to undercompliance automatically, but it seems to rather just slow down the process of complying or overcomplying. Secondly, companies who are experiencing pressure from several angles tend to overcomply more than those who are facing only one source of pressure. And as a third one, even when a firm has the organizational capability to comply with sanctions and adopt the needed activities into their routine, then it does not determine the response to sanctions. As those things seemed to emerge from the given sample, it would be needed to assess a wider range and a larger sample to test these propositions. Additionally, future research could also use cross context comparison between EU Member States to determine whether regulatory ambiguity and reputational risks produce the same responses to sanctions as there would be different national enforcement environments involved. While

methodologically challenging, due to undercompliant behaviour being less visible and less likely to be openly discussed, further research on undercompliance and non-compliance would be insightful.

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Appendix 1: List of conducted interviews

Code name	Interviewee characteristics		Time of the interview
	Company size	Company sector	
Company 1	Medium	Finance	26.03.26
Company 2	Large	Finance	30.03.26
Company 3	Large	Finance	09.04.26
Company 4	Large	Finance	27.04.26
Company 5	Large	Energy	24.03.26
Company 6	Large	Energy	25.03.26
Company 7	Large	Energy	29.04.26
Company 8	Medium	Industry/trade	19.04.26
Company 9	Small	Industry/trade	30.03.26
Company 10	Medium	Industry/trade	08.04.26
Interview 11	State official from the Estonian Financial Intelligence Unit (FIU)		28.04.26
Interview 12	State official		06.05.26

Appendix 2: List of questions used during interviews with companies

TAUST

1. Kui suur ja milline oli teie ettevõtte kokkupuude Venemaa, Valgevene hõlmatud turgudega enne 2022. aastat?
2. Kas te pidasite sanktsioonide eelsel ajal (enne 2022) Venemaa/Valgevene turgu või seal tegutsevaid kliente oma ettevõtte jaoks strateegiliselt oluliseks?

REAKTSIOON SANKTSIOONIDELE

3. Kui esimesed sanktsioonipaketid välja tulid, mis oli teie esmane reaktsioon?
4. Kuidas hindate sanktsioonide alast selgust regulaatori või kontrolliva institutsiooni poolt? Kas sisu ja juhised on teie jaoks selged?
5. Kuidas hindate sanktsioonidega seotud rikkumiste karistusi?
6. Kas enne sanktsioone või enne nende seaduslikult kohustuslikuks muutumist rakendati mingeid meetmeid?
7. Kas oli valdkondi, kus enne tegutsemist (sanktsioonidele vastamist) ootasite selgitusi? Ehk kas midagi jäi algul segaseks ja pidasite vajalikuks pöörduda kontrolliva asutuse poole, enne kui oma tegevuses midagi muutsite?

PIIRANGUTE ULATUS

8. Milliseid konkreetseid piiranguid te praktikas rakendasite?
9. Kas te rakendasite vabatahtlikult lisapiiranguid, mis tegelikult oleks olnud endiselt seadusega lubatud?

SISEMINE VASTAVUSSTRUKTUUR

10. Kes vastutab ettevõttes sanktsioonide järgimise eest?
11. Kas ja milliseid vastavuskontrolli vahendeid te rakendate?

12. Kui tihti sanktsioonide nimekirju ettevõttesiseselt kontrollitakse ja ajakohastatakse?
13. Kuidas hindate tegelikku omandiõigust ja 50% reeglit praktikas (nii klientide kui ka partnerite puhul)?
14. Kas olete kunagi potentsiaalse äripartneriga või kliendiga koostööst keeldunud või mõnest tegevusest loobunud ebakindluse, mitte selge sanktsioonidest tuleneva keelu tõttu?

REGULATIIVNE EBASELGUS

15. Kas on ELi sanktsiooniõiguse valdkondi, mis on teie jaoks siiani ebaselged (juhul kui ebaselgust esineb)?
16. Kuidas lahendate tõlgenduslikku ebakindlust?
17. Kas olete kogenud erinevaid sanktsioonide tõlgendusi liikmesriikide lõikes?

VÄLINE SURVE

18. Kuidas kirjeldaksite suhtlust Eesti ametivõimudega/regulaatoriga (juhul kui olete kokku puutunud)?
19. Kas olete taotlenud erandeid või vabastusi?
20. Kas tarbijate, partnerite või investorite ootused mõjutasid teie otsuseid?
21. Kas Venemaa turult väljumisel või seal tegutsemise/äri tegemise/klientide teenindamise piiramisel mängisid rolli ka ettevõtte mainega seotud kaalutlused?

MAJANDUSLIKUD KOMPROMISSID

22. Millised olid ettevõtte peamised sanktsioonidest tingitud kulud?
23. Kas teie jaoks esines majanduslikke stiimuleid alternatiivsete kanalite kaudu sanktsioonidega piiratud piirkonnas tegevuse jätkamiseks?
24. Millised majanduslikud tegurid mõjutasid teie otsust jätkata, kohandada või lõpetada tegevust mõjutatud turgudel?

25. Kas olete täheldanud erinevusi selles, kuidas teised teiega samas sektoris tegutsevad ettevõtted sanktsioonidele reageerisid?

RISKITAJU JA STRATEEGIA

26. Kuidas käitute ebaselguse korral?
27. Kas teie riski puudutav lähenemisviis on aja jooksul muutunud (2022 → 2026)?
28. Kuidas kirjeldaksite ettevõtte hetkelist lähenemisviisi?

ÜLDINE

29. Kas teie hinnangul kalduvad teiega samas sektoris tegutsevad ettevõtted sanktsioonidega seotud nõudeid pigem üle või alla seadusest tulenevate nõudmiste järgima?
30. Mis võiks selgitada erinevusi sanktsioonide rakendamises sama õigusraamistikuga silmitsi seisvate ettevõtete vahel?
31. Kui regulatiivset ebaselgust oleks vähem, kas ja mil määral teie käitumine muutuks?

Appendix 3: List of questions used during interviews with state officials

INSTITUTSIONAALNE RAAMISTIK JA ROLL

1. Kuidas kirjeldaksite institutsiooni (kus Te töötate) rolli rahvusvaheliste finantssanktsioonide süsteemis Eestis?
2. Kuidas on vastutus jaotatud erinevate asutuste vahel (nt RAB, Välisministeerium, Maksu- ja Tolliamet, Finantsinspektsioon)?
3. Milline on institutsiooni praktiline roll võrreldes näiteks järelevalve või kriminaalmenetlusega?

SANKTSIOONIDE RAKENDAMISE ÜLDINE TOIMIMINE

4. Kuidas kirjeldaksite sanktsioonide rakendamist Eestis igapäevases praktikas?
5. Milline osa koormusest langeb riigile ja milline erasektorile?
6. Kui palju sõltub sanktsioonide tegelik mõju ettevõtete enda tegevusest?

REGULATIIVNE SELGUS JA TÕLGENDAMINE

7. Millistes valdkondades on sanktsioonide reeglid ettevõtete jaoks kõige ebaselgemad?
8. Kas probleemid tulenevad pigem:
    a. *EL taseme regulatsioonist*
    b. *või riigisisesest rakendamisest?*
9. Kui sageli pöörduvad ettevõtted institutsiooni-i poole tõlgenduse saamiseks ja millistes küsimustes?

JÄRELEVALVE JA JÕUSTAMISE TEGELIK TUGEVUS

10. Kui tugevaks hindate sanktsioonide järelevalvet Eestis praktikas?
11. Millised on peamised piirangud järelevalve tõhususele (nt ressursid, info, rahvusvaheline koostöö)?
12. Kas sanktsioonide rikkumiste avastamine on pigem:
    a. *süsteemne*
    b. *või juhuslik?*

RISKIKESKKOND ETTEVÕTETE JAOKS

13. Millised on ettevõtete jaoks peamised riskid sanktsioonide kontekstis?
    a. *juriidilised*
    b. *finantsilised*
    c. *mainega seotud*
    d. *ettevõttesisene eetika*
14. Milline nendest riskidest teie hinnangul reaalselt kõige rohkem käitumist mõjutab?
15. Kui suur on risk, et ettevõte rikub sanktsioone teadmatusest?

SANKTSIOONIDEST KÕRVALEHOIDMISE KONTEKST

16. Kui levinud on sanktsioonidest kõrvalehoidmise katsed Eesti kontekstis?

17. Millised mustrid või skeemid on täna kõige tüüpilisemad?

EESTI KUI ERILINE JUHTUM

18. Kuidas mõjutab Eesti geograafiline asend (piiririik) sanktsioonide rakendamist?
19. Millised sektorid on Eestis kõige enam mõjutatud?
20. Kas Eesti ettevõtted puutuvad sanktsioonidega kokku rohkem kui keskmine EL ettevõte?

FINANTSSEKTORI ROLL

21. Kui oluline on pankade roll sanktsioonide jõustamises?
22. Kas pangad muudavad ettevõtete jaoks sanktsioonide rakendamise pigem rangemaks?
23. Kas võib öelda, et pangad toimivad "täiendava järelevalvena"?

ETTEVÕTETE ÜLDINE KÄITUMISMUSTER

24. Kas teie hinnangul on ettevõtted Eestis pigem:
    a. *ettevaatlikud*
    b. *riskialtid*
    c. *või tasakaalustavad?*
25. Kas esineb kalduvus pigem:
    a. *täita üsna täpselt seaduse piires*
    b. *üle täita*
    c. *või otsida halli ala?*
26. Millised tegurid üldist käitumist kujundavad?

SÜSTEEMI HINNANG JA ARENG

27. Mis on suurimad probleemid praeguses sanktsioonide rakendamise süsteemis?
28. Millised muudatused parandaksid ettevõtete võimet sanktsioone korrektselt rakendada?
29. Kas EL tasemel oleks vaja rohkem ühtlustamist või keskset juhendamist?

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