

Russia Sanctions

September 2022



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In February 2022, against the backdrop of the Russian invasion of Ukraine, the European Union (EU) became the global leader in sanctions against Russia. Following the invasion, the EU acted first and sought to designate ever larger groups of entities and individuals as the invasion progressed, expanding early on to prohibit engagement with whole industries. For the first time legal and compliance professionals needed to thoroughly evaluate their exposure not only to the dominant OFAC SDN list, but to look at implications of exposure to the often faster moving and farther reaching EU sanctions. While as of September 2022 the US has largely caught up with the EU, the following brief is provided as an overview of sanctions as they relate to Russia and contains an annex of EU sanctions on Russia for clarity to a US audience.

Background

Sanctions on Russia over Ukraine are not new. They were first imposed following Russia's 2014 annexation of Crimea and its military intervention in Eastern Ukraine in 2014. However, these initial sanctions were narrow in scope and only targeted those actors directly connected to Crimea and the Donbass region. They were calibrated to promote Russian compliance with the Minsk agreements. Though limited in scope, these restrictions established a framework for future Russian sanctions, and introduced policies such as the "50% Rule," which allowed authorities to impose restrictions on entities more than 50% owned by blocked persons, and to target assets dispersed through complex ownership structures.

Between 2015 and 2022, the number of sanctioned individuals and entities was progressively expanded but continued to be mostly limited to parties active in Eastern Ukraine. During this period, the EU adopted fewer restrictions than the US – living up to its traditional position as a "reluctant partner" in US sanctions programs. However, these pre-existing sanctions framework meant the foundations were in place for further sanctions when Russia invaded in late February 2022.

Sanctions after February 2022

Within the first few days of the war the EU and US launched a comprehensive sanctions program against Russia, with coverage extending for the first time to Russian domestic businesses and individuals. Specifically sanctions sought to target a network of politicians, oligarchs, financial institutions, and industrial concerns.

At present, the EU's Russian sanctions regime targets 1,214 individuals and 108 entities, including sectoral restrictions covering finance, trade, and transport, and limits on diplomatic and cultural exchanges. These measures have been introduced individually, as well as through six major sanctions packages since February 2022, the most recent of which was adopted in June of 2022. The most significant EU restrictions and planned restrictions to date include:

- Travel bans and asset freezes on high profile politicians, oligarchs, and military personnel—including President Vladimir Putin and Foreign Minister Sergei Lavrov;

- General investment prohibitions in Russia and restricted transactions with Russian financial institutions; removal of ten banks from SWIFT interbank messaging system; freezing of the Russian Central Bank's reserves and assets worth USD 643 billion;
- Export bans on dual-use goods, high technologies including semi-conductors, aviation parts, and oil refining equipment, and various luxury goods; import bans on coal, wood, steel, and cement; a planned embargo on Russian crude and petroleum imports which will come into effect between December 5, 2022 and February 5, 2023.
- Road, maritime, and airspace bans, including banning Russian vehicles and vessels from EU maritime ports and airports; suspension of various Russian state-owned media outlets broadcasts.

US sanctions, which initially lagged behind the EU in the first months of the war, have since been significantly expanded, and are now extensive. Broadly similar in terms of targets, US restrictions are in potentially more comprehensive than its EU counterparts, particularly in the energy sector. The EU has instituted coal bans and will phase out oil imports in 2023, however the US has already banned Russian coal, natural gas, and oil products.

The Impact on Russia

Apart from the Russia's energy sector, trade restrictions have also significantly affected banking and aviation, with the de-SWIFTing of Russian banks leading to a USD 25 billion loss in the first six months of 2022, and delays in payments to Russia for its oil and gas imports. The freezing of Russian currency reserves led it to default on its external foreign debt for the first time in a century. Russia has been prevented from making debt payments using the USD 600 million it holds in US banks, and the EU's Freeze and Seize Task Force has frozen USD 30.2 billion of Russian assets since the start of the invasion.

Prohibitions on the supply of aviation parts and services has seen Russian airlines cannibalizing aircraft for parts. Russia aircraft being no longer able to take off, land or fly-over EU territory has led to plummeting international travel in Russia, and the requirement to terminate aircraft leasing contracts has led to Russia's carriers losing 79 commercial jets (10% of their combined fleets).

However, not every strategic industry has faced sanctions. We note agriculture remains broadly unrestricted, with production, manufacturing, sale, or transport of agricultural commodities (including fertilizer), and agricultural equipment continuing to be permitted. Similarly, foreign pharmaceutical companies continue to be able to sell into Russia, and to export medicine.

Implications for Compliance

The EU's widespread adoption of sanctions against Russia raises important considerations for due diligence research. While it foremost requires companies to go beyond only US sanctions, more broadly companies and investors must track the expanding array of EU restrictive measures against Russia, as well as monitor derogations (exemptions) granted to individual EU member states. Finally, it is important to consider how the consequences of these sanctions, such as rising energy prices this winter, may affect EU states' capacity to expand or maintain these restrictions – and monitor such changes accordingly.

Timeline of Key EU Sanctions and Sanctions Packages

From 2014 to February 21, 2022

● EU sanctions around 250 individuals and entities for violations of Ukrainian territorial integrity, illegal annexation of Crimea and Sevastopol, misappropriation of Ukrainian state funds; imposes arms embargo; asset freezes and travel bans; restrictions on financial instruments and loans; export and import bans on military end-use and dual use items, and technologies related to transport, telecommunications, energy, and exploitation of oil/gas and mineral resources; import bans on products originating in Crimea or Sevastopol; restrictions on infrastructural or financial investments and tourism services into Crimea or Sevastopol.

February 23, 2022

● **First EU Sanctions Package following Russian recognition of Donetsk and Luhansk oblasts**

Restrictive Measures: Sanctions on 351 members of Russian State Duma and 27 high profile individuals and entities (officials, financial institutions, oligarchs, senior military officers); import ban of goods from Russian controlled areas of the Donetsk and Luhansk oblasts; restriction on trade and investments; export ban for certain goods and tech; tourism services supply prohibition; restricted Russian access to EU capital and financial markets.

February 25, 2022

● **Second EU Sanctions Package following Russian invasion of Ukraine**

Restrictive Measures: Sanctions on Putin, Lavrov, members of National Security Council, Russian State Duma Members, other individuals, and banks; expanded financial restrictions (targeting Russian banking market and key SOEs); export restrictions on dual use goods and other tech (semiconductors, oil refining, aircraft parts); visa restrictions on Russian diplomats.

February 28 to March 2, 2022

● **Third EU Sanctions Package**

Restrictive Measures: Ban on all transactions with Russian Central Bank, including a freeze on international reserves; ban on Russian air carriers from EU airspace and airports; exclusion of seven Russian financial institutions; further limits on financial transactions; ban on RT and Sputnik media outlets; further sanctions on 26 persons and one entity.

March 15, 2022

● **Fourth EU Sanctions Package**

Restrictive Measures: Prohibition of all transactions with various Russian SOEs, provision of credit-rating services to Russian persons/entities, and new investments in Russia's energy industry; import restrictions on iron and steel; export restrictions on luxury goods; asset freezes and travel bans on additional individuals/entities; expanded restrictions on dual use goods and tech for energy industry.

April 8, 2022

● **Fifth EU Sanctions Package**

Restrictive Measures: Prohibition on purchase, import, or transfer of Russian coal and other fossil fuels; prohibits access of Russian vessels to EU ports and Russian vehicles from EU roads; export bans including jet fuel, semi-conductors and advanced tech; import bans including wood, cement, fertilizer; full transaction ban on four Russian banks; financial sanctions on oligarchs including Putin's daughter; ban on Russian participation in EU procurement.

June 3, 2022

● **Sixth EU Sanctions Package**

Restrictive Measures: Phased-in embargo on Russian crude and petroleum imports to come into full force by December 5, 2022 and February 5 2023; De-SWIFTs three Russian banks; bans three Russian media outlets; asset freezes and travel bans, including for individuals involved in alleged war crimes; export ban on goods and tech for potential enhancement of Russia's defense and security; ban on accounting, PR, and consulting services provision.