ROPES & GRAY

ALERT

March 30, 2023

Russia/Ukraine Crisis: The European Union and United Kingdom impose further sanctions on Russia on the one-year anniversary of its full-scale invasion of Ukraine

Attorneys
Amanda Raad
Paige Berges
Ama Adams
Kevin Nordin

On February 24, 2023, the one-year anniversary of Russia's invasion of Ukraine, the European Union released its tenth package of sanctions against Russia, and the United Kingdom announced plans to implement further sanctions against Russia. In addition, the leaders of the Group of Seven Nations (the "G7") issued a statement reaffirming their support for Ukraine and announcing the establishment of an "Enforcement Coordination Mechanism" aimed "to bolster compliance and enforcement of our measures and deny Russia the benefits of G7 economies."[1] This alert summarizes the key additional sanctions imposed by the European Union and the United Kingdom since our last alert dated January 31, 2023 (published here) together with other guidance and G7 developments. See our alert dated February 27, 2023, published here for our analysis of recent sanctions imposed by the United States against Russia.[2]

G7 STATEMENT AND RELATED INTERNATIONAL DEVELOPMENTS

In a significant international development, the leaders of the G7 issued a statement on February 24, 2023, to affirm their commitment to better align and coordinate sanctions enforcement through the establishment of an "Enforcement Coordination Mechanism" tool. While limited details have been provided on how this mechanism will operate, its stated purpose is "to bolster compliance and enforcement of [G7] measures and deny Russia the benefits of G7 economies" by preventing and responding to evasion and circumvention of current sanctions measures as well as agreeing to further sanctions. It is understood that the United States will chair the new mechanism for the inaugural year.

As part of the commitment to further align on measures, the G7 leaders stated that the G7 countries would:

- Take action against third-country actors materially supporting Russia's war efforts in Ukraine to deter their involvement;
- Bolster efforts to prevent Russia from acquiring advanced materials, technology, military, and industrial equipment from G7 countries;
- Further limit the export of diamonds from Russia (which provides a significant revenue source);
- Introduce further measures on Russia's financial sectors to prevent circumvention, while preserving essential financial channels for specific transactions; and
- Continue to impose targeted sanctions against those responsible for war crimes, human rights violations and abuses, illegitimately exercising authority in Ukraine, or otherwise profiting from the war.

G7 countries[3] like the United Kingdom have also issued corresponding statements, with the UK's Business and Trade Secretary Kemi Badenoch stating that, "[w]orking together with our G7 international partners, the Department for Business and Trade is delivering sanctions to further erode Putin's capabilities to wage war against Ukraine." He added that the UK "will back Ukraine for as long as it takes."

EUROPEAN UNION

On February 24, 2023, the European Union adopted its highly anticipated tenth package of sanctions against Russia. The amending regulations and legislation can be found here.

Asset Freezes

On February 24, 2023, the European Union's tenth package of sanctions designated 87 individuals and 24 entities, which fell into several categories including:

- Russian decision-makers, senior government officials, and military personnel, kidnappers involved in the abduction and forced adoption of Ukrainian children, and persons involved in the dissemination of propaganda. Designated individuals also include four Iranian nationals who are allegedly involved in the supply and development of drones used by Russia against Ukraine.
- Members of the Federation Council of the Russian Federation, and Russian Deputy Ministers and proxy authorities assigned to non-government-controlled regions of Ukraine.
- Three banks (including **Alfa-Bank** and **Rosbank**) and two other key financial actors (**National Wealth Fund of the Russian Federation** and **the Russian National Reinsurance Company**).

The European Council has also introduced more stringent reporting requirements on funds and economic resources belonging to listed individuals and entities which have been frozen or subject to any move in the two weeks before the individual or entity was designated. The reported information must include, *inter alia*, information identifying the natural or legal persons, entities, or bodies owning, holding, or controlling the frozen funds and economic resources, including their name, address, and VAT registration or tax identification number; the amount or market value of such funds or economic resources at the date of reporting and at the date of freezing; and the types of funds, broken down according to the categories. In addition, EU operators who hold or are counterparty to assets and reserves of the Central Bank of Russia are now required to report details of these assets and reserves to Member States, which are required to report this to the European Commission. The European Commission stated that these updates are designed to harmonize the approach and application of asset freeze provisions.

Trade Restrictions

The European Union's tenth sanctions package implemented new export controls restrictions with the value of these export bans amounting to EUR 11.4 billion and import bans amounting to EUR 1.3 billion.

The additional measures expanded prohibitions on the sale, supply, transfer, or export, directly or indirectly, of certain goods to any person in Russia or for use in Russia, including the following:

- Expansion of the list of critical technology and industrial goods that could contribute to the enhancement of Russian industrial capacities, such as electronics, specialised vehicles, machine parts, spare parts for trucks and jet engines, as well as goods for the construction sector that can be directed to Russia's military, such as antennas, fork-lifts, or cranes.
- Expansion of the list of items that could contribute to Russia's military and technological enhancement or the development of its defence and security sector, by adding certain electronic components used in Russian weapons systems, specific rare earth metals and compounds, electronic integrated circuits, and thermographic cameras, among others.

The additional measures also expand restrictions on items that generate significant revenues for Russia to include petroleum jelly, petroleum coke, bitumen and asphalt, carbon and synthetic rubber, and factice derived from oils.

The European Council has also expanded existing measures to facilitate the divestment from Russia by EU operators. The Council has authorized the continued provision of otherwise prohibited professional services until December 31, 2023, where such provision of services is strictly necessary for the divestment from Russia or the wind-down of business activities in Russia (and provided certain conditions are satisfied).

The European Union's tenth sanctions package has also introduced additional anti-circumvention measures by way of (i) reporting obligations (as described above), (ii) advance notification requirements of private flights between the EU and

Russia, directly or via third countries, and (iii) a transit ban for dual-use goods and advanced technology and firearms that move via Russian territory when exported to third countries.

The European Union has also suspended the broadcasting licences of two additional Russian broadcasting media outlets: **RT Arabic** and **Sputnik Arabic**.

Restrictions on Russian Nationals and Entities

The tenth package of sanctions has imposed measures that prohibit, as of March 27, 2023, Russian nationals or natural persons residing in Russia from holding any posts in the governing bodies of the owners or operators of critical infrastructures, European critical infrastructures and critical entities, with the understanding that such appointments may threaten the functioning of these companies and, as a consequence, the safety and security of citizens in the European Union.

In addition, the European Union has placed a ban on providing gas storage capacity in the EU to Russian nationals, natural persons residing in Russia, or legal persons or entities established in Russia. However, liquified natural gas is explicitly excluded from this measure.

Legislative and Guidance Updates

- In relation to Russian oil products, the European Union updated its Oil Imports FAQs on February 4, 2023, and issued its Oil Price Cap FAQs on February 27, 2023. The European Union also issued an accompanying press release and the European Council's implementing regulation (Commission Implementing Regulation (EU) 2023/251), which set two price levels for Russia petroleum products.
- The European Union updated its FAQs in relation to the Humanitarian Aid, Oblasts, and Customs Related Matters, and Circumvention and Due Diligence on February 7, 2023; in relation to Specialised Financial Messaging Services on February 28, 2023; in relation to Aviation on March 3, 2023; in relation to State-owned Enterprises on March 8, 2023; and in relation to Intellectual Property Rights and Crypto Assets on March 21, 2023. The European Union's consolidated FAQ guidance, published on March 21, 2023, can be found here.
- On February 25, 2023, to accompany its tenth package of sanctions, the Council of the European Union published a press release, alongside the EU Commission's press release. Further guidance on the ninth package of sanctions is also provided in the tenth package Q&A, available here.
- On March 13, 2023, the Council announced its decision to prolong the restrictive measures targeting those responsible for undermining the territorial integrity of Ukraine for a further six months. The measures now run until September 15, 2023.

UNITED KINGDOM

Asset Freezes

- On February 8, 2023, the United Kingdom added 15 entries to its asset freeze list, comprised of seven entities (the majority of which are involved in the development and manufacture of military products) and eight individuals. The individuals subject to the asset freeze include: **Sergei Olegovich Rudnov**, the owner of a Russian news agency seen to be of strategic significance to the Government of Russia; **Nikolai Dmitrievich Egorov**, an owner of two Russian energy companies; and **Boris Yuryevich Titov**, Russia's Presidential Commissioner for Entrepreneurs' Rights and a prominent business person.
- On February 9, 2023, the United Kingdom added to its asset freeze list seven individuals involved in a Russian cybercrime and ransomware group supporting Russia's war against Ukraine, marking the first time the UK has made designations under its Cyber (Sanctions) (EU Exit) Regulations 2020.

- On February 24, 2023, the United Kingdom added 92 entries to the asset freeze list. These entries include:
    - 17 executives of Russian state-owned nuclear power company, Rosatom;
    - 34 executives connected to the Russian defence companies, Rostec and Almaz-Antey;
    - Six Russian entities involved in military manufacture or repair for Russia's armed forces;
    - 20 executives of Gazprom and Aeroflot;
    - Four banks: **MTS Bank PJSC**, **Bank St Petersburg PJSC**, **Bank Uralsib PJSC**, and **Bank Zenit PJSC**;
    - Five Iranian executives in Qods Aviation Industry (a drone manufacturing company supplying to Russia); and
    - **Mattias Warnig**, the CEO of Nord Stream 2.

Trade and Financial Restrictions

On February 24, 2023, the United Kingdom announced plans to enact a number of trade restrictions, including:

- an export ban on every item Russia has been found to use on the battlefield against Ukraine to date;
- an import ban on over 140 goods, including iron and steel products processed in third countries; and
- the extension of the UK's existing trade and finance measures against Crimea and the non-government controlled territory in Donetsk and Luhansk oblasts to also target the Russian-controlled areas of Kherson and Zaporizhzhia oblasts.

General Licences

- On February 3, 2023, the Office of Financial Sanctions Implementation ("OFSI") amended the Oil Price Cap General Licence (originally published on December 5, 2022, and discussed in our previous alert here), to introduce price caps for "Premium to Crude" products and "Discount to Crude" products classified within the commodity code 2710.
- On February 13, 2023, OFSI extended the general licence for the continuation of Evraz Plc's North American subsidiaries' business operations, with the licence now expiring on September 30, 2023.
- On February 14, 2023, OFSI amended and extended the general licence permitting nationals from the United Kingdom to buy tickets from certain designated Russian travel companies to include South Caucasus Railway CJSC for passenger journeys between and within Armenia and Georgia, with the licence now expiring on May 23, 2024.
- On February 24, 2023, OFSI extended the expiry dates of two general licences concerning VTB. The VTB "basic needs" general licence permits any payments in connection with insolvency proceedings of VTB Capital plc and its UK subsidiaries, with the licence now expiring on April 3, 2025; and another general licence, providing an exemption to financial regulators in the course of their functions as a regulator in the United Kingdom in connection to VTB Capital plc and any VTB UK subsidiary, has also been extended to April 3, 2025.

- On February 27, 2023, OFSI amended the "Refined Oil Products Winddown" general licence (of indefinite duration), which permits, inter alia, the supply of Russian oil products traded by ship from Russia to a third country or between third countries and the associated financial services connected to the activity. Russian oil must be delivered or supplied, or have been supplied or delivered, or loaded onto a vessel at the port of loading prior to 5:01am GMT on February 5, 2023, and be offloaded at the port of destination prior to 5:01am GMT on April 1, 2023. The licence is specific to Russian oil under the commodity code 2710, and subject to strict record-keeping requirements.
- On March 21, 2023, OFSI issued the "Wind down of Trust Services provided to Designated Persons" general licence, which authorises for 90 days a person to undertake any trust services activity "necessary to terminate an arrangement between them and a Designated Person" including: "(a) the continued provision of Trust Services being provided to a Designated Person on the date they were designated; and (b) Trust Services provided to a DP after the date they were designated." The licence publication notice is available here.
- On March 28, 2023, OFSI issued the "Bond amendments and restructurings for non-Designated Persons" general licence, which allows Issuers of bonds to "effect the terms of any Bond restructuring or amendments agreed between itself and its Bondholders" and UK persons to "take any steps necessary to effect a Bond restructuring or amendment, provided that: (a) as part of any such Bond restructuring or amendments, no funds or economic resources (or any legal or equitable interests or rights therein) are made available, directly or indirectly, to or for the benefit of, a Designated Person; and (b) insofar as a Designated Person would have been (but for their designation) entitled to any funds or economic resources (or any legal or equitable interests or rights therein) under the terms of the Bond restructuring or amendments, such funds or economic resources shall be frozen and not made available to that Designated Person, until such time as they are no longer designated." The licence publication notice is available here.

Key Legislative and Guidance Updates

- On February 7, 2023, the Export Control Joint Unit ("ECJU") updated its guidance on the supply of professional and business services to persons connected with Russia. Whereas the guidance previously covered only the information to be included in a licence application and cover letter, the updated guidance now also includes sections on "Russia service sanctions overview"; "compliance"; "exceptions and licences"; and "professional and business services sanctions prohibited on 16 December 2022."
- On February 7, 2023, the United Kingdom had its first reading of a Bill in parliament relating to the seizure of Russian state assets and support for Ukraine. The Bill would provide the government of the United Kingdom with the authority to seize Russian state-owned assets currently frozen in the Untied Kingdom and allocate them to Ukraine and Ukrainian citizens. However, on February 24, 2023, the UK House of Commons objected to the Bill. The next sitting took place on March 24, 2023; and a second reading of the Bill is now scheduled for November 24, 2023.
- On March 8, 2023, OFSI updated its industry guidance on the UK Maritime Services Prohibition and Oil Price Cap, outlining obligations under the UK Maritime Services Prohibition and Oil Price Cap exception and OFSI's approach to implementing and enforcing prohibitions. The guidance has been updated, inter alia, to reflect the price cap on Russian oil products and the wind down period for Russian oil products loaded on ships before February 5, 2023, and also to provide further examples concerning the transport of comingled refined oil products.
- On March 16, 2023, OFSI updated its guidance on enforcement and monetary penalties for breaches of financial sanctions to include details on its approach to assessing breaches of financial sanctions where an incorrect assessment of ownership and control of an entity is relevant to the commission of the breach. For more information, see our Insights post here.

- On March 20, 2023, ECJU updated its guidance to confirm that licences can be granted to permit otherwise prohibited professional and business services "if it is necessary for ensuring critical energy supply to any country."
- On March 21, 2023, the United Kingdom designated all persons currently subject to UK Asset Freeze sanctions under Regulation 11 to now also be designated under Regulation 18C, meaning it is now prohibited to provide trust services to or for the benefit of any persons subject to Regulation 11.
- The new UK Integrated Security Fund, which replaces the Conflict, Stability and Security Fund has been announced. The Fund will support the Economic Deterrence Initiative, which will tackle evasion of the UK trade, transport, and financial sanctions. "As part of this, the Economic Deterrence Initiative will ensure there is nowhere to hide from our sanctions regime," foreign minister James Cleverly said.

WHAT'S NEXT

It the near term, we expect that the G7 will publish further details on how they plan to coordinate their efforts and make use of the Sanctions Enforcement Mechanism tool to bolster compliance and enforcement and further prevent and respond to sanctions evasion and circumvention.

While the United Kingdom has announced plans to expand its trade restrictions in further lockstep with the European Union, the final legislation and its imposition remain forthcoming. We do not currently have indications of when this is expected but will update this Alert as soon as more details become available.

---

1. The G7 is an intergovernmental forum whose members include the U.S., UK, Germany, France, Italy, Canada, and Japan, with the European Union participating as a "non-enumerated" member.
2. For all of our recent client alerts related to economic sanctions and export controls, please see our website here.
3. The United States issued a similar statement: "We reaffirm our commitment to strengthening the unprecedented and coordinated sanctions and other economic measures the G7 and partner countries have taken to date to further counter Russia's capacity to wage its illegal aggression."