

# Clients & Friends Memo

## US and UK Issue New Round of Russia-Related Sanctions in Connection with G7 Summit

June 17, 2024

During the week of the G7 Summit, both the U.S. and UK issued a new round of Russia-related sanctions as Russia's invasion of Ukraine enters its 28th month. On June 12, 2024, the U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") and the U.S. Department of State announced more than 300 new sanctions against Russia and Russia-affiliated individuals and entities.<sup>1</sup> The new U.S. sanctions target Russia's financial infrastructure and its energy and manufacturing industries. On June 13, 2024, the UK government imposed a new set of sanctions against Russia, including its first sanctions targeting vessels within Russia's covert maritime fleet.<sup>2</sup>

The new sanctions package targets Russia's financial infrastructure by designating as Specially Designated Nationals and Blocked Persons ("**SDNs**") entities including:

- The Moscow Exchange ("**MOEX**"), which operates Russia's largest public trading markets for equity, fixed income, derivative, foreign exchange, and money market products;
- The National Clearing Center ("**NCC**"), which is the central counterparty and clearing agent for MOEX; and
- The Non-Bank Credit Institution Joint Stock Company National Settlement Depository ("**NSD**"), which is Russia's central securities depository and provides registration of over-the-counter trades and liquidity management services.

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<sup>1</sup> U.S. Department of the Treasury, "Russia-related Designations; Publication of Russia-related Determination; Issuance of Russia-related General Licenses and Frequently Asked Questions" (Jun. 12, 2024), available at <https://ofac.treasury.gov/recent-actions/20240612>.

<sup>2</sup> UK Government, "New UK Sanctions to Crack Down on Putin's War Machine" (Jun. 13, 2024), available at <https://www.gov.uk/government/news/new-uk-sanctions-to-crack-down-on-putins-war-machine>.

OFAC also issued General Licenses 98, 99, and 100 that authorize and specify wind-down activities in connection with MOEX, NCC, and NSD.<sup>3</sup>

The new U.S. sanctions also provide additional locational information on the SDN List about designated Russian banks, including those with locations in China, India, and Kyrgyzstan.<sup>4</sup>

With respect to energy, the new sanctions package targets three Russian liquified natural gas projects: Obsky LNG, Arctic LHG 1, and Arctic LNG 2.<sup>5</sup>

In addition, the new U.S. sanctions package includes a determination that OFAC, in consultation with the U.S. Department of Commerce, issued under Executive Order 14071, prohibit the supply to any person in the Russian Federation of (1) IT consultancy and design services; or (2) IT support services and cloud-based services for enterprise management software and design and manufacturing software.<sup>6</sup>

Finally, OFAC issued a Sanctions Advisory stating that non-U.S. financial institutions that conduct or facilitate significant transactions involving Russia's military-industrial base run the risk of being sanctioned by OFAC.<sup>7</sup> The new guidance defines "Russia's military-industrial base" to include all persons blocked under Executive Order 14024, and suggests steps non-U.S. financial institutions can take to identify and mitigate U.S. sanctions risks connected with Russia's military-industrial base.

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<sup>3</sup> OFAC General License No. 98 (Jun. 12, 2024), available at <https://ofac.treasury.gov/media/932936/download?inline>; OFAC General License No. 99 (Jun. 12, 2024), available at <https://ofac.treasury.gov/media/932941/download?inline>; OFAC General License No. 100 (Jun. 12, 2024), available at <https://ofac.treasury.gov/media/932946/download?inline>.

<sup>4</sup> U.S. Department of the Treasury, "As Russia Completes Transition to a Full War Economy, Treasury Takes Sweeping Aim at Foundational Financial Infrastructure and Access to Third Country Support" (Jun. 12, 2024), available at <https://home.treasury.gov/news/press-releases/jy2404>.

<sup>5</sup> *Id.*

<sup>6</sup> OFAC, Determination Pursuant to Section 1(a)(ii) of Executive Order 14071 (Jun. 12, 2024), available at <https://ofac.treasury.gov/media/932951/download?inline>.

<sup>7</sup> OFAC Sanctions Advisory, Updated Guidance for Foreign Financial Institutions on OFAC Sanctions Authorities Targeting Support to Russia's Military Industrial Base (Jun. 12, 2024), available at <https://ofac.treasury.gov/media/932436/download?inline>.

## Co-ordinated Measures with United Kingdom

On June 13, 2024, in coordination with G7 partners, the UK government imposed<sup>8</sup> a new package of measures against Russia comprising of 50 new sanctions which restrict Russia's ability to bypass Western sanctions and continue trading Russian oil.

The sanctions target four vessels from President Putin's so-called 'shadow fleet' that have allegedly been used to evade UK and G7 sanctions on Russian oil exports, as well as two vessels which have shipped weapons to Russia. The measures target 21 suppliers of weapons, machinery, microelectronics, and logistical support to Russia's military, including entities based in China, Israel, Kyrgyzstan, and Turkey.

The package imposes further sanctions on six entities operating in or supporting the Liquefied Natural Gas (LNG) sector in Russia, and two entities involved in the civil nuclear sector. In

coordination with the U.S., the UK also designated the MOEX, NCC and NSD, an additional entity and one individual all connected with the country's financial sector. In addition, a ship manager and one insurer were designated under the new package of measures.

Finally, two entities connected with the Wagner Group were designated by the UK under its Central African Republic sanctions regime.

Prime Minister Sunak stated that these sanctions intensify economic pressure on Russia by curbing its resources to finance the war in Ukraine. The UK's consolidated sanctions list was updated to reflect these new designations against Russian vessels and related entities under the Russia sanctions regime effected via the Russia (Sanctions) (EU Exit) Regulations 2019.

The UK government also committed to providing GBP 242 million in bilateral assistance to Ukraine to support its immediate humanitarian, energy and stabilisation needs. The UK, along with its counterparts, is planning to apply profits originating from frozen Russian sovereign assets to the benefit of Ukraine. The profits will be provided to Ukraine in the form of a multi-year loan and are expected to total approximately USD 50 billion.

## The Sanctions Landscape in 2024 and Recent Developments

This newest set of measures follows a set of sanctions the UK, U.S. and EU introduced in February 2024 to mark two years since Russia's invasion of Ukraine which we discussed in a [previous](#)

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<sup>8</sup> Foreign, Commonwealth & Development Office, Press Release (Jun. 13, 2024) <https://www.gov.uk/government/news/new-uk-sanctions-to-crack-down-on-putins-war-machine#:~:text=UK%20announces%2050%20new%20sanctions,Ukraine%20%5B%2013%20June%202024%5D>.

[article](#). At that time, Foreign Secretary Cameron noted that the government would target suppliers of munitions to Russia, and limit key sources of revenue such as metals, diamonds and energy trade. A key priority outlined by both the UK and U.S. governments at that time, and which continues to be supported by sanctions commentators more widely, is to focus on tackling sanctions evasion throughout 2024. This is reflected in the most recent tranche of sanctions which is focused on particularly economically valuable sectors that are likely to be assisting in the war effort. The tranche also appears to be focused on the logistics of how sanctions are being evaded as demonstrated by the designation of vessels in the shadow fleet and targeting Russia's regional neighbours where analysis suggests trade flow is being rerouted.

Since the introduction of the first set of sanctions following Russia's invasion of Ukraine in February 2022, the government reports to have deprived Russia of over USD 400 billion worth of assets and revenues and sanctioned over 2,000 individuals and entities. This includes 29 banks that account for over 90% of the Russian banking sector and over 130 oligarchs and family members who had a combined net worth of an estimated GBP 147 billion. The unprecedented action against Russia has reportedly resulted in a 99% fall in Russian imports into the UK, and a 73% fall in UK exports to Russia.

However, challenges to sanctions regimes continue. To date, actions have been brought by individuals designated by the regime on the basis that they should not have been on it in the first place and therefore have relatively limited wider application. For example, in April this year, the EU's General Court held that there was insufficient evidence that oligarchs Mikhail Fridman and Petr Aven supported Russia's war efforts such that they were placed on the bloc's sanctions list. The ruling applied to a limited period of time between 2022 and 2023 and Member States will need to decide whether sanctions are lifted. Similar cases will hinge very much on the designated person in question and whether sufficient evidence of support of Russia's invasion can be presented or not.

Other cases provide helpful guidance on the sanctions regime more broadly, such as the UK's *Celestial Aviation Services Limited v Unicredit Bank AG, London Branch [2024] EWCA Civ 628*, in which the Court of Appeal was asked to consider the regime's scope and application. Unicredit was the confirming bank under a number of Letters of Credit ("LCs") issued by Sberbank Povolzhsky Head Office in relation to aircraft leases to two Russian companies. In March 2022, Celestial Aviation, the beneficiary of the LCs, made valid demands for payouts. Unicredit refused on the basis that it was prohibited from doing so by Regulation 28(3) of the Russia sanctions regime. Regulation 28(3) prevents financial services and funds being provided "in pursuance of or in connection with" an arrangement, the object or effect of which captures the supply of restricted goods such as aircraft to Russia, or their making available for use in Russia. The Court of Appeal found that the purpose of the UK regulations is "to put pressure on Russia" and that the words "in connection with" are to be interpreted broadly. Although not required to do so, the Court also considered section 44 of the Sanctions and Anti-Money Laundering Act 2018 which provides that

a person is not liable to civil proceedings where they have done or omitted to do an act in the reasonable belief that it is in compliance with UK sanctions. Contrary to the lower court's prior decision, such reasonable belief did not require Unicredit to "show its workings". The Court of Appeal also recognised that Unicredit was required to form a view about the application of the sanctions which at that time was new, at short notice. The judges cautioned against viewing the situation with the benefit of hindsight and hearing arguments of well-prepared Counsel and judicial consideration which has now made clear issues which at that time were in fact not clear at all.

The case highlights the challenges many organizations faced at the outset of the introduction of comprehensive sanctions against Russia, including high levels of uncertainty around scope and application. *Celestial Aviation* demonstrates that it is highly defensible to apply the sanctions broadly and determine scope by analysing whether the action puts pressure on Russia consistent with the government's intention.

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If you have any questions, please feel free to contact any of the following Cadwalader attorneys.

Duncan Grieve	+44 (0) 20 7170 8579	Duncan.Grieve@cwt.com
Christian Larson	+1 (202) 862-2402	Christian.Larson@cwt.com
Sharon Takhar	+44 (0) 20 7170 8738	Sharon.Takhar@cwt.com
Omar Khoury	+1 (212) 504-6282	Omar.Khoury@cwt.com