

# Clients & Friends Memo

## Western Governments Impose Range of New Russia Sanctions with Focus on Sanctions Evaders

February 26, 2024

The U.S., EU and UK have imposed significant new sanctions and are stepping up enforcement against sanctions evaders on the second anniversary of Russia's full-scale invasion of Ukraine.

On February 23, 2024, the U.S. Departments of Treasury, State, and Commerce added more than 500 new sanctions targets in response to Russia's war in Ukraine and the recent death of Russian opposition leader Alexey Navalny in a Russian prison.<sup>1</sup> The same day, the European Union released a 13th tranche of Russia-related sanctions, targeting nearly 200 individuals and entities.<sup>2</sup> One day earlier, the UK imposed more than 50 new sanctions in connection with the war in Ukraine.<sup>3</sup> In addition, both the U.S. and UK have sanctioned individuals accused of running the prison where Navalny died.<sup>4</sup> Notably, some of the new sanctions target Europe-based individuals and entities accused of sanctions evasion.

Since Russia's February 24, 2022 invasion of Ukraine, Western governments have introduced a broad array of sanctions on Russia, including sanctions of a type and scale that were previously unprecedented. These sanctions include:

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- <sup>1</sup> U.S. Department of the Treasury, "*Russia-related Designations; Issuance of Russia-related General Licenses and new and amended Frequently Asked Questions*" (Feb. 23, 2024), available at <https://ofac.treasury.gov/recent-actions/20240223>; U.S. Department of State, "*Responding to Two Years of Russia's Full-Scale War On Ukraine and Navalny's Death*" (Feb. 23, 2024), available at <https://www.state.gov/imposing-measures-in-response-to-navalnys-death-and-two-years-of-russias-full-scale-war-against-ukraine/>; U.S. Department of Commerce, "*Additions of Entities to the Entity List*" (RIN 0694-AJ54) (Feb. 23, 2024), available at <https://public-inspection.federalregister.gov/2024-03969.pdf>.
  - <sup>2</sup> Council Regulation (EU) 2024/745 (Feb. 23, 2024), available at [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202400745](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202400745).
  - <sup>3</sup> Foreign, Commonwealth & Development Office, "New UK Sanctions Mark 2 Years Since Russia's Illegal Invasion of Ukraine" (Feb. 22, 2024), available at <https://www.gov.uk/government/news/new-uk-sanctions-mark-two-years-since-russias-illegal-invasion-of-ukraine>.
  - <sup>4</sup> See, e.g., Foreign, Commonwealth & Development Office, "*UK Sanctions Heads of Arctic Penal Colony Where Alexei Navalny Was Killed*" (Feb. 21, 2024), available at <https://www.gov.uk/government/news/uk-sanctions-heads-of-arctic-penal-colony-where-alexei-navalny-was-killed>.

- Freezing Russian central bank assets;
- Removing Russian access to the SWIFT payments system;
- A cap on the price at which Russian oil can be sold on global markets;
- Prohibitions on dealings involving the debt or equity of Russian entities in specified sectors, such as the energy sector;
- Sanctions on Ukrainian territory occupied by Russia; and
- Prohibitions on dealings with more than 4,000 individuals and entities, largely operating in Russia's government, financial services, and military-industrial sectors.

The volume and complexity of Russia-related sanctions has created significant compliance challenges for Western businesses. Financial services and non-financial services companies alike continue to grapple with identifying sanctions targets and determining the ever-narrowing scope of Russia-related dealings that remain permissible.

The UK sanctions announced on February 22, 2024 introduce 50 new sanctions, which the Foreign, Commonwealth & Development Office have described as targeting “key sources of Russian revenue, clamping down on metals, diamonds, and energy trade.”<sup>5</sup> Individuals and entities newly sanctioned pursuant to the Russia (Sanctions) (EU Exit) Regulations 2019 include:

- Persons linked to munitions manufacturing;
- Foreign entities and individuals such as three companies based in China, which the UK government states have been supplying sanctioned electronics to Russia;
- Transport companies accused of involvement in the transfer of weapons from North Korea to Russia;
- Importers and manufacturers of machine tools used in the Russian defense sector;
- Persons involved in the trade and transport of oil and LNG;
- Two aluminum companies and related individuals; and
- Two Russian diamond companies and related individuals.

The U.S. sanctions announced on February 23, 2024 target, among other things, Russia's financial infrastructure (including Russian regional banks and fintech firms) and Russian manufacturing (including of 3D printing and scanning equipment, navigational instruments, semiconductors, and batteries).

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<sup>5</sup> Note 3.

### Sanctions Enforcement Dynamics

In the U.S., the Treasury's Office of Foreign Assets Control and the Department of Justice have pursued action against numerous individuals and companies alleged to have violated U.S. sanctions related to Russia.<sup>6</sup> OFAC has the authority to sanction persons who facilitate the activities of other sanctioned persons; the threat of applying these "secondary sanctions" was designed in part to deter non-U.S. persons from continuing to engage with targets of U.S. sanctions. In March 2023, the U.S. Departments of Commerce, Treasury, and Justice published a "Compliance Note" that calls upon businesses to "be on the lookout for possible attempts to evade U.S. laws" or else "risk being the targets of regulatory action, administrative enforcement action, or criminal investigation."<sup>7</sup> As discussed further below, the U.S. sanctions package announced on February 23, 2024 makes good on that promise.

In the UK, the government has recently strengthened its sanctions regime through the creation of a new agency, enforcement actions, and government-wide planning.

On December 11, 2023, in response to Russia's widely-reported circumvention of trade sanctions, the UK created a new agency responsible for the civil enforcement of trade sanctions: the Office for Trade Sanctions Implementation ("**OTSI**"). OTSI launched in early 2024 and will sit alongside the Office of Financial Sanctions Implementation ("**OFSI**"). OTSI has powers to investigate potential trade sanctions breaches, issue civil penalties, and refer cases to HMRC for criminal enforcement. The establishment of an enforcement body focused on trade sanctions is expected to result in increased enforcement activity.

In its December 2023 Annual Review, OFSI reported that the agency identified 473 suspected breaches of financial sanctions, in respect of which seven warning letters were issued, two monetary penalties were issued, and 51 cases were closed with no further action.<sup>8</sup> The Review emphasizes OFSI's commitment to making an impact on the Ukraine war through proactive enforcement.

And on February 22, 2024, the UK Government launched its first Sanctions Strategy (the "**Strategy**"). The Strategy sets out 34 principles that underpin the UK sanctions regime and the rationale for sanctions against Russia, as well as their use in the pursuit of other strategic priorities.

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<sup>6</sup> See, e.g., U.S. Department of Justice, "Fact Sheet: Justice Department Efforts in Response to Russia's February 2022 Invasion of Ukraine" (Feb. 24, 2023), available at <https://www.justice.gov/opa/press-release/file/1569781/download>.

<sup>7</sup> "Department of Commerce, Department of the Treasury, and Department of Justice Tri-Seal Compliance Note: Cracking Down on Third-Party Intermediaries Used to Evade Russia-Related Sanctions and Export Controls" (Mar. 2, 2023), available at <https://www.justice.gov/file/1571551/download>.

<sup>8</sup> HM Treasury, "OFSI Annual Review" 2022-2023" (Dec. 2023), available at [https://assets.publishing.service.gov.uk/media/657acdef095987001295e088/OFSI\\_Annual\\_Review\\_2022\\_to\\_2023\\_Strengthening\\_our\\_Sanctions.pdf](https://assets.publishing.service.gov.uk/media/657acdef095987001295e088/OFSI_Annual_Review_2022_to_2023_Strengthening_our_Sanctions.pdf).

The Strategy emphasizes the importance of international coordination with the UK's allies to maximize the impact of sanctions. The Strategy also states that the private sector is "at the forefront of effective sanctions implementation" and must "comply with sanctions without unnecessarily stopping legitimate activity."<sup>9</sup> In recognition of the burden that sanctions compliance places on companies operating in the UK, the Strategy states that the UK government will continue to "invest in engagement with businesses across all sectors of the economy affected by sanctions."<sup>10</sup>

### Focus on Sanctions Evasion

Both the U.S. and UK governments are working to address efforts to evade their Russia-related sanctions. In the UK, the government described the latest sanctions as "part of wider UK action to . . . clamp down on [Russian President Vladimir Putin's] repeated attempts to evade western sanctions." This description echoes a December 2023 statement by UK Foreign Secretary, David Cameron, that the UK is "cracking down on efforts to bypass our sanctions including through closer cooperation with third countries and businesses."<sup>11</sup>

The Russia-related sanctions that the U.S. most recently announced reflect the U.S. government's similar focus on sanctions evasion. In addition to sanctions on Russian financial infrastructure and manufacturing, the U.S.'s latest Russia sanctions package targets persons accused of "sanctions evasion, circumvention, and backfill."<sup>12</sup> These individuals and entities are accused of shipping electronics to Russia, providing freight forwarding and transportation services to the Russian military, providing tools and parts for use by the Russian military, and laundering money for Russian clients.

The U.S. sanctions evasion targets include individuals and entities based in Azerbaijan, China, Estonia, Finland, Germany, Ireland, the Kyrgyz Republic, Lichtenstein, Serbia, the UAE, and Vietnam. The inclusion of several EU-based individuals and entities is a notable reminder to compliance professionals and counsel that it is prudent to diligence individuals and entities even when those persons are located in traditionally low-risk jurisdictions for sanctions.

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<sup>9</sup> HM Government, "UK Sanctions Strategy" (Feb. 22, 2024), available at <https://assets.publishing.service.gov.uk/media/65d720cd188d770011038890/Deter-disrupt-and-demonstrate-UK-sanctions-in-a-contested-world.pdf>.

<sup>10</sup> *Id.*

<sup>11</sup> Note 8 at Forward by the Foreign Secretary.

<sup>12</sup> U.S. Department of the Treasury, "On Second Anniversary of Russia's Further Invasion of Ukraine and Following the Death of Aleksey Navalny, Treasury Sanctions Hundreds of Targets in Russia and Globally" (Feb. 23, 2024) at Annexes 2, 3, and 4, available at <https://home.treasury.gov/news/press-releases/jy2117#>.

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