

# New Russia Sanctions Reveal Int'l Enforcement Capabilities

By **Duncan Grieve, Christian Larson and Sharon Takhar** (March 22, 2024)

On Feb. 22 and 23, the U.K., U.S. and European Union imposed significant new sanctions on the second anniversary of Russia's full-scale invasion of Ukraine.

These sanctions further expand the already considerable scope covered by Russia sanctions. Notably, some of the new sanctions target Europe-based individuals and entities accused of sanctions evasion.

This occurs against a backdrop where Western governments are closely scrutinizing the effectiveness of sanctions against Russia and have announced an intention to increase enforcement against sanctions evaders.

This article covers the expansion of sanctions from a U.K. perspective, with reference to the U.S. and EU, and evaluates the U.K. government's current initiatives to increase the effectiveness of sanctions enforcement.

## Russia Sanctions

On Feb. 22, the U.K. imposed more than 50 new sanctions in connection with the war in Ukraine.[1] These target key sources of Russian revenue, clamping down on metals, diamonds and energy trade.

The following day, the U.S. added more than 500 new sanctions targets in response to Russia's invasion and the recent death of Russian opposition leader Alexei Navalny in a Russian prison.[2]

The same day, the EU released a 13th tranche of Russia-related sanctions, targeting nearly 200 individuals and entities.[3] In addition, both the U.S. and U.K. have sanctioned individuals accused of running the prison in which Navalny died.[4]

Since Russia's invasion of Ukraine in February 2022, 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:

- Freezing Russian central bank assets;
- Removing Russian access to the Society for Worldwide Interbank Financial Telecommunications payments system;
- A cap on the price at which Russian oil can be sold on global markets;



Duncan Grieve



Christian Larson



Sharon Takhar

- 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 have created significant compliance challenges for Western businesses.

Financial services and nonfinancial services companies alike continue to grapple with identifying sanctions targets and determining the ever-narrowing scope of Russia-related dealings that remain permissible.

Individuals and entities newly sanctioned pursuant to the Russia (Sanctions) (EU Exit) Regulations 2019 include:

- Persons linked to munitions manufacturing;
- Certain entities and individuals established or operating in foreign jurisdictions that the U.K. government has determined are evading sanctions, such as three companies based in China that have been supplying sanctioned electronics to Russia — Finder Technology Ltd., Juhang Aviation Technology (Shenzhen) Co. Ltd., and Beijing Micropilot Flight Control Systems Co. Ltd.;
- 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 liquefied natural gas;
- Two aluminum companies and related individuals; and
- Two Russian diamond companies and related individuals.

### **U.K. Aims to Enhance Effectiveness of Sanctions**

On Dec. 11, 2023, in response to Russia's widely reported circumvention of trade sanctions, the U.K. created a new agency responsible for the civil enforcement of trade sanctions — the Office of Trade Sanctions Implementation.

OTSI launched in early 2024 and will sit alongside the Office of Financial Sanctions Implementation, or OFSI. OTSI has powers to investigate potential trade sanctions breaches, issue civil penalties and refer cases to HM Revenue & Customs for criminal enforcement.

In December 2023, the U.K. National Crime Agency issued a so-called red alert on the increasing use of complex supply chains and alternative supply routes for sanctioned goods,

and advocated for increased monitoring of activity linked to trade sanctions evasion.[5]

The establishment of OTSI, as an enforcement body specifically focused on trade sanctions, aims to enhance the U.K.'s capabilities in preventing evasion and 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 and two monetary penalties were issued.[6]

The review emphasizes OFSI's commitment to making an impact on the Ukraine war through proactive enforcement.

On Feb. 2, the U.K. government launched its first sanctions strategy. The strategy sets out 34 principles that underpin the U.K. sanctions regime and the rationale for sanctions against Russia, as well as their use in the pursuit of other strategic priorities. The strategy emphasizes the importance of international coordination with the U.K.'s allies to maximize the impact of sanctions.

Of particular relevance for financial markets participants, in February, the Financial Conduct Authority published an update on the progress of its three-year strategy to reduce and prevent financial crime.[7] Sanctions evasion is one of the three key areas of focus.

The report notes the FCA's increased cooperation with other authorities and agencies, such as HM Treasury, the NCA and OFSI, to aid in the enforcement of sanctions and to tackle evasion. In November 2023, OFSI and the FCA published a memorandum of understanding setting out a framework for cooperation and information exchange between the two agencies.[8]

The FCA has become more active in this area and has issued guidance and alerts to firms on sanctions compliance.

It has informed firms on the identification and reporting of suspicious activity and introduced new initiatives such as providing synthetic data to help firms test and improve their systems and controls for detecting sanctions breaches and other financial crimes.

On Feb. 29, the U.K. Treasury Committee launched an inquiry into whether the U.K.'s economic sanctions are having the desired effect by inhibiting Russia's ability to fund its invasion of Ukraine.[9]

While welcome, the terms of reference, at present, appear to be overly narrow in solely focusing on the U.K.'s financial sanctions regime and the effectiveness of OFSI.

This scope excludes important elements of the U.K. sanctions landscape such as trade sanctions, export controls and the ways in which OFSI works with other U.K. enforcement authorities such as the FCA, the Serious Fraud Office, the NCA and the Treasury.

### **Sanctions Enforcement Dynamics**

Both the U.K. and U.S. governments are working to address efforts to evade their Russia-related sanctions.

There is, however, a significant disparity between the current enforcement capabilities of

OFSI and its U.S. counterpart, the Office of Foreign Assets Control.

In 2023 alone, U.S. authorities imposed \$1.5 billion in fines for sanctions breaches including a \$968 million fine against a crypto exchange. In contrast, since 2019 OFSI has issued only £20 million (\$25.5 million) in fines for sanctions breaches.

Historically, OFSI was not structured or resourced to respond to the heightened level of monitoring and enforcement that is now required in the wake of the UK's imposition of sanctions against Russia in February 2022.

These sanctions are both broader and more complex than any previously imposed in the U.K. In response, OFSI has grown and significantly upgraded its capabilities. In the financial year 2022-23, OFSI reportedly increased resources in its enforcement team by 175%; in its licensing team by 160%; and in its guidance and engagement team by 120%.

At the time of the invasion, OFSI had 45 full-time equivalent employees; as of the end of 2022, this increased to 100.[10]

There does appear to be some political will to further enhance the U.K.'s sanctions enforcement capabilities and focus on evasion. The new set of sanctions introduced in February were imposed in response to ongoing efforts by Russia to evade sanctions.

Additionally, in December 2023, the then-U.K. Foreign Secretary James Cleverly noted that the U.K. would be implementing measures to prevent evasion, through, among other things, cooperation with international counterparts and businesses.[11]

At least some of this rhetoric appears to be translating into enforcement activity. In January 2024, the U.K. authorities arrested and charged the former Russian deputy trade minister and governor of the occupied region of Sevastopol, Dmitry Ovsyannikov, for sanctions breaches and money laundering. Ovsyannikov was subjected to sanctions and an asset freeze in 2020. A trial is scheduled for March 2025.

It remains to be seen whether this case heralds the start of more aggressive and effective U.K. sanctions-related enforcement.

Caution is warranted: Ovsyannikov is the first person to be charged in the U.K. with circumventing the sanctions against Russia. OFSI is not currently set up to conduct proactive investigative work and has historically relied on self-reports of potential sanctions breaches.

In contrast, the U.S. authorities have proven themselves to be effective against sanctions breaches and attempted evasion.

OFAC and U.S. Department of Justice have pursued action against numerous individuals and companies alleged to have violated U.S. sanctions related to Russia.[12]

OFAC has the authority to sanction persons who facilitate the activities of other sanctioned persons. The threat of applying these so-called 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. Department of Commerce, the U.S. Department of the Treasury and the DOJ 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." [13]

In addition to sanctions on Russian financial infrastructure and manufacturing, the U.S.' latest Russia sanctions package targets persons accused of "sanctions evasion, circumvention, and backfill." [14]

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, Kyrgyzstan, Liechtenstein, Serbia, United Arab Emirates and Vietnam.

The inclusion of several EU-based individuals and entities serves as a reminder of the importance of comprehensive due diligence assessments, even when those persons are located in traditionally low-risk jurisdictions for sanctions.

---

*Duncan Grieve is a partner, Christian Larson is special counsel and Sharon Takhar is an associate at Cadwalader Wickersham & Taft LLP.*

*The opinions expressed are those of the author(s) and do not necessarily reflect the views of their employer, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.*

[1] 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>.

[2] 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>.

[3] 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).

[4] See, e.g., Foreign, Commonwealth & Development Office, "UK Sanctions Heads of Arctic Penal Colony Where Alexei Navalny Was Killed" (Feb. 21, 2024): <https://www.gov.uk/government/news/uk-sanctions-heads-of-arctic-penal-colony-where-alexei-navalny-was-killed>.

[5] National Crime Agency Red Alert "Exporting High Risk Goods:" <https://www.nationalcrimeagency.gov.uk/who-we-are/publications/687-necc-red-alert-exporting-high-risk-goods/file>.

[6] HM Treasury, "OFSI Annual Review" 2022-2023" (Dec. 2023): [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).

[7] FCA "Reducing and preventing financial crime" (Feb. 8, 2024), available at <https://www.fca.org.uk/publications/corporate-documents/reducing-and-preventing-financial-crime#lf-chapter-id-what-s-next->.

[8] OFSI FCA Memorandum of Understanding: <https://www.fca.org.uk/publication/mou/mou-fca-ofsi.pdf>.

[9] UK Treasury Select Committee "UK's Russian Financial Sanctions:" <https://committees.parliament.uk/committee/158/treasury-committee/news/200150/new-treasury-committee-inquiry-launch-are-the-uks-financial-sanctions-on-russia-working/#:~:text=In%20the%20week%20following%20the,to%20fund%20Russia%27s%20armed%20forces.>

[10] OFSI, Annual Review 2022 to 2023: <https://www.gov.uk/government/publications/ofsi-annual-reviews/ofsi-annual-review-2022-to-2023-strengthening-our-sanctions>.

[11] Foreign, Commonwealth & Development Office, Press Release, "New UK sanctions mark 2 years since Russia's illegal invasion of Ukraine" <https://www.gov.uk/government/news/new-uk-sanctions-mark-two-years-since-russias-illegal-invasion-of-ukraine>.

[12] 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>.

[13] "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>.

[14] 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#>.