



COUNCIL of
SLOVAK
EXPORTERS



NAVIGATING INTERNATIONAL BUSINESS IN THE CURRENT CLIMATE OF SANCTIONS

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LIST OF ABBREVIATIONS

BCM- BILLION CUBIC METRES

CEE- CENTRAL AND EASTERN EUROPE

EAEU- EURASIAN ECONOMIC UNION

EURATOM- THE EUROPEAN ATOMIC ENERGY COMMUNITY

FDI- FOREIGN DIRECT INVESTMENT

EU- EUROPEAN UNION

GDP- GROSS DOMESTIC PRODUCT

LLC- LIMITED LIABILITY COMPANY

LNG- LIQUIFIED NATURAL GAS

ROSATOM- STATE (RUSSIAN) ATOMIC ENERGY CORPORATION

ROSSTAT- THE FEDERAL (RUSSIAN) STATE STATISTICS SERVICE

SWIFT- SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION

UN – UNITED NATIONS

V4- VISEGRAD FOUR

STRUCTURE

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INTRODUCTION

Sanctions against rogue states are not a novel form of political deterrence. The sanction regime against Russia, nevertheless, interferes into the international distribution of wealth and labour on an unprecedented scale and revives Cold War-like economic divisions in the world. Simultaneously, the protest migration of transnational corporations from Russia opens the floor for discussion about the nature of contemporary globalisation and effects of anti-Russian sanctions.

Indeed, in international relations the concept of a 'sanction' refers to a certain type of measure, which can serve a variety of purposes, namely:

1. to coerce or change behaviour;

2. to constrain access to resources needed to engage in certain activities, or
3. to signal and stigmatize.¹

Allegations have also often been made of sanctions serving punitive purposes, albeit that the UN Security Council and the Court of Justice of the EU have both stressed their inherently preventive character.² The overall effect has been unprecedented, and a few weeks ago would have seemed unimaginable even to most experts.

¹ van den Herik, Larissa, (2014) *Peripheral Hegemony in the Quest to Ensure Security Council Accountability For its Individualized UN Sanctions Regimes*. *Journal of Conflict and Security Law*, Forthcoming, Grotius Centre Working Paper 2014/026-PSL, Leiden Law School Research Paper, Available at SSRN: <https://ssrn.com/abstract=2448176>

² See *Ibid.*, at 433-434; SC Res. 2083 (2012), 17 December 2012, 14th preambular paragraph, and Court of Justice, *European Commission and others v. Yassin Abdullah Kadi*, Joined cases C-584/10 P, C-593/10 P and C-595/10 P, 18 July 2013, ECLI:EU:C:2013:518, at § 130.

THE CONTEXT OF RECENT SANCTIONS

As Nicholas Mulder, the author of *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War*, puts it, the world's eleventh-largest economy has now been decoupled from twenty-first-century globalization. In the space of less than three weeks, the United States and its allies have cut major Russian banks off from the global financial system; blocked the export of high-tech components in unison with Asian allies; seized the overseas assets of hundreds of wealthy oligarchs; revoked trade treaties with Moscow; banned Russian airlines from North Atlantic airspace; restricted Russian oil sales to the United States and United Kingdom; blocked all foreign investment into the Russian economy from their jurisdiction; and frozen \$403 billion out of the \$630 billion in foreign assets of the Central Bank of Russia. The overall effect has been unprecedented, and a few weeks ago would have seemed unimaginable even to most experts: in all but its most vital products.

Spill over effects have already caused [turmoil in international commodities markets](#). A generalized panic erupted among traders after the second Western sanctions package—including the SWIFT cut-off and the freezing of central bank reserves—was announced on February 26th 2022. Prices of crude oil, natural gas, wheat, copper, nickel, aluminium, fertilizers, and gold have soared. Because the war has closed Ukrainian ports and international firms are shunning Russian commodity exports, a grain and metals shortage now looms over the global economy. Although oil prices have since dropped in anticipation of additional output from Gulf producers, the price shock to energy and commodities across the board will push global inflation higher. African and Asian countries reliant on food and energy imports are already experiencing difficulties.

Central Asia's economies, as part of Eurasian Economic Union, are also caught up in the sanctions shock. These former Soviet states are strongly connected to the Russian economy through trade and outward labour migration. The collapse of the Rouble has caused serious [financial distress](#) in the region. Kazakhstan has imposed exchange controls after the Tenge, its currency, fell by 20 percent in the wake of the Western sanctions against Moscow; Tajikistan's Somoni has undergone a similarly steep depreciation. Russia's impending impoverishment will force millions of Central Asian migrant workers to seek employment elsewhere and dry up the flow of remittances to their home countries.³

With that said, the current situation is more about constraining Russia's access to resources needed to engage in its hard-power approach in Ukraine. One should not expect Russia to change its behaviour or sanctions to be lifted anytime soon. In this case, an understanding of the sanctions regime and ramifications for businesses is essential.

This paper is an aggregation of various sources brought together with a goal to create a comprehensive overview of business limitations stemming from the current Russia-West entanglements. The study is broken down into seven sections starting with an outline of major figures defining Russia-West economic relations and economic relations with Russia and the V4 countries, then outlining Western sanctions against Russia, Russian counter-sanctions, the sanctions regime against Belarus, outline of the secondary sanctions issue, collateral damage of the sanction regime against Russia and brief scenarios of developments.

³ Mulder, N. (2022, March 31). The toll of Economic War. Foreign Affairs. Retrieved April 1, 2022, from https://www.foreignaffairs.com/articles/russian-federation/2022-03-22/toll-economic-war?utm_medium=social&utm_source=instagram_posts&utm_campaign=ig_soc&utm_content=later-25536590

BASIC ECONOMIC FACTS

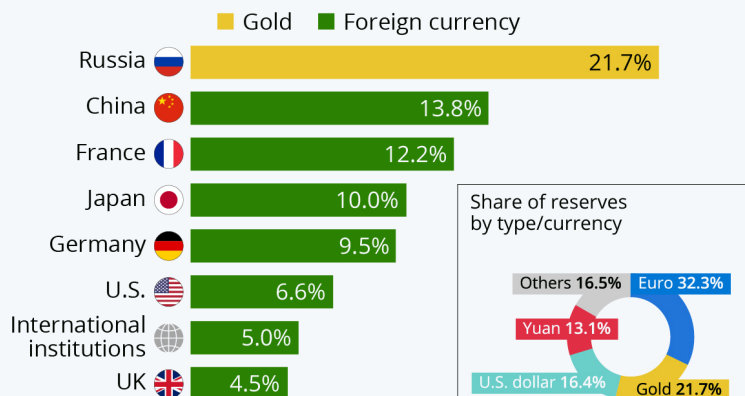
Despite having accumulated impressive reserves, Russia now faces even harsher sanctions than in 2014, as the West targeted Russian Federal reserves by restricting Russia to use approximately 60% of its total reserve in the Dollar, Euro, Sterling and the Canadian Dollar reserves leaving it only with its Yuan reserves amounting up 60 billion USD in total. In terms of economy the zero-sum logic implies disconnection from total 55-75% of FDIs in

Russia, and approximately 135 billion euro (total 1,9 % FDIs in EU).

By contrast, the EU is the largest trade partner for Russia with an annual turnover of about 180 billion Euros (38% of total exports to the EU and 36.5% of Russia total imports accounted for EU goods). While in the case of the USA, the turnover in foreign trade with Russia is about 40 billion Euros and total US investments amounts around 15 billion US Dollars. In the past several weeks the EU27 has extensively debated the absolute disengagement from economic

Who Holds Russia's Central Bank Reserves?

Largest holders of Russian central bank foreign currency and gold reserves, by location*



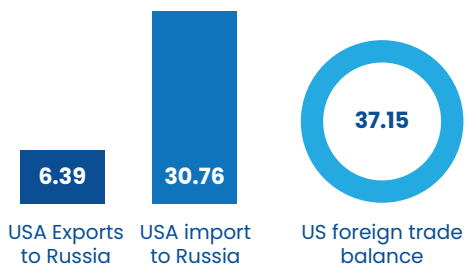
* as of Jun 30, 2021
Source: Central Bank of Russia



statista

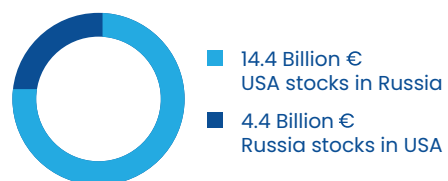
Comparison of USA foreign trade with Russia in 2021

In billion US \$



Source: Trading Economics reports

USA-Russia: Foreign direct investment overview



Source: Office of the United States Trade Representative, U.S. - Russia Trade Facts

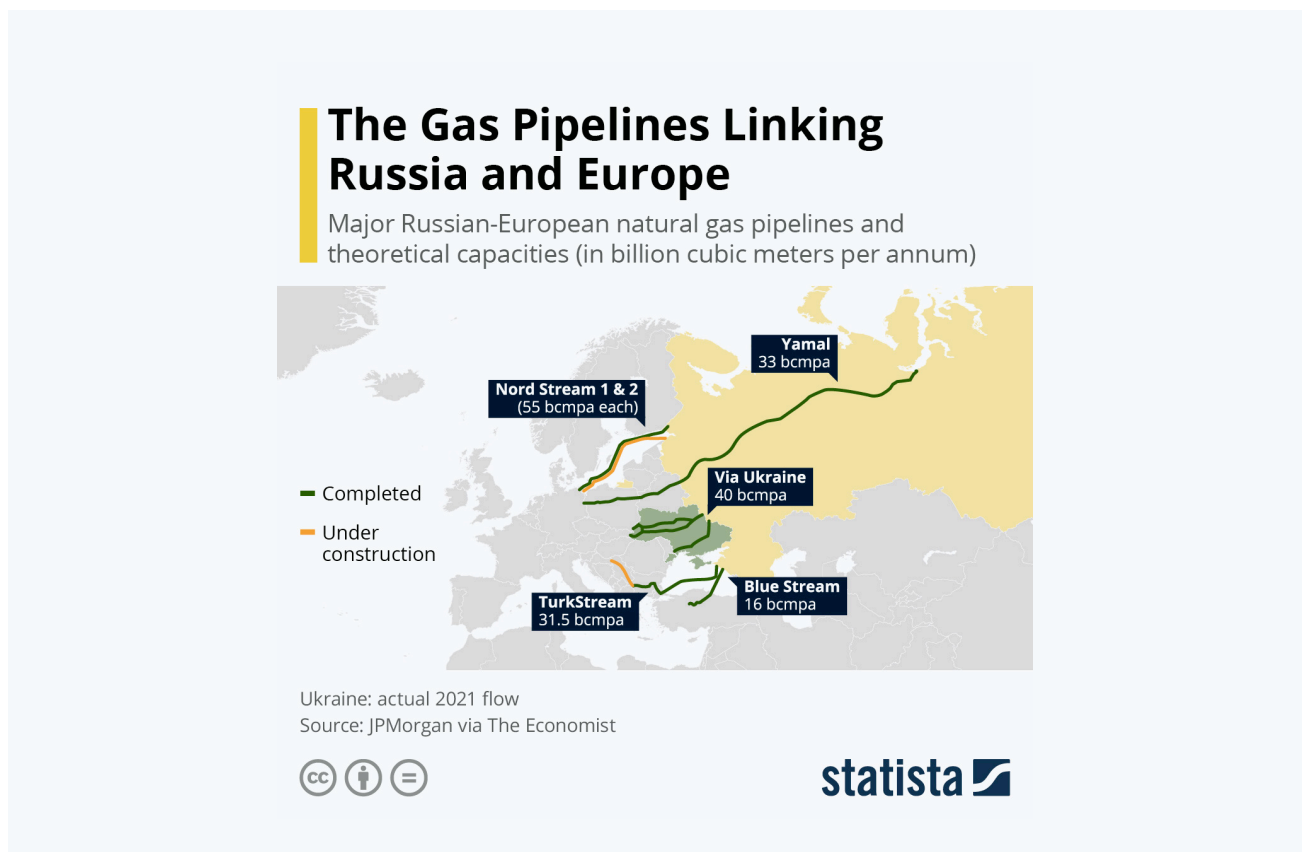
interdependence with Russia. However, the energy sector is the most troublesome area where the major divisions arise.

According to Rosstat, industry in oil and coal mining and processing alone accounted for 15.2% of Russian GDP in 2020, contributed up to 28% to the federal budget and accounted for 44.6% of Russian exports.⁴ These figures point to the vital importance of these sectors to the Russian economy, whilst such interdependence can be used as a leverage in dealing with Russia that is largely dependent on exports of raw minerals.

European decoupling from energy supplies has become a frequently debated issue, but it

would mean dire consequences for Russia, too. According to Rosstat, carbohydrates mining and processing industry alone accounted for 15.2% of Russian GDP in 2020,⁵ contributed up to 42% to the federal budget and accounted for 44.6% of Russian exports.⁶

According to European Commission, the EU gas consumption floats around 400 billion cubic metres per year, out of which Russia supplies approximately 43%. With that said, Russia is a carbon-based fuel top supplier to the EU27 as it supplies roughly 27% of total oil imports and 47% of solid fuel to the EU. Simultaneously, it is estimated that Russia has 175,5 billion cubic meters transfer capacity per annum that makes it largest gas supply line in Europe.

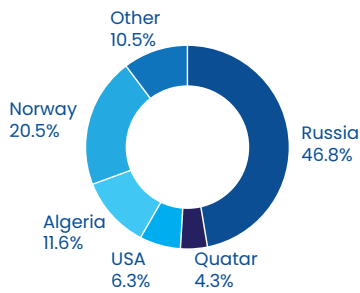


⁴ RBC. (n.d.). Росстат впервые рассчитал долю нефти и газа в российском ВВП. Retrieved April 11, 2022, from <https://www.rbc.ru/economics/13/07/2021/60ec40d39a7947f74aeb2ace>

⁵ Деловые новости и аналитика. The Bell. (n.d.). Retrieved April 1, 2022, from <https://thebell.io/ne-sovsem-benzokolonka-rosstat-otsenil-polnyj-vklad-neftegazovogo-sektora-v-vvp-rossii>

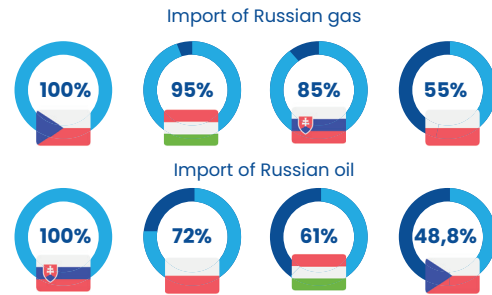
⁶ Оперативный доклад за I полугодие 2021 года. Главная страница. (n.d.). Retrieved April 1, 2022, from <https://ach.gov.ru/audit/6-mon-2021#programs>

EU imports of natural gas from main trading partners 2021



Source: Eurostat, EU imports of energy products

The energy dependence of the V4 countries on Russian gas and oil

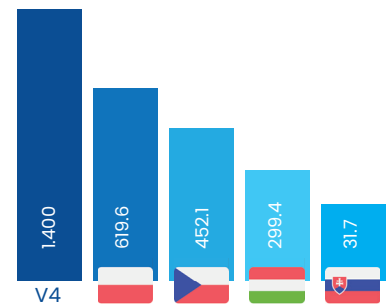


Source: Eurostat

In contrast to EU27 40% dependence on Russian gas, the V4 countries being largely dependent on Russian gas and oil products. As average dependency on Russian oil products in V4 tops 70% and in case of gas products it reaches up

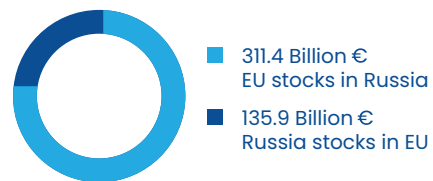
to 83.4%. Namely Czech Republic imports from Russia 100% of its gas consumption, followed by Hungary importing 95%, then Slovakia 85% and the least dependent country on Russian gas is Poland with 55%.

V4 outward FDIs position in Russia



Source: National Banks of V4 countries

EU-Russia: Foreign direct investment overview

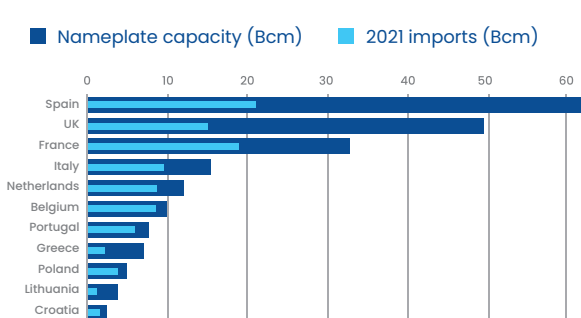


Source: European Commission

Decoupling from economic interdependence with Russia, the V4 countries should not encounter any significant issues in FDI stocks. Although the EU is the largest investor accounting for 55-75% of entire Russian FDI

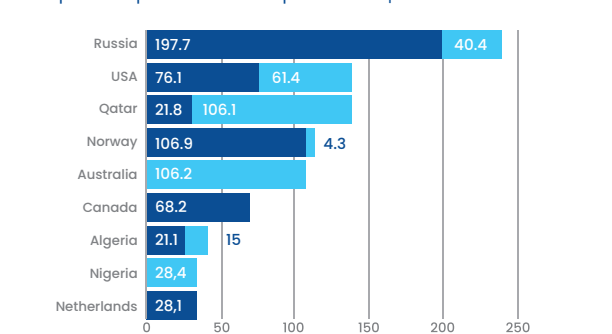
stock with approximately 311 bn euro invested in the country, the disconnection from SWIFT and subsequent decoupling from Russia is going to impact Eurasian power more, than the EU.

LNG imports and capacity in Europe



Source: Platts Analytics

Exports in billion cubic meters



Source: Statista, Leading gas exporting countries in 2020, by export type

In terms of oil products imports, the most dependent on Russian oil is Slovakia importing 100% of its total crude oil consumption from Russia, followed by Poland importing 72% of oil products from Russia. Hungary imports 61% of oil products from Russia and the Czech Republic as the least dependent in oil products imports from Russia, with 48.8%.

For V4 countries the diversification of oil imports is much easier than decoupling in the gas sector. Firstly, oil products are easier to transport and store, whilst liquefied natural gas (LNG), as an alternative for Russian gas, is complicated to transport; whereas companies exporting LNG mostly work on long-term 20–25 years contracts and, as conventional wisdom goes, the LNG prices are much higher. The primary issue with gas supplies to Europe is the supply capacity. Russia currently owns the majority of pipelines capable to deliver almost half of the entire European gas consumption (floating between 400–500 bcm⁷ annually) with current pipeline capacity 175.5 bcm annually.

Simultaneously Russia is World's biggest exporter of platinum, wheat, fertilisers and semi-finished iron. In export of energy resources

Russia is second largest exporter of oil and gas, however in terms of exported volume Russia is the biggest exporter of natural gas.

RUSSIAN TOP EXPORT COMMODITIES 2020



1st place		
Category	Value	% of global sales
Platinum	10.5 bn \$	17%
Wheat	7.9 bn \$	16.6%
Fertilizers	7.6 bn \$	12.1%
Semi-finished iron	4.5 bn \$	18.8%
2nd place		
Oil	72.6 bn \$	11%
Frozen fish	2.37 bn \$	10.5%
Natural gas in gaseous state	11.7 bn \$	17%
3rd place		
Coal	12.4 bn \$	15%
Sawn Wood	4.2 bn \$	11.4%
4th place		
Gold	18.7 bn \$	4.3%

Russian Export Companies:

Almost 30 Russian Corporations rank among Forbes global 2000. The following companies are selected examples of leading companies headquartered in Russia.

- Gazprom (oil, gas)
- Magnitogorsk Iron & Steel (iron, steel)
- Mechel (iron, steel)
- Severstal (iron, steel)
- Sistema (telecommunications)
- Surgutneftegas (oil, gas)⁸

⁷ Billion cubic meters of natural gas

⁸ Russia's Top 10 Exports 2021 (worldstopexports.com)

MAJOR SANCTIONS AGAINST RUSSIA

In the wake of annexation of Crimea, on March 6th 2014, the EU's Heads of State or Government strongly condemned the unprovoked violation of Ukrainian sovereignty and territorial integrity by Russia and called on the Russian Federation to immediately withdraw its armed forces to the areas of their permanent stationing. They stated that any further steps by Russia to destabilise the situation in Ukraine would lead to additional and far-reaching consequences for relations in a broad range of economic areas.

Introduction of a first set of restrictive measures against 21 Russian and Ukrainian officials:

EU ministers decided to introduce a first set of measures against 21 officials responsible for actions threatening Ukraine's territorial integrity.

Agreement on a new set of sanctions:

In light of events in Eastern Ukraine and the illegal confiscation of entities in Crimea, the Council agreed on a new set of sanctions and took note of the preparatory work done by the Commission and Member States on possible targeted measures, as requested by the European Council in March.

Ukraine crisis: EU broadens remit of

sanctions: The Council widened the legal basis for EU restrictive measures making it possible to target entities which materially or financially support actions against Ukraine

Minsk agreements signed.

TIMELINE

MARCH 6TH 2014

MARCH 2014

The events from spring 2014 landmark the new era in Russia–West relations, as we witnessed gradual disintegration from joint political organisations such as G8, Russia–NATO Council etc., whilst Russia and Western countries started to gradually reduce their mutual economic interdependence.

17TH MARCH 2014

MARCH 20TH 2014

Following the annexation of Crimea and Sevastopol to the Russian Federation, 12 names were added to the list of Russian and Crimean officials subject to EU travel bans and asset freezes. In addition, the European Council cancelled a planned EU–Russia summit and noted that member states will not hold any bilateral regular summits with Russia. EU leaders also requested the European Commission to prepare broader economic and trade sanctions that could be imposed if Russia further destabilised Ukraine.

MAY 12TH 2014

JUNE 23TH 2014

The Council adopted measures to implement the EU's policy of non-recognition of the illegal annexation of Crimea and decided on a ban on goods originating from Crimea or Sevastopol.

JULY 18TH 2014

JULY 29TH 2014

Adoption of additional restrictive measures against Russia. Following the conclusions of the European Council meeting of 16 July, the Council adopted a package of targeted 'economic sanctions'. These measures concern exchanges with Russia in specific economic sectors.

SEPTEMBER 5TH 2014

Further economic sanctions on Russia.

A new package of restrictive measures targeting exchanges with Russia in specific economic sectors entered into force, reinforcing the measures adopted on 31 July.

First package of sanctions against Russia the Council of the EU adopted further sectoral restrictive measures. These measures introduced a prohibition to finance the Russian Federation, its Government and Central Bank.

The Council agreed on a package of measures to respond to the decision by the Russian Federation to proceed with the **recognition** of the non-government controlled areas of **Donetsk and Luhansk** oblasts in Ukraine as independent entities, and the ensuing decision to send Russian troops into these areas.

The agreed package includes:

- targeted sanctions against the 351 members of the Russian State Duma and an additional 27 individuals
- restrictions on economic relations with the non-government controlled areas of Donetsk and Luhansk oblasts
- restrictions on Russia's access the EU's capital and financial markets and services

The President of the Russian Federation announced a military operation in Ukraine and Russian armed forces began an attack on Ukraine.

FEBRUARY 24TH 2022

FEBRUARY 23TH 2022

SEPTEMBER 12TH 2014

FEBRUARY 24TH 2022

MARCH 2016

EU's Foreign Affairs Council agreed on five guiding principles for EU-Russia relations:

- The Implementation of the Minsk agreement as the key condition for any substantial change in the EU's stance towards Russia.
- Strengthened relations with the EU's Eastern Partners and other neighbours, in particular in Central Asia.
- Strengthening the resilience of the EU (for example energy security, hybrid threats, or strategic communication).
- Need for selective engagement with Russia on issues of interest to the EU.
- Need to engage in people-to-people contacts and support Russian civil society.

EU leaders agree on further sanctions against Russia.

EU leaders met at a special summit convened following Russia's aggression against Ukraine. They agreed on further sanctions against Russia that target:

- the financial sector
- the energy and transport sectors
- dual-use goods
- export control and export financing
- visa policy
- additional sanctions against Russian individuals
- new listing criteria

Second package of sanctions in response to Russia's invasion of Ukraine.

The EU has decided to freeze the assets of Vladimir Putin, President of the Russian Federation, and of Sergey Lavrov, Minister for Foreign Affairs of the Russian Federation. In addition, it has imposed restrictive measures on the members of the National Security Council of the Russian Federation and on the remaining members of the Russian State Duma who supported Russia's immediate recognition of the self-proclaimed Donetsk and Luhansk "republics".

The Council has also agreed on a further package of individual and economic measures to respond to the unprovoked and unjustified military aggression carried out by the Russian Federation against Ukraine. These sanctions cover the finance, energy, transport and technology sectors, as well as visa policy.

Fourth package of sanctions in response to Russia's invasion of Ukraine

The EU imposed a fourth package of economic and individual sanctions in response to Russia's military aggression against Ukraine.

The new measures include a ban on:

- all transactions with certain state-owned enterprises
- the provision of credit rating services to any Russian person or entity
- new investments in the Russian energy sector

The Council expanded the list of persons connected to Russia's defence and industrial base, on whom tighter export restrictions were imposed regarding dual-use goods, and goods and technology which might contribute to Russia's technological enhancement of its defence and security sector. The EU also introduced:

- trade restrictions on iron, steel and luxury goods
- sanctions on an additional 15 individuals and 9 entities

FEBRUARY 25TH 2022

MARCH 2ND 2022

MARCH 15TH 2022

Third package of sanctions: suspension of broadcasting of Russia Today and Sputnik

The EU has approved the suspension of the broadcasting activities in the EU of the outlets Sputnik and Russia Today until the aggression against Ukraine is brought to an end and until the Russian Federation and its associated outlets cease conducting disinformation and information manipulation actions against the EU and its member states. Sputnik and Russia Today are under the permanent direct or indirect control of the authorities of the Russian Federation and are key to promoting and supporting the military aggression against Ukraine and to destabilising its neighbouring countries. **Third package of sanctions: SWIFT ban for seven Russian banks**

The EU has excluded seven Russian banks from SWIFT. This will ensure that these banks are disconnected from the international financial system and harm their ability to operate globally. The seven banks are Bank Otkritie, Novikombank, Promsvyazbank, Rossiya Bank, Sovcombank, Vnesheconombank (VEB), and VTB Bank.

The EU has also introduced a ban on:

- investing, participating or otherwise contributing to future projects co-financed by the Russian Direct Investment Fund
- selling, supplying, transferring or exporting euro banknotes to Russia or to any natural or legal person or entity in Russia

Third package of sanctions in response to Russia's invasion of Ukraine. The EU has approved new measures to respond to the unprovoked and unjustified military aggression carried out by the Russian Federation against Ukraine. The new measures include:

- ban on transactions with the Russian Central Bank
- € 500 million support package to finance equipment and supplies to the Ukrainian armed forces
- ban on the overflight of EU airspace and on access to EU airports by Russian carriers
- new sanctions on additional 26 persons and one entity

As a reaction to Russian invasion of Ukraine, The European Union has formally approved the Strategic Compass, at a time when we witness the return of war in Europe. The Compass gives the European Union an **ambitious plan of action for strengthening the EU's security and defence policy** by 2030.

The more hostile security environment requires us to **make a quantum leap forward** and increase our capacity and willingness to act, strengthen our resilience, and invest more and better in our defence capabilities.

The strength of our Union lies in unity, solidarity and determination. The objective of the Strategic Compass is to make the **EU a stronger and more capable security provider**.

The EU needs to be able to protect its citizens and to contribute to international peace and security. This is all the more important at a time when war has returned to Europe, following the unjustified and unprovoked Russian aggression against Ukraine, as well as of major geopolitical shifts. This Strategic Compass will enhance the EU's strategic autonomy and its ability to work with partners to safeguard its values and interests.

A stronger and more capable EU in security and defence will contribute positively to global and transatlantic security and is complementary to NATO, which remains the foundation of collective defence for its members. It will also intensify support for the global rules-based order, with the United Nations at its core.

The Strategic Compass provides a shared assessment of the **strategic environment** in which the EU is operating and of the **threats and challenges** the Union faces. The document makes concrete and actionable proposals, with a very precise timetable for implementation, in order to improve the **EU's ability to act decisively** in crises and to defend its security and its citizens.

The Compass covers all the aspects of the security and defence policy and is structured around four pillars: **act, invest, partner and secure**.

MARCH 2022

APRIL 8TH 2022

Fifth package of sanctions in response to Russia's invasion of Ukraine

The Council adopted a fifth package of sanctions against Russia, in light of Russia's continuing war of aggression against Ukraine and the reports of atrocities committed by the Russian armed forces in a number of Ukrainian towns.

The package includes a ban on:

- imports from Russia of coal and other solid fossil fuels
- all Russian vessels from accessing EU ports
- Russian and Belarusian road transport operators from entering the EU
- imports of other goods such as wood, cement, seafood and liquor
- exports to Russia of jet fuel and other goods
- deposits to crypto-wallets

MAY 30TH 2022

6th round of the EU sanctions

The 6th package of the EU sanctions will cut 90% of Russian oil imports to the bloc of 27 nations and 450 million people.

The EU countries agreed to exempt oil delivered by the Druzhba pipeline going to Hungary, Slovakia and the Czech Republic.

Slovakia's sole oil refiner, Slovnaft, a unit of Hungary's MOL ([MOL.BU](#)), said the sanctions would ban oil product exports to its key markets after eight months, the Czech Republic, Austria and Poland, as well as make it impossible to supply the domestic market.

Apart from banning seaborne imports into Europe, the new sanctions also include an immediate ban on insuring ships carrying Russian oil elsewhere, an EU official told Reuters, while existing contracts will be phased out over six months.

The sixth round of sanctions also included cutting Russia's biggest bank, Sberbank ([SBMX.MM](#)), off from the SWIFT international transaction system.



EU MEASURES TAKEN AGAINST THE RUSSIAN FEDERATION

● Arms export

- It is prohibited to export arms and related material to Russia. Related technical or financial assistance and services are also prohibited

● Arms import

- It is prohibited to import, purchase or transport arms and related material from Russia.

● Dual-use goods export

- It is prohibited to sell, supply, transfer or export dual-use goods and technology to any person or entity in Russia or for use in Russia. The sale, supply, transfer or export of dual use goods and technology, which might contribute to Russia's military and technological enhancement or the development of the defence and security sector, as listed in Annex VII of Regulation (EU) 833/2014, is also prohibited. Related technical or financial assistance and brokering or other services are also prohibited.

● Further export bans

- Targeting jet fuel and other goods such as quantum computers and advanced semiconductors, high-end electronics, software, sensitive machinery and transportation equipment, and new import bans on products such as: wood, cement, fertilisers, seafood and liquor. The agreed export and import bans only account for EUR 10 billion and EUR 5.5 billion respectively.
- It is prohibited to purchase, import or transfer coal and other solid fossil fuels into the EU if they originate in Russia or are exported from Russia, as from August 2022.⁹

● Targeted export bans

- Further targeted export bans – worth €10 billion – in areas in which Russia is vulnerable due to its high dependency on EU supplies. This

includes, for example, quantum computing, advanced semiconductors, sensitive machinery, transportation and chemicals. It also includes specialist catalysts for use in the refinery industry. This will continue to degrade Russia's technological base and industrial capacity.

- Adding jet fuel and fuel additives, which may be used by the Russian army, to the existing export ban.

● Import bans

- Additional import bans – worth €5.5 billion – including cement, rubber products, wood, spirits (including vodka), liquor, high-end seafood (including caviar), and an anti-circumvention measure against potash imports from Belarus. These measures will also help to close loopholes between Russia and Belarus.
- The EU sanctions are to cut 90% of Russian oil imports to the bloc of 27 nations and 450 million people.
- The EU countries agreed to exempt oil delivered by the Druzhba pipeline going to Hungary, Slovakia and the Czech Republic.
- Slovakia's sole oil refiner, Slovnaft, a unit of Hungary's MOL ([MOL.BU](https://www.mol.hu)), said the sanctions would ban oil product exports to its key markets after eight months, the Czech Republic, Austria and Poland, as well as make it impossible to supply the domestic market.

● Coal ban

- An import ban on all forms of Russian coal. This affects one fourth of all Russian coal exports, amounting to around €8 billion loss of revenue per year for Russia.



Financial measures

- It is prohibited to purchase, sell, provide investment services for or assistance in

⁹ Council of the EU. (2022, April 8). EU adopts fifth round of sanctions against Russia over its military aggression against Ukraine. Consilium. Retrieved April 9, 2022, from <https://www.consilium.europa.eu/en/press/press-releases/2022/04/08/eu-adopts-fifth-round-of-sanctions-against-russia-over-its-military-aggression-against-ukraine/>

- the issuance of, or otherwise deal with transferable securities and money-market instruments issued after 12.4.2022 by any major credit institution or other institution with over 50% public ownership or control as of 26.2.2022 or any other credit institution as listed in Annex XII of Regulation (EU) 833/2014; or an entity established outside the Union whose proprietary rights are owned for more than 50% by an entity listed in Annex XII.
- It is prohibited to sell, supply, transfer or export euro denominated banknotes to Russia or to any person or entity in Russia, including the government and the Central Bank of Russia, or for use in Russia.
 - It is prohibited as of 12.3.2022 to provide specialised financial messaging services to the entities listed in Annex XIV of Regulation (EU) 833/2014 or to any entity established in Russia whose proprietary rights are owned for more than 50% by an entity listed in Annex XIV.
 - It is prohibited to sell Euro denominated transferable securities issued after 12.4.2022 to any Russian national or person residing in Russia or an entity established in Russia.
 - It is prohibited for Union central securities depositories to provide any services as defined in the Annex of Regulation (EU) 909/2014 for transferable securities issued after 12.4.2022 to any Russian national or person residing in Russia or an entity established in Russia.
 - It is prohibited to accept any deposits from Russian nationals or persons residing in Russia or entities established in Russia, if the total value of deposits of the person or entity per credit institution exceeds 100 000 EUR.
 - It is prohibited to engage in any transaction with an entity established in Russia, which is publicly controlled or with over 50% public ownership, as listed in Annex XIX of Regulation (EU) 833/2014; or with an entity established outside the union whose proprietary rights are owned for more than 50% by an entity listed in Annex XIX.
 - Transactions related to the management of reserves as well as of assets of the Central Bank of Russia are prohibited.
 - It is prohibited to purchase, sell, provide investment services for or assistance in the issuance of, or otherwise deal with transferable securities and money-market instruments issued after 9.3.2022 by Russia and its government, Central Bank of Russia or any entity acting on behalf of it. It is also prohibited to make or be part of any arrangement to make new loans or credit to the previously mentioned entities after 23.2.2022.
 - It is prohibited to list and provide services as of 12.4.2022 on trading venues registered or recognised in the Union for the transferable securities of any entity established in Russia and with over 50% public ownership.
 - It is prohibited to purchase, sell, provide investment services for or assistance in the issuance of, or otherwise deal with transferable securities and money market instruments, issued after 12.4.2022 by an entity established in Russia, which is publicly controlled or with over 50% public ownership, as listed in Annex XIII of Regulation (EU) 833/2014, or by an entity established outside the Union whose proprietary rights are owned for more than 50% by an entity listed in Annex XIII.
 - It is prohibited to purchase, sell, provide investment services for or assistance in the issuance of, or otherwise deal with transferable securities and money market instruments with a maturity exceeding 30 days, issued after 12.9.2014 to 12.4.2022 or any transferable securities and money market instruments issued after 12.4.2022 by an entity established in Russia engaged in the conception, production, sales or export of military equipment or services, as listed in Annex V of Regulation (EU) 833/2014; or by an entity established in Russia listed in Annex VI of Regulation (EU) 833/2014.
 - It is prohibited as of 15.4.2022 to provide credit

rating services and access to any subscription services in relation to credit rating activities to any Russian national or person residing in Russia or an entity established in Russia.

- It is prohibited to purchase, sell, provide investment services for or assistance in the issuance of, or otherwise deal with transferable securities and money market instruments with a maturity exceeding 90 days (issued after 1.8.2014 to 12.9.2014), or with a maturity exceeding 30 days (issued after 12.9.2014 to 12.4.2022) or any transferable securities and money market instruments issued after 12.4.2022 by major credit institution established in Russia with over 50% public ownership or control as of 1.8.2014, as listed in Annex III of Regulation (EU) 833/2014, or an entity established outside the Union whose proprietary rights are owned for more than 50%, as listed in Annex III.
- It is prohibited to acquire new or extend existing participation in any entity operating in the energy sector in Russia. It is also prohibited to grant new loan or credit or otherwise provide financing to, or create any joint venture with, any entity operating in the energy sector in Russia. The provision of related investment services is also prohibited.
- It is prohibited to provide public financing or financial assistance for trade with, or investment in, Russia. It is also prohibited to invest, participate or otherwise contribute to projects co-financed by the Russian Direct Investment Fund.
- It is prohibited to make or be part of any arrangement to make new loans or credit with a maturity exceeding 30 days to any person or entity listed in Annex III, V or VI of Regulation (EU) 833/2014, after 12.9.2014 to 26.2.2022; or to any person or entity listed in Annex III, V,

VI, XII or XIII of Regulation (EU) 833/2014, after 26.2.2022.

- It shall be prohibited to provide direct or indirect support, including financing and financial assistance or any other benefit under a Union, Euratom or Member State national programme and contracts within the meaning of Regulation (EU, Euratom) 2018/1046 (*5), to any legal person, entity or body established in Russia with over 50 % public ownership or public control.¹⁰
- Full prohibition on the participation of Russian nationals and entities in procurement contracts in the EU. Limited exceptions may be granted by the competent authorities where there is no viable alternative.
- Restriction on financial and non-financial support to Russian publicly owned or controlled entities under EU, Euratom and Member State programmes. For instance, further to measures previously announced in research and education, the Commission will terminate participation in all ongoing grant agreements to Russian public bodies or related entities, and suspend all related payments, under Horizon 2020 and Horizon Europe, Euratom, and Erasmus+. No new contracts or agreements with Russian public bodies or related entities will be concluded under these programmes.
- Addressing various overlaps between export restrictions on dual-use items and advanced technologies and other provisions.
- Extending to all official EU currencies the prohibitions on the export of banknotes and on the sale of transferrable securities.
- Apart from banning seaborne imports into Europe, the new sanctions also include an immediate ban on insuring ships carrying

¹⁰ EUR Lex. (n.d.). Document 32022D0578. EUR. Retrieved April 9, 2022, from https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AAOJ.L_.2022.III.01.0070.01.ENG&toc=OJ%3AL%3A2022%3AIII%3ATOC

¹¹ Council of the EU. (2022, April 8). EU adopts fifth round of sanctions against Russia over its military aggression against Ukraine. Consilium. Retrieved April 9, 2022, from <https://www.consilium.europa.eu/en/press/press-releases/2022/04/08/eu-adopts-fifth-round-of-sanctions-against-russia-over-its-military-aggression-against-ukraine/>

Russian oil elsewhere, an EU official told Reuters, while existing contracts will be phased out over six months.

- The sixth round of sanctions also included cutting Russia's biggest bank, Sberbank ([SBMX.MM](#)), off from the SWIFT international transaction system.

● **Complementing financial measures to strengthen existing measures and close loopholes**

- A general EU ban on participation of Russian companies in public procurement in member states, the exclusion of all financial support to Russian public bodies. An extended prohibition on deposits to crypto-wallets, and on the sale of banknotes and transferrable securities denominated in any official currencies of the EU member states to Russia and Belarus, or to any natural or legal person, entity or body in Russia and Belarus.¹¹

Flights, airports, aircrafts

- It is prohibited for any aircraft operated by Russian air carriers or for any non-Russian-registered aircraft which is owned or chartered, or otherwise controlled by any Russian person or entity, to take off from, land in or overfly the territory of the Union.

Other restrictions

- It is prohibited for operators to broadcast or to enable, facilitate or otherwise contribute to broadcast, any content by the entities listed in Annex XV of Regulation (EU) 833/2014.

Prohibition to satisfy claims

- It is prohibited to satisfy claims in connection with any contract or transaction the performance of which has been affected by any of the measures imposed under this restrictive measures regime, if they are made by entities listed in Annex III, IV, V, VI, XII, XIII, XIV, XV or XIX of the Council Regulation (EU)

833/2014 or entities related to them; by any Russian person, entity or body; or by any person, entity or body acting through or on behalf of one of the aforementioned.

Aviation/Space Industries

- It is prohibited to sell, supply, transfer or export goods and technology suited for use in aviation or the space industry, as listed in Annex XI of Regulation (EU) 833/2014, to any person or entity in Russia or for use in Russia. It is also prohibited to provide any related insurance and reinsurance and certain related maintenance activities. Related technical or financial assistance and brokering or other services are also prohibited.

Iron and steel

- It is prohibited to import, purchase or transfer iron and steel products, as listed in Annex XVII of Regulation (EU) 833/2014, from Russia. Related technical or financial assistance and brokering services are also prohibited.

Luxury goods

- It is prohibited to sell, supply, transfer or export luxury goods, as listed in Annex XVIII of Regulation (EU) 833/2014, to any person or entity in Russia or for use in Russia.

Maritime navigation

- It is prohibited to sell, supply, transfer or export maritime navigation goods and technology, as listed in Annex XVI of Regulation (EU) 833/2014, to any person or entity in Russia, for use in Russia or for the placing on board of a Russian-flagged vessel. Related technical or financial assistance and brokering or other services are also prohibited.

Oil refining

- It is prohibited to sell, supply, transfer or export goods and technology suited for use in oil refining, as listed in Annex X of regulation (EU)

833/2014, to any person or entity in Russia or for use in Russia. Related technical or financial assistance and brokering or other services are also prohibited.

- The 6th package of the EU sanctions will cut 90% of Russian oil imports to the bloc of 27 nations and 450 million people.

Transport

- It is prohibited to provide access to EU ports to vessels registered under the flag of Russia. Derogations are granted for agricultural and food products, humanitarian aid, and energy.
- A ban on any Russian and Belarusian road transport undertaking preventing them from transporting goods by road within the EU, including in transit. Derogations are nonetheless granted for a number of products, such as pharmaceutical, medical, agricultural and food products, including wheat, and for road transport for humanitarian purposes.
- A full ban on Russian and Belarusian freight road operators working in the EU. Certain exemptions will cover essentials, such as agricultural and food products, humanitarian aid as well as energy.
- An entry ban on Russian-flagged vessels to EU ports. Exemptions apply for medical, food, energy, and humanitarian purposes, amongst others.

Other items

- It is prohibited to sell, supply, transfer or export goods or technology, as listed in Annex II of Regulation (EU) 833/2014, to any person or entity in Russia or for use in Russia. It is also prohibited to sell, supply, transfer or export any goods or technology to any person or entity operating in the energy sector. Related technical or financial assistance and brokering or other services are also prohibited.¹²

US SANCTIONS AGAINST RUSSIA

The U.S. sanctions regime consists of a number of sanctions programs with a combination of country-wide, sectoral, targeted and secondary sanctions. The sanctions program related to Russia and Ukraine is implemented primarily by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) – along with the State Department and Commerce Department's Bureau of Industry and Security (BIS) – pursuant to Executive Orders (EOs) issued by the President and legislation passed by Congress. OFAC has laid out additional measures in response to the Russian invasion of Ukraine in a series of new directives with certain wind-down periods and exceptions authorized through general licenses.

The U.S. sanctions regime is binding on all U.S. persons, including all U.S. citizens and permanent resident aliens regardless of their location, all persons and entities within the United States and all U.S.-incorporated entities and their foreign branches. Non-U.S. persons may also be exposed to secondary sanctions risk if they transact with individuals or entities subject to sanctions – including, if they materially assist, sponsor or provide financial, material or technological support for, or goods or services to or in support of, certain activities, a person whose property and interests in property are blocked. Non-U.S. persons may also expose themselves to liability if they “cause” a violation of U.S. sanctions by unlawfully introducing some U.S. nexus to a prohibited transaction. Violations of U.S. sanctions can lead to significant criminal or civil penalties.

The [table](#) annexed to this note lists key entities and individuals named as being subject to U.S. (as well as EU and U.K.) sanctions.

The new U.S. sanctions implemented in response to Russia's invasion of Ukraine as of March 21, 2022, include:

¹² EU sanctions map. EU Sanctions Map. (n.d.). Retrieved April 5, 2022, from <https://sanctionsmap.eu/#/main/details/2/?search=%7B%22value%22:%22%22,%22searchType%22:%7B%7D%7D>

● Specially Designated Nationals (SDNs) designations

The U.S. administers blocking sanctions through the publication of a list of Specially Designated Nationals and Blocked Persons with whom transactions are prohibited. U.S. persons are prohibited from all direct and indirect dealings with SDNs and must block (i.e., freeze) any property in their possession in which such individuals or entities have any interest. Additionally, individuals on the SDN list are subject to travel restrictions. Recent U.S. designations include:

- **Major Russian financial institutions**, along with certain executives and board members;
- **Defense-related enterprises**;
- **Russian President Vladimir Putin**;
- **Russian government officials**, including Foreign Minister Sergei Lavrov, Defense Minister Sergei Shoigu and Kremlin Press Secretary Dmitry Peskov;
- **Members of the Russian Duma**;
- **Russian business and political elites**, along with certain family members;
- **Nord Stream 2**, along with corporate officers;
- **Russian-backed media companies**, along with several of their employees; and
- **Individuals with links to the DNR or LNR.**

⊘ Comprehensive Embargo on the DNR and LNR

- These sanctions are similar to the 2014 sanctions imposed on the Crimea region following Russia's incursions there and effectively prohibit nearly all U.S.-nexus trade with the DNR and LNR, along with any other regions of Ukraine that may be later added by the Secretary of the Treasury, in consultation with the Secretary of State (the "Covered Regions"). The sanctions under [EO 14065](#) prohibit (1) new investment by a U.S. person in the Covered Regions, (2) the import into the U.S. of any goods, services or technology from the Covered Regions, (3) the export from the U.S. or by a U.S. person of any goods, services or technology to the Covered Regions and (4) U.S. persons from financing, facilitating or

guaranteeing transactions that U.S. persons would be prohibited from engaging in directly.

● Trade & Investment restrictions

- In addition to the comprehensive trade embargo in place on the DNR and LNR, the U.S. has imposed a series of new trade restrictions and investment bans on numerous segments of the Russian economy:

Oil and gas

- Issued on March 8, [EO 14066](#) bans the import of Russian-origin oil, liquified natural gas and coal into the United States. BIS also [extended](#) existing export control restrictions – initially imposed in 2014 in response to the Russian annexation of Crimea – that target Russia's access to oil and gas refinery equipment. Restrictions on the provision of goods, technology and services (with the exception of financial services) by U.S. persons in support of specified energy projects (e.g., projects run by Lukoil, Gazprom and Rosneft) have been in place since 2014;

High-tech goods

- BIS [announced](#) new restrictions on exports from the U.S. and on foreign items using U.S. equipment, software and blueprints to Russia of high-tech goods, including semiconductors, computers, telecommunications, information security equipment, lasers and sensors;

Luxury goods

- Issued on March 11, [EO 14068](#) prohibits the export of U.S.-origin luxury goods, [including](#) certain spirits, tobacco products, clothing items, jewelry, vehicles and antique goods into Russia;

Seafood, diamonds and alcohol

- Certain U.S. imports of Russian-origin seafood, non-industrial diamonds, alcohol and any other products later designated are prohibited pursuant to [EO 14068](#);



U.S. banknotes

- Exports from the U.S. into Russia of U.S. banknotes are prohibited pursuant to [EO 14068](#).



Ban on new investment and certain services

- Issued on April 6, 2022, [EO 14071](#) prohibits all “new investment” in the Russian Federation by U.S. persons, wherever located, as well as the direct or indirect provision by U.S. persons of any category of services determined by the Secretary of the Treasury.



Financial restrictions

● Russian sovereign debt restrictions

- [Directive 1A](#) under EO 14024 prohibits U.S. financial institutions from dealing in the secondary market for new ruble or non-ruble denominated bonds issued by Russia’s Central Bank, National Wealth Fund and Ministry of Finance. While U.S. financial institutions were previously banned from participation in the primary market for new debt issued by these entities, the restrictions now apply to secondary market trading activities for bonds issued after March 1, 2022;

● Correspondent and payable-through account restrictions

- [Directive 2](#) under EO 14024 imposes correspondent and payable-through account restrictions (CAPTA) restrictions on the Public Joint Stock Company Sberbank of Russia and its foreign financial institution subsidiaries (listed in Annex 1 to the [Russia-related CAPTA Directive](#)). These sanctions require U.S. financial institutions to close, before March 26, 2022, any correspondent and payable-through accounts and reject future transactions involving Sberbank and its subsidiaries;

● New debt and equity restrictions

- Similar to previous Directives imposing sectoral sanctions related to Ukraine, [Directive](#)

[3](#) under EO 14024 prohibits U.S. persons from all transactions in, provisions of financing for, and other dealings in new debt of longer than 14 days maturity and new equity issued by listed entities on or after March 26, 2022. OFAC may also add additional entities under Directive 3. Newly added entities will be subject to prohibitions on new debt and equity 30 days after OFAC makes its determinations;

● Restrictions on transactions with Russia’s Central Bank, National Wealth Fund and Finance Ministry

- [Directive 4](#) under EO 14024 prohibits U.S. persons from engaging in any transactions involving Russia’s Central Bank, National Wealth Fund and Ministry of Finance, including any transfer of assets to or foreign exchange transaction for or on behalf of these entities. Directive 4 was implemented in accordance with the joint announcement on February 26, 2022, with the European Commission, France, Germany, Italy, the U.K. and Canada. The effective result is that any assets of these entities that are held in U.S. financial institutions are immediately frozen, and financial institutions outside the U.S. that hold U.S. dollars for these entities will be unable to disburse those funds.

● Airspace restrictions

- On March 1, 2022, the U.S. announced that it would block all Russian aircraft and airlines from entering U.S. airspace. The move came after Europe and Canada imposed similar restrictions. Relatedly, on March 31, 2022, EO 14024 was expanded to authorize the imposition of blocking sanctions on persons determined to be operating in the “the aerospace, electronics, and marine sectors of the Russian Federation economy.”

April 21, 2022: President Biden [issued](#) a proclamation prohibiting Russian-affiliated vessels from entering US ports. Under the proclamation a “Russian-affiliated vessel” means:

1. Vessels under Russian registry, i.e. Russian flagged vessels;

2. Russian-owned vessels, i.e. the Russian government or a Russian company, citizen or permanent resident appears as the legal title owner on the vessel's registration documents; or
3. Russian-operated vessels, i.e. a Russian company, citizen or permanent resident makes "the commercial decisions" regarding the employment of a ship, including how and where the vessel is employed.

● **There are two exceptions to the prohibition**

1. The prohibition does not apply to Russian-affiliated vessels "used in the transport of source material, special nuclear material, and nuclear byproduct material" for which and for as long as it is determined "no viable source of supply is available" without the use of such Russian-affiliated vessels.
2. Additionally, the prohibition does not apply to Russian-affiliated vessels seeking to enter a US port "due to force majeure, solely to allow seafarers of any nationality to disembark or embark for purposes of conducting crew changes, emergency medical care, or for other humanitarian need." The U.S. has also imposed sanctions on Belarus for its role in supporting the Russian invasion. BIS imposed restrictions, similar to those placed on Russia, on the exports of [high-tech goods](#) and [luxury goods](#) to Belarus. OFAC also [designated](#) several Belarusian individuals for their support of the Russian invasion of Ukraine.

In addition to new sanctions, OFAC has issued a number of general licenses that authorize transactions otherwise prohibited by U.S. sanctions. These include wind-down periods for some restrictions and exceptions for certain categories of transactions or with certain individuals or entities.

U.S. President Biden has indicated that the U.S. will take steps in accordance with other G7 nations to deny Russia of its most-favored-nation trade status – a move that would require Congressional action.

Proposed legislation in Congress would build upon the current measures. If adopted into law, [a bill](#) passed by the House of Representatives on March 17 would authorize the President to increase tariffs on products of Russia and Belarus until January 1, 2024, seek suspension of Russia's participation in the WTO and provide the President the authority to restore normal trade relations if aggression against Ukraine ceases. Similarly, a separate [bill](#), passed by the House on March 9, proposes to suspend the import of Russian oil and energy products into the U.S., direct the U.S. Trade Representative to take steps to curb Russia's access to the World Trade Organization and reauthorize the Magnitsky Act, which provides the authority for the U.S. to sanction any foreign person deemed by the President to be complicit in serious human rights abuses. Separate proposals for legislation are also circulating in the Senate, including bills that would similarly limit [trade relations](#) with Russia and Belarus, apply secondary sanctions to certain individuals transacting in [Russian gold](#) and that would target sanctions evasion through [cryptocurrency](#) by Russia.¹³

 **UK SANCTIONS AGAINST RUSSIA**

The U.K. has historically operated its own sanctions regime, which was distinct from, and often more far-reaching than, that of the EU. The U.K.'s overarching domestic sanctions regime is established under the Sanctions and Anti-Money Laundering Act 2018, which grants the U.K. government wide-ranging powers to introduce and enforce new sanctions.

¹³ "US, EU and UK Expand Russian Sanctions amid Ongoing Ukraine Conflict." Shearman And Sterling, 2022. <https://www.shearman.com/ja-jp/perspectives/2022/04/us-eu-and-uk-expand-russian-sanctions-amid-ongoing-ukraine-conflict>.

U.K. sanctions are binding on both individuals and legal entities within (or undertaking activities in) the U.K., as well as U.K. persons (U.K. nationals and entities incorporated under the law of the U.K.) wherever they may be in the world (“U.K. Persons”). They include financial sanctions, described in further detail below, as well as trade, immigration and aircraft and shipping sanctions. The full and current list of sanctioned persons (including those sanctioned prior to February 2022) under the U.K. sanctions regime can be found on the [U.K. Sanctions List](#). Sanctions imposed on Russian and Belarusian banks and individuals have been added to extensively recently (Alfa Bank and Sberbank, for example, were recently made subject to a full asset freeze in the U.K., while certain Russian military leaders have been subjected to asset freezes and travel bans for atrocities committed on the frontline in Ukraine) so sanctions lists should be checked daily for updates. Some financial sanctions (e.g., investment bans and asset freezes) are also targeted at categories of firms or individuals which are not specifically designated but should be considered in addition to those named on the U.K. sanctions lists.

The [table](#) annexed to this note lists key entities and individuals named as being subject to U.K. (as well as U.S. and EU) sanctions. This table does not generally include entities and individuals falling within generic categories of sanctions (e.g., U.K.-incorporated subsidiaries of Russian entities subject to an investment ban), although certain entities that have been specified as being owned or controlled by a sanctioned individual have been included for reference on a non-exhaustive basis. You can search more generally for financial sanctions applicable to a particular entity or individual using the U.K. government’s [consolidated list search tool](#). The search tool shows information relating to asset freeze and investment ban targets across all U.K. financial sanctions regimes.

The relevant U.K. financial sanctions in place as of April 27, 2022 include:

● **Asset freezes, which prohibit U.K.**

Persons from dealing with assets belonging, or making funds or other assets or economic resources available, to the named individuals and entities (including entities they own or control) or specified types of individuals or entities, or engaging in actions that circumvent those prohibitions. The U.K. Government’s [Consolidated List of Financial Sanctions Targets in the U.K.](#) shows entities and individuals subject to asset freezes. The asset freezes also apply to entities owned or controlled by a designated person, even though these entities may not be designated in their own right and so may not appear on the list of designated entities.

● **Travel bans**

on the majority of individuals subject to a U.K. asset freeze (with certain exceptions, e.g., President Putin and Foreign Minister Lavrov), preventing them from leaving or remaining in the U.K. from the date they are designated as a sanctioned person. The [U.K. Sanctions List](#) notes where individuals are subject to travel bans.

● **Investment bans, namely:**

- **against key Russian industries** previously targeted in response to Russia’s annexation of Crimea in 2014, covering 11 Russian entities, shown on the U.K. Government’s list of persons named in relation to financial and investment restrictions. The bans are designed to inhibit access to investment for strategic Russian industries, such as oil and gas. U.K. Persons are prohibited from dealing in certain securities issued by those 11 entities since 2014, or issued by U.K.-incorporated entities they own or control on or after March 1, 2022, including by providing investment services relating to such securities;
- **against key Russian state institutions** as well as any persons owned or controlled by, or acting on behalf of, those institutions. The restrictions prevent U.K. Persons from dealing in or offering financial and brokering services in respect of securities issued by those entities on or after March 1, 2022;

- **against persons connected with Russia** (i.e., persons located, ordinarily resident, incorporated, constituted or domiciled in Russia), preventing U.K. Persons from dealing in certain securities issued by such persons (or entities they own or control) on or after March 1, 2022, including by providing investment services relating to such securities; and
 - **in respect of Crimea, the DNR and LNR**, relating to Russia's annexation of Crimea in 2014 and subsequent recognition of the DNR and LNR as independent states, prohibiting investment in land or commercial opportunities in the region.
- **Financial services restrictions, namely:**
- **loan and credit arrangements:** a prohibition on entering such arrangements with: (1) a maturity of more than 30 days with certain sanctioned entities (and entities they own); (2) a maturity of more than 30 days with persons connected with Russia (and entities they own); or (3) any maturity with the Russian government;
 - **correspondent banking relationships:** a prohibition on such relationships between U.K. credit or financial institutions and designated persons (currently only Sberbank) or any other financial institutions owned or controlled by such persons; and
 - **foreign exchange reserves and asset management:** a prohibition on the provision of financial services related to key Russian state institutions, as well as any persons, owned or controlled by, or acting on behalf of, such persons.

The U.K. government has also announced that it will no longer issue any new guarantees, loans or insurance for exports to Russia and Belarus.

Other sanctions measures imposed by the U.K. include an airspace restriction preventing all Russian air traffic from operating in U.K. airspace, maritime restrictions, restrictions on the use of U.K. aviation and maritime technical services,

trade restrictions on a wide range of military, dual-use (i.e., with both civilian and military applications) and other 'critical-industry' goods and technology, as well as on oil refining and quantum computing goods and technology, a range of luxury goods, iron and steel products and restrictions on insurance services. The U.K. has also introduced increased import tariffs (additional 35% duty payable) for imports of key products from Russia and Belarus, including electrical machinery/equipment, metals (e.g., iron, steel, copper, aluminum and lead), ships, works of art and antique, and certain dry foods and spirits. Trading in the shares of certain companies on the London Stock Exchange (e.g., Lukoil, Sberbank, VTB, Gazprom and Rosneft) has also been suspended. The U.K. has supported international moves to ban Russian banks from SWIFT.

General licenses can be granted by the U.K. Office of Financial Sanctions Implementation, which permits the conduct of activities for a limited period of time that would otherwise be prohibited by the sanctions. These are intended to allow firms to wind down their transactions and affairs with sanctioned entities and individuals in an orderly way.

Specific licenses may be issued in respect of investment bans or financial services restrictions, permitting activities that would otherwise breach sanctions e.g., for humanitarian assistance, activities conducted by or on behalf of financial regulators for the purposes of their regulatory functions, actions taken to protect U.K. financial stability and anything done to deal with an "extraordinary situation."

Certain firms, including those with permission to conduct regulated activities in the U.K., must notify HM Treasury as soon as possible if, based on information gleaned while conducting their business, they know or have reasonable cause to suspect that a person is a designated person or has committed an offense by breaching the financial sanctions. If the designated person

is a customer of the firm, it should also state the nature and amount of funds or economic resources held by it at the time it came to suspect the designated person.

Certain other measures have been announced by the U.K. government but are yet to enter into force. These include limits on the level of deposits Russian nationals may hold in U.K. banks (expected to be set at £50,000). The U.K. government also plans to fast-track measures to increase transparency in U.K. property markets and businesses, phase out imports of Russian oil and coal by the U.K. by the end of 2022 and eliminate U.K. imports of Russian gas as soon as possible thereafter. A prohibition on all outward investment to Russia has also been announced, though is not expected to be implemented until the latter half of 2022.

Finally, the Cabinet Office has also asked all public sector organizations to review their contracts to identify any with Russian and Belarusian companies and, if possible, switch suppliers and/or pursue any legal routes of canceling them.

SANCTIONS AGAINST RUSSIAN BANKS

On March 2nd, 2022 the EU introduced new sanctions entailing, inter alia, the disconnection of certain Russian banks from SWIFT. As of March 12th 2022, the following banks will be cut-off from SWIFT:

- **BANK OTKRITIE**
- **NOVIKOMBANK**
- **ROMSVYAZBANK**
- **ANK ROSSIYA**
- **SOVCOMBANK**
- **VNESHECONOMBANK (VEB)**
- **VTB BANK**
- **TRANSKAPITAL BANK**

In addition, the new EU Regulation prohibits the sale, supply, transfer or export (“Supply”) of euro denominated banknotes to Russia or to any natural or legal person, entity or body in Russia, including the government and the Central Bank of Russia, or for use in Russia.

However, the Regulation exempts supplies of euro denominated banknotes that are necessary for the personal use of natural persons travelling to Russia or members of their immediate families travelling with them. Furthermore, the supply of euro denominated banknotes that are necessary for the official purposes of diplomatic missions, consular posts or international organisations in Russia, enjoying immunities in accordance with international law, is also exempted.

Finally, the regulation introduces a prohibition on investing, participating or otherwise contributing to projects (“Investments”) co-financed by the Russian Direct Investment Fund. Nevertheless, national authorities may grant licenses for Investments co-financed by the Russian Direct Investment Fund, provided that they are due under contracts concluded before 2nd, March 2022.

Moreover, a full transaction ban is imposed on four key Russian banks representing 23% of market share in the Russian banking sector. After being de-SWIFTed these banks will now be subject to an asset freeze, thereby being completely cut off from EU markets.

It shall be prohibited to accept any deposits from Russian nationals or natural persons residing in Russia, or legal persons, entities or bodies established in Russia, if the total value of deposits of the natural or legal person, entity or body per credit institution exceeds EUR 100 000.

It shall be prohibited to provide crypto-asset wallet, account or custody services to Russian nationals or natural persons residing in Russia, or legal persons, entities or bodies established in Russia, if the total value of crypto-assets of the natural or legal person, entity or body per wallet, account or custody provider exceeds EUR 10 000.

These two paragraphs shall not apply to nationals of a Member State, of a country member of the European Economic Area or of Switzerland, or to natural persons having a

temporary or permanent residence permit in a Member State, in a country member of the European Economic Area or in Switzerland and shall not apply to deposits which are necessary for non-prohibited cross-border trade in goods and services between the Union and Russia.

Furthermore, international financial institutions such as International Investment Bank and International Bank for Economic Cooperation, suffered reputational damage and stakeholders from former Soviet countries such as Czech Republic, Slovakia, and Poland have withdrawn from the boards of these institutions. By the end of March 2022 Fitch Ratings downgraded rating of both banks as they are connected to Russian government funds.

Russian State-Owned Companies on Sanctions List

US pursuant action to the Russia-related Entities Directive further expands the number of Russian entities subject to prohibitions related to new debt and equity. This includes 13 entities with outstanding debt issuances, six of which are also subject to certain debt or additional restrictions pursuant to directives under E.O. 13662.

Pursuant to E.O. 14024, OFAC identified the following 11 Russian entities as being owned or controlled by, or having acted or purposed to act for or on behalf of, directly or indirectly, the GoR:

- **Sberbank** is Russia's largest financial institution. Today, Sberbank was also identified as subject to the Russia-related CAPTA Directive.
- **Gazprombank Joint Stock Company** is Russia's third-largest financial institution and is closely affiliated with the energy sector.
- **Joint Stock Company Russian Agricultural Bank** is Russia's fifth-largest financial institution and closely affiliated with the agricultural sector.
- **Public Joint Stock Company Gazprom** is the world's largest natural gas company.

- **Public Joint Stock Company Gazprom Neft** is one of Russia's largest oil producers and refiners.
- **Public Joint Stock Company Transneft** (Transneft) manages Russia's network of petroleum-related pipelines.
- **Public Joint Stock Company Rostelecom** is Russia's largest telecommunications company.
- **Public Joint Stock Company RusHydro** is a hydroelectricity company and one of Russia's largest power companies.
- **Public Joint Stock Company Alrosa** is the world's largest diamond mining company, responsible for 90 percent of Russia's diamond mining capacity, which accounts for 28 percent globally.
- **Joint Stock Company Sovcomflot** is Russia's largest maritime and freight shipping company.
- **Open Joint Stock Company Russian Railways** is one of the world's largest railroad companies.

Pursuant to E.O. 14024, OFAC identified the following three Russian entities for operating or having operated in the financial services sector of the Russian Federation economy:

- **Joint Stock Company Alfa-Bank** is Russia's largest privately owned financial institution, and Russia's fourth-largest financial institution overall.
- **Credit Bank of Moscow Public Joint Stock Company** is Russia's largest non-state public bank and Russia's sixth-largest financial institution.

GENERAL LICENSES

To ensure that these sanctions and prohibitions have an impact on the intended targets and to minimize unintended consequences on third parties, Office of Foreign Assets Control (OFAC) has also issued several general licenses in connection with these actions. In particular, payments for energy are from production to consumption. The sanctions and license package has been constructed to account for the challenges that high energy prices pose to average citizens and doesn't prevent banks from processing payments for them.

Specifically, OFAC issued eight general licenses authorizing certain transactions related to:

- international organizations and entities;
- agricultural and medical commodities and the COVID-19 pandemic;
- overflight and emergency landings;
- energy;
- dealings in certain debt or equity;
- derivative contracts;
- the wind down of transactions involving certain blocked persons; and
- the rejection of transactions involving certain blocked persons.

To provide further guidance on these authorizations OFAC also issued extensive public guidance in the form of Frequently Asked Questions (FAQs).¹⁴

¹⁴ Frequently asked questions. U.S. Department of the Treasury. (2022, January 13). Retrieved, April 1, 2022, from <https://home.treasury.gov/policy-issues/financial-sanctions/faqs>



SANCTIONS AGAINST BELARUS

TIMELINE

The Council of the EU first adopted restrictive measures against certain officials of Belarus on September 24th, 2004. **Targeted measures were imposed against persons who are considered by the Pourgourides Report¹⁵** to be key actors in the unresolved disappearances of four well-known persons in Belarus in 1999–2000. Additional listings were introduced following the 2006 and 2011 presidential elections, in view of the gravity of the situation in Belarus. The number of listing gradually grew to over 200 persons and numerous entities, making it one of the most significant EU autonomous regimes. Most of the targeted measures were suspended by the Council of the EU on October 29th, 2015 and later on lifted on February 25th, 2016. The decision was taken after Belarus released all of the political prisoners and in the context of improving EU–Belarus relations.

In light of the fraudulent presidential elections that took place in August 2020 and the brutal crackdown by Belarusian security forces on the peaceful protesters, democratic opposition and journalists, the EU introduced several packages of listings, targeting natural and legal persons.

Second Round of Sanctions: Alexandr Lukashenko and 14 other officials sanctioned over ongoing repression

The Council added 15 members of the Belarusian authorities, including Alexandr Lukashenko as well as his son and National Security Adviser Viktor Lukashenko, to the list of individuals sanctioned in relation to the violent repression and intimidation of peaceful demonstrators, opposition members and journalists after the 2020 presidential election in Belarus.

¹⁵ <https://www.refworld.org/docid/4162a4654.html>

SEPTEMBER 24TH 2004

OCTOBER 2ND 2020

EU imposes first round of sanctions for repression and election falsification

The Council imposed restrictive measures against 40 individuals identified as responsible for repression and intimidation against peaceful demonstrators, opposition members and journalists in the wake of the 2020 presidential election in Belarus, as well as for misconduct of the electoral process. Restrictive measures include a travel ban and an asset freeze. The travel ban impedes the listed people from entering or transiting through EU territories, while the asset freeze is used against the funds or economic resources of the listed persons. In addition, EU citizens and companies are forbidden from making funds available to those listed.

NOVEMBER 16TH 2020

DECEMBER 17TH 2020

EU imposes third round of sanctions over ongoing repression

In response to the brutality of the Belarusian authorities and in support of the democratic rights of the Belarusian people, the Council decided to adopt 36 additional designations. These sanctions target high-level officials responsible for the ongoing violent repression and intimidation of peaceful demonstrators, opposition members and journalists, among others. They also target economic actors, prominent businessmen and companies benefiting from and/or supporting the regime of Aleksandr Lukashenko.

EU bans Belarusian air carriers after the forced landing of a Ryanair flight in Minsk, Belarus, on May 23th 2021 endangering aviation safety, and the detention by **Belarusian authorities of journalist Raman Pratasevich and Sofia Sapega**.

The Council decided on June 4th to strengthen the existing restrictive measures in view of the situation in Belarus by introducing a ban on the overflight of EU airspace and on access to EU airports by Belarusian carriers of all kinds. EU member states will therefore be required to deny permission to land in, take off from or overfly their territories to any aircraft operated by Belarusian air carriers, including as a marketing carrier.

In view of the situation at the EU border with Belarus and in order to respond to the instrumentalization of human beings carried out by the Belarus regime for political purposes, the Council broadened the listing criteria on November 15th 2021. The measures now target also persons and entities organising or contributing to activities by the Lukashenka regime that facilitate illegal crossing of the EU's external borders or the transfer of prohibited goods and the illegal transfer of restricted goods, including hazardous goods, into EU territory.

JUNE 4TH 2021

NOVEMBER 15TH 2021

JUNE 24TH 2021

The EU imposed the fourth package of further targeted economic sanctions aimed at implementing the conclusions of the European Council. These measures include further restrictions related to the trade of arms and the prohibition of sale, supply, transfer or export of equipment, technology or software intended primarily for use in the monitoring or interception by, or on behalf of, the Belarusian authorities of the internet and of telephone communications on mobile or fixed networks. They also include the prohibition of sale, supply or transfer of dual-use items for military use and to specified persons, entities or bodies in Belarus. In addition, further trade restrictions concerning petroleum products, potassium chloride (‘potash’) and goods used for the production or manufacturing of tobacco products were introduced. Furthermore, the measures include restrictions on access to Union capital markets in relation to the Belarusian Government as well as Belarusian state-owned financial institutions and entities; a prohibition on providing insurance and reinsurance to the Belarusian Government and Belarusian public bodies and agencies, as well as certain prohibitions on the European Investment Bank in relation to projects in the public sector.

Fifth package of sanctions over continued human rights abuses and the instrumentalisation of migrants:

On 2 December 2021, the Council imposed restrictive measures on an additional 17 individuals and 11 entities.

The measures target prominent members of the judicial branch and propaganda outlets that contribute to the continued repression of civil society, democratic opposition, independent media outlets and journalists.

The measures also target high-ranking political officials of the Lukashenko regime, as well as companies (such as Belavia Airlines), tour operators and hotels that have helped incite and organise illegal border crossings through Belarus to the EU, and in this way participated in the instrumentalisation of migration for political purposes.

DECEMBER 2ND 2021

MARCH 2ND 2022

In view of the gravity of the situation, and in response to Belarus's involvement in Russia's aggression against Ukraine, on March 2nd 2022, the Council introduced further restrictions to the trade of goods used for the production or manufacturing of tobacco products, mineral products, potash, wood products, cement products, iron and steel products and rubber products. The new measures also prohibit the export to Belarus or for use in Belarus of dual-use goods and technology, export of goods and technology which might contribute to Belarus's military, technological, defence and security development, and exports to machinery, together with restrictions on the provision of related services.

New measures in response to involvement in Russia's military invasion of Ukraine:

In response to the involvement of Belarus in the unjustified and unprovoked Russian military aggression against Ukraine, the Council has adopted additional measures targeting the Belarusian financial sector.

The agreed measures will:

- restrict the provision of specialised financial messaging services (SWIFT) to three Belarusian banks
- prohibit transactions with the Central Bank of Belarus
- prohibit the listing and provision of services in relation to shares of Belarusian state-owned entities on EU trading venues
- significantly limit the financial inflows from Belarus to the EU
- prohibit the provision of euro-denominated banknotes to Belarus

MARCH 9TH 2022

MEASURES



Arms export

- It is prohibited to export arms and related material to Belarus. Related technical or financial assistance and services are also prohibited.



Asset freeze and prohibition to make funds available

- All assets of the listed persons and entities should be frozen. It is also prohibited to make any funds or assets directly or indirectly available to them.



Embargo on dual-use goods

- It is prohibited to sell, supply, transfer or export dual-use goods and technology to Belarus. It is also prohibited to sell, supply, transfer or export goods and technology, which might contribute to Belarus's military and technological enhancement, or to the development of its defence and security sector, as listed in Annex Va of Regulation (EC) 765/2006, to Belarus. Related technical or financial assistance and brokering or other services are also prohibited.



Financial measures

- It is prohibited to sell, supply, transfer or export euro denominated banknotes to Belarus or to any person or entity in Belarus, including the Government and the Central Bank of Belarus, or for use in Belarus.
- It is prohibited to sell euro denominated transferable securities issued after 12.04.2022 or units in collective investment undertakings providing exposure to such securities, to any Belarusian national or person residing in Belarus or any entity established in Belarus.
- It is prohibited for Union central securities depositories to provide any services as defined in the Annex to Regulation (EU) 909/2014 for transferable securities issued after 12.04.2022 to any Belarusian national or person residing

in Belarus or any entity established in Belarus.

- It is prohibited to accept any deposits from Belarusian nationals or persons residing in Belarus, or entities established in Belarus, if the total value of deposits of the person or entity per credit institution exceeds 100 000 EUR.
- It is prohibited to provide public financing or financial assistance for trade with, or investment in, Belarus.
- It is prohibited to list and provide services as of 12.04.2022 on trading venues registered or recognised in the Union for the transferable securities of any person or entity established in Belarus and with over 50% public ownership.
- Transactions related to the management of reserves as well as of assets of the Central Bank of Belarus are prohibited.
- It is prohibited as of 20.03.2022 to provide specialised financial messaging services to the entities listed in Annex XV of Regulation (EC) 765/2006 or to any entity established in Belarus whose proprietary rights are owned for more than 50% by an entity listed in Annex XV.
- European Investment Bank (EIB) is prohibited from making any disbursement or payment under or in connection with any existing agreements entered between Belarus or any public authority thereof and the EIB.
- It is prohibited to provide insurance or re-insurance to Belarus, its Government, its public bodies, corporations or agencies; or any person, entity or body acting on behalf or at the direction of such entity.
- It is prohibited to make new loans or credit with a maturity exceeding 90 days; or to purchase, sell, provide investment services for or assistance in the issuance of, or otherwise deal with transferable securities and money-market instruments with a maturity exceeding 90 days to Belarus, its Government, its public bodies, corporations or agencies; or a major credit or other institution established in Belarus

with over 50% public ownership, as listed in Annex IX of Regulation (EC) 765/2006; or an entity established outside the EU but owned for more than 50% by an entity mentioned before; or any person or entity acting on behalf or at the direction of such entity.

- It shall be prohibited to sell, supply, transfer or export banknotes denominated in any official currency of a Member State to Belarus or to any natural or legal person, entity or body in Belarus, including the government and the Central Bank of Belarus, or for use in Belarus. The prohibition in this paragraph shall not apply to the sale, supply, transfer or export of banknotes denominated in any official currency of a Member State provided that such sale, supply, transfer or export is necessary for: the personal use of natural persons travelling to Belarus or members of their immediate families travelling with them; or the official purposes of diplomatic missions, consular posts or international organisations in Belarus enjoying immunities in accordance with international law.

Transport

- It shall be prohibited for any road transport undertaking established in Belarus to transport goods by road within the territory of the Union, including in transit. The prohibition in paragraph 1 shall not apply to road transport undertakings transporting mail as a universal service. The prohibition in paragraph 1 shall not apply until 16 April 2022 to the transport of goods that started before 9 April 2022, provided that the vehicle of the road transport undertaking: was already in the territory of the Union on 9 April 2022, or needs to transit through the Union in order to return to Belarus.¹⁶

Flights, airports, aircrafts

- It shall be prohibited for any aircraft operated by Belarusian air carriers to take off from, land in or overfly the territory of the Union.

Restrictions on admission

- Member States shall enforce travel restrictions on persons listed in the Annex of Council Decision 2012/642/CFSP.

Restrictions on equipment used for internal repression

- It is prohibited to export equipment which might be used for internal repression to Belarus. Related technical or financial assistance and services are also prohibited. Derogations subject to specific conditions exist for (a) biathlon rifles, ammunition and sights, and (b) small-calibre sporting rifles, small-calibre sporting pistols and ammunition

Cement

- It is prohibited to import, purchase or transfer cement products, as listed in Annex XI of Regulation (EC) 765/2006, from Belarus. Related technical or financial assistance and brokering services are also prohibited.

Iron and steel

- It is prohibited to import, purchase or transfer iron and steel products, as listed in Annex XII of Regulation (EC) 765/2006, from Belarus. Related technical or financial assistance and brokering services are also prohibited.

¹⁶ EUR Lex. (n.d.). Document 32022r0577. EUR. Retrieved April 9, 2022, from https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2022.II1.01.0067.01.ENG&toc=OJ%3AL%3A2022%3A111%3ATOC

Machinery and electrical equipment

- It is prohibited to sell, supply, transfer or export machinery, as listed in Annex XIV of Regulation (EC) 765/2006, to any person or entity in Belarus or for use in Belarus. Related technical or financial assistance and brokering services are also prohibited.

Mineral products

- It is prohibited to import, purchase or transfer mineral products, as listed in Annex VII of Regulation (EC) 765/2006, from Belarus. Related technical or financial assistance and brokering services are also prohibited.

Potassium chloride

- It is prohibited to import, purchase or transfer potassium chloride (“potash”) products, as listed in Annex VIII of Regulation (EC) 765/2006, from Belarus.

Rubber

- It is prohibited to import, purchase or transfer rubber products, as listed in Annex XIII of Regulation (EC) 765/2006, from Belarus. Related technical or financial assistance and brokering services are also prohibited.

Telecommunications equipment

- It is prohibited to sell, supply, transfer or export equipment, technology or software intended primarily for use in the monitoring or interception by the regime of Belarus of the internet and of telephone communications on mobile or fixed networks in Belarus as listed in Annex IV of Regulation (EC) 765/2006. It is also prohibited to provide telecommunication or

internal monitoring or interception services and related financial and technical assistance.

Tobacco

- It is prohibited to sell, supply, transfer or export goods used for the production or manufacturing of tobacco products, as listed in Annex VI of Regulation (EC) 765/2006, in Belarus.

Wood

- It is prohibited to import, purchase or transfer wood products, as listed in Annex X of Regulation (EC) 765/2006, from Belarus. Related technical or financial assistance and brokering services are also prohibited.¹⁷

SECONDARY SANCTIONS AGAINST RUSSIA AND BELARUS

Secondary sanctions are a relatively new kind of sanction that has been implemented frequently over the past five years, particularly relating to Iran. These kinds of sanctions supplement other sanctions programs by targeting non-U.S. persons (primarily foreign financial institutions and foreign sanctions evaders) who do business with individuals, countries, regimes, and organizations in Iran.

For example, if the volume of transactions between a foreign financial institution and Iran are significant enough, that foreign financial institution risks being designated pursuant to one of the legal authorities authorizing the use secondary sanctions. Once designated, secondary sanctions can prohibit U.S. persons from doing business with that foreign financial

¹⁷ EU sanctions map. EU Sanctions Map. (n.d.). Retrieved April 1, 2022, from <https://sanctionsmap.eu/#/main/details/2/?search=%7B%22value%22:%22%22,%22searchType%22:%7B%7D%7D>

institutions or require U.S. banks to limit or restrict that foreign financial institution's correspondent accounts in the United States.

As of the time, this page was written, secondary sanctions have applied only to Iran, though that can and may change.¹⁸

Primary sanctions, such as asset freezes and trade embargoes, prohibit citizens and companies of the sanctioning country from engaging in certain activities with their counterparts from the sanctioned country. For example, following Russia's annexation of Crimea, the US government, prohibited, among other things, new investment in Crimea by US persons. Secondary sanctions put pressure on third parties to stop their activities with the sanctioned country by threatening to cut-off the third party's access to the sanctioning country. Recent US sanctions against Iran illustrate this example well. With the ultimate goal to stop

Iran's nuclear program, US secondary sanctions gave financial institutions around the world a choice to either halt transactions with Iranian banks or lose access to the US financial system. Combined with additional secondary sanctions targeting Iran's energy sector and broad multilateral support, these financial sanctions succeeded in bringing Iran to the negotiating table.¹⁹

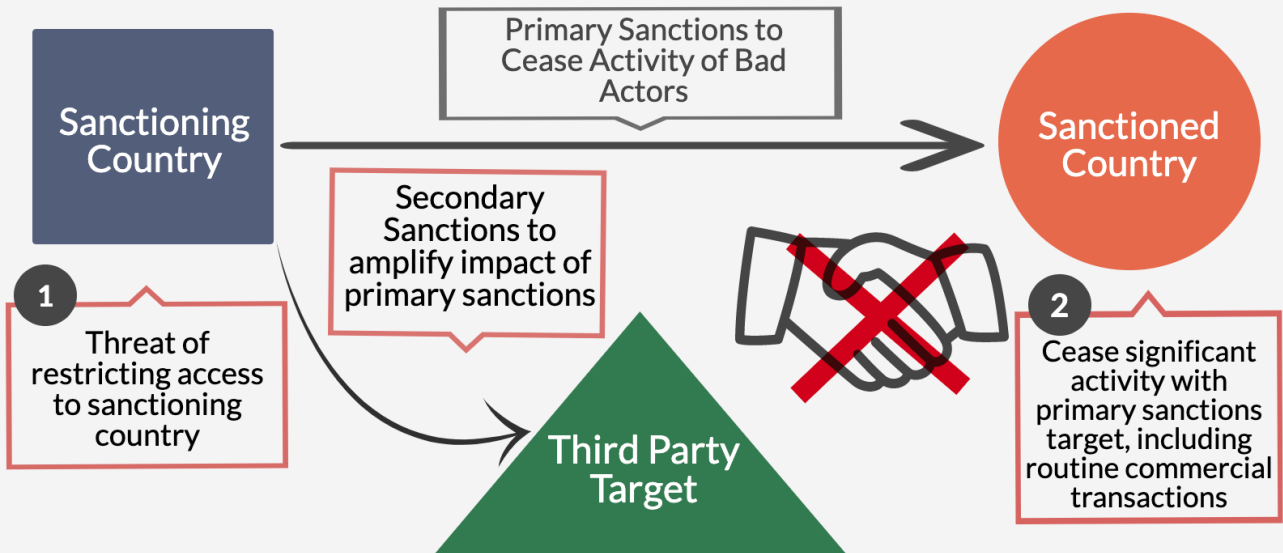
Secondary and primary sanctions technically function in the same way, in that they are enforced by targeting domestic entities rather than the third party. In the case of the secondary financial sanctions aimed at Iran, the US government prohibited US financial institutions from transacting with designated third-party banks. Put simply, US secondary sanctions legally target US/ EU persons/ businesses and not directly third parties.²⁰

¹⁸ OFAC economic sanctions programs: Secondary sanctions. OFAC Lawyer. (2019, September 9). Retrieved April 1, 2022, from <https://ofaclawyer.net/economic-sanctions-programs/>

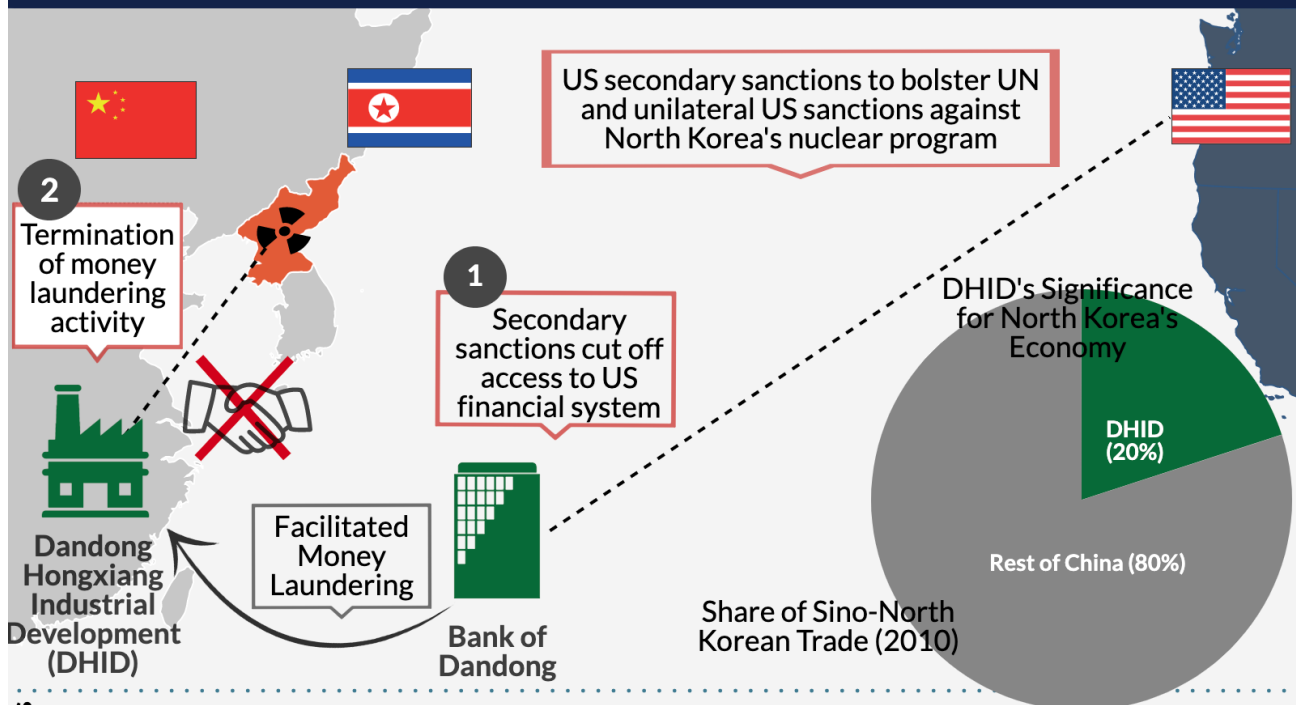
¹⁹ Moehr, O. (2020). Secondary sanctions: A first glance. Atlantic Council. Retrieved March 29, 2022, from <https://www.atlanticcouncil.org/blogs/econographics/ole-moehr-3/>

²⁰ Moehr, O. (2020). Secondary sanctions: A first glance. Atlantic Council. Retrieved March 29, 2022, from <https://www.atlanticcouncil.org/blogs/econographics/ole-moehr-3/>

How Secondary Sanctions Work



Case Study: US Secondary Sanctions Against "the Dandong Connection"



SOURCES
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-US Department of The Treasury
-Lexology.com
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EURASIAN COUNTRIES SUFFERING FROM ANTI-RUSSIAN SANCTIONS (CIPE COMMENTARY)

The interconnectedness of the Russian and Central Asian economies and the ripple effect of economic shocks in Russia impacting Central Asian economies are not a new phenomenon. During the Russian economic recession of 2014–2015 following Russia’s annexation of Crimea and war in the Donbas region of Ukraine, Central Asia similarly suffered financial hardship due to the secondary adverse effects of the Western sanctions on Russia. Compared to the impact of past sanctions, the current adverse side effects of the sanctions on Russia will have a more widespread and long-term impact on Central Asia.

Currently, the Central Asian economies are experiencing decreased trade with Russia in addition to a sharp drop in remittances being sent to Central Asia. For example, a sizable portion of trade in Kazakhstan and Uzbekistan, the largest Central Asian economies, is with Russia. More specifically, [21 percent of Kazakhstan’s trade](#) and [17 percent of Uzbekistan’s trade](#). The [costs of transportation and delivery have skyrocketed](#) due to financing and logistical hurdles. Additionally, Russia banned exports of grain to Central Asia, which is projected to undermine regional food security.

Tajikistan and the Kyrgyz Republic, the smaller economies in Central Asia, are both heavily dependent on remittances from Russia. Remittances make up [27 percent of the GDP of Tajikistan](#) and [31 percent of the GDP of the Kyrgyz Republic](#). The rapid devaluation of the Russian rouble is expected to [decrease the value of remittances by 30 percent](#). In turn, the local Central Asian currencies are declining, causing falling incomes and higher prices for critical imports across the region. These challenges combined will further economic fallout as regular business activities are being disrupted.

Small businesses across Central Asia are especially suffering from the uncertainty caused by widespread trade disruptions. CIPE partners among business associations in Kyrgyzstan report delays and tracking problems for already paid import cargos expected to be shipped through Russia. The logistics companies are struggling to deliver the shipments and identify new affordable transportation routes that bypass Russia.

Among all Central Asian countries, the Kyrgyz Republic is especially dependent on Russia in two ways. First, as a member of the Eurasian Economic Union (EAEU), a regional economic union that encourages the free movement of goods and services between member countries Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, and Russia, most of Kyrgyzstani suppliers are bound to Russian manufacturing and supply chains. As a member of the EAEU, the Kyrgyz Republic has been and will continue to be pressured to maintain the interconnectedness of the EAEU to mitigate the impact of the sanctions on Russia and their adverse side effects on other members of the EAEU. Second, Russia is an important source of duty-free imports, concessional loans, public investments, and remittances sent from Kyrgyzstani citizens living and working in Russia under preferential status of an EAEU member state.

These two factors make the Kyrgyz Republic extremely vulnerable to the secondary adverse effects of Western sanctions on Russia. Small businesses are struggling to bring in shipments of essential cargo, such as grain, dairy products, produce, oil, and construction materials from Russia. Banks are unable to process financial transactions with Russia, thereby limiting options for business operations as well as for families receiving much-needed remittances. To make matters worse, a widespread food shortage of imports of wheat flour, sugar, and vegetable oil has already plagued shops and bazaars throughout the country.

Despite the catastrophic side-effects of

Russia sanctions on Kyrgyzstani citizens from all walks of life, the government response has been inadequate. Little has been done to provide resources to support market stability.

Going forward it will be vital for Central Asia to safeguard their economic sovereignty and implement good governance and anti-corruption policies. This will help prevent sanctioned Russian capital and businesses from moving to Central Asia to dodge sanctions. The transfer of sanctioned businesses from Russia to Central Asia could have harmful effects on the economies of Central Asia that could be swept up in sanctions for aiding and abetting sanctioned Russian companies.

Even if sanctions on Russia have severely disrupted Central Asia's economies and business activities, this crisis has also created a window of opportunity to re-think the existing economic models and put forward genuine economic reforms capable of foraging a path towards the development of democratic, inclusive, and resilient economies.²¹

RUSSIAN COUNTER MEASURES

On August 6, 2014, President Putin approved measures to stop imports of certain food into Russia. Later this was further elaborated on and crystallized into the below mentioned list that is perhaps the most famous of the Russian countermeasures. It is for sure in countries, which used to export a lot of food to Russia before these countermeasures were imposed, like the Netherlands and Poland.

The EU has prepared a translation of an older version [of the list with the food](#) that is subject to the Russian embargo.

The list that is currently in force is the following:

- Meat of bovine animals, fresh, chilled or frozen
- Pork, fresh, chilled or frozen
- Meat and edible offal of the poultry fresh, chilled or frozen
- Meat salted, in brine, dried or smoked
- Living fish, with the exception of:
 - Atlantic [Salmon](#) (*Salmo Salar*)
 - young [Brown trout](#) (*Salmo Trutta*)
 - young [Rainbow trout](#) (*Oncorhynchus mykiss*)
 - young [Turbot](#) (*Psetta Maxima*)
- Fish and crustaceans, molluscs and other aquatic invertebrates
- Milk and dairy products
- Vegetables, edible roots and tubers
- Fruit and nuts
- Sausages and similar products of meat, meat offal or blood
- Finished products, including cheese and curd (cottage cheese) based on vegetable fats
- Foods (milk containing products on the basis of vegetable fats)

On 12 June 2018, these measures have been prolonged until the end of 2019. Although the Russian food embargo is meant to be a retaliation, Russia is also trying to use it to develop its agricultural sector and make its economy more self-sufficient.

Russian companies will be able to pay debts to foreign creditors from “unfriendly countries” only in Roubles under special rules/ Directive No. 430-r of March 5th, 2022

A temporary procedure was introduced for the fulfilment by Russian organizations and by the Russian Federation and its regions and municipalities of credit, loan and financial instrument obligations to foreign creditors from countries that undertake “unfriendly actions” in relation to Russia. Payments on those obligations will be made in Roubles to a special

²¹ Mitigating the adverse side effects of Russian sanctions in Central Asia. Center for International Private Enterprise. (2022, March 24). Retrieved April 1, 2022, from <https://www.cipe.org/blog/2022/03/24/mitigating-the-adverse-side-effects-of-russia-sanctions-in-central-asia/>

account opened by application of the debtor with a Russian bank or a central depository in the foreign creditor's name.²²

The procedure applies to the fulfilment of obligations exceeding 10 million Roubles in a calendar month or exceeding the equivalent of that amount in a foreign currency based on the official exchange rate set by the Central Bank of the Russian Federation as at the 1st of each month.

The Central Bank and the Ministry of Finance are granted authority to make exceptions by issuing special authorizations to Russian debtors.

The Government has approved the list of foreign states and territories undertaking unfriendly actions in relation to Russia and Russian companies and citizens. The list includes Albania, Andorra, Anguilla, Australia, the British Virgin Islands, Canada, member states of the European Union, Gibraltar, Iceland, Japan, the Republic of Korea, Liechtenstein, Macedonia, Micronesia, Monaco, New Zealand, North Macedonia, Norway, San Marino, Singapore, Switzerland, Taiwan (China), Ukraine, the UK (including Jersey), and the USA. One cannot rule out the possibility that the list of jurisdictions will be extended. The above procedure for the fulfilment of obligations also applies to payments to creditors from third countries if they are controlled by persons from "unfriendly countries" and to obligations assigned by creditors from "unfriendly countries" after March 1st, 2022.

01 Provision of debt financing by Russian creditors to foreign recipients

As from March 1st, 2022 Russian legal entities are prohibited from providing loans to foreign entities (in any countries) in any foreign currency

(Edict No. 79 of the President of the Russian Federation of 28th, February 2022).

"Concerning the Application of Special Economic Measures in Connection with Unfriendly Actions of the United States of America and Foreign States and International Organizations That Have Joined the United States of America" (Edict No. 79 of February 28th, 2022).

A ban has been imposed on the provision of Rouble credits and loans to persons from countries on the list of unfriendly states without permission from the government commission on the monitoring of foreign investments, including persons that are registered in those states or conduct business activities or derive business profits principally in those states. The ban also applies to controlled persons irrespective of where they are registered. For Russian individuals and Russian legal entities this means a ban on making loans to a specified list of countries and may apply to all subsidiaries (including Russian subsidiaries) of international companies headquartered in an unfriendly (sanctioned) state. It is not yet clear whether the edict will apply to commercial credits/deferrals, etc. Edict No. 81 of the President of the Russian Federation "On Additional Provision Economic Measures to Ensure the Financial Stability of the Russian Federation" (hereinafter, Edict No. 81 of March 1st, 2022).

In accordance with Edict No. 81 of 1st March, 2022 the government has approved special rules for the issuance by the Government Commission on the Monitoring of Foreign Investments of authorizations to carry out and execute certain "prohibited transactions", including the provision of Rouble credits and loans, transactions giving rise to title to securities and immovable property, hard currency loan operations and transfers of

²² Edict No. 95-FZ of 5 March 2022 "On the Temporary Procedure for the Fulfilment of Obligations to Certain Foreign Creditors"

foreign currency to foreign accounts. However, the specific conditions that a transaction or operation must meet in order to be authorized by the commission are not yet established. Government Decree No. 295 6th, March 2022 “On Approval of the Rules for the Issuance by the Government Commission for the Monitoring of Foreign Investments in the Russian Federation of Authorizations for the Conduct (Execution) by Residents of Transactions (Operations) with Foreign Persons for the Purpose of Implementing Additional Provisional Economic Measures to Ensure the Financial Stability of the Russian Federation and an Amendment to the Regulations on the Government Commission for the Monitoring of Foreign Investments in the Russian Federation” (hereinafter, Decree No. 295 of March 6th, 2022).

02 **Permission to use patents without the consent of right holders from “unfriendly countries”**

Russian users are authorized not to pay compensation to holders of patents from unfriendly countries if they are used without their consent. Under the Decree, for holders of patents from unfriendly countries (defined not only in terms of where they are registered but also where they have their place of business or derive the bulk of their profit) the rate of payment is 0% of actual revenue from the production and sale of goods, the performance of work and the provision of services where a relevant invention, utility model or industrial sample was used for this purpose. Government Decree No. 299 March 6th, 2021 “On an Amendment to Clause 2 of the Methodology for Determining the Amount of Compensation Payable to a Patent Holder When a Decision is Made to Use an Invention, Utility Model or Industrial Sample Without its Consent and the Procedure for Paying it.”

03 **Restrictions on transactions involving shares in Russian companies and immovable property**

Restrictions have been imposed on the buy-back of shares in Russian public companies (Edict No. 79 of February 28th, 2022.)

A ban has been imposed on concluding transactions giving rise to title to securities and immovable property with persons from unfriendly countries. The ban appears to apply to both purchases of securities and property from such persons and sales of securities and property to such persons. Since shares in joint stock companies are securities, while participating interests in LLCs are not, it is possible that transactions involving participating interests in LLCs are not prohibited (Edict No. 81 of March 1st, 2022). The ban also extends to transactions with non-sanctioned foreign persons involving securities and immovable property which they purchased after 22 February 2022 from sanctioned foreign persons. The scope of the ban includes purchases of securities in exchange trade, i.e., most securities quoted on foreign exchanges are banned from being purchased unless an authorization is obtained from the Central Bank, approved by the Ministry of Finance and containing the conditions for the transactions (Edict No. 81 of March 1st, 2022). Depositories and registrars that are professional participants in the securities market are prohibited from transferring securities of Russian issuers out of accounts held by foreign persons. This means that it is impossible to sell Russian securities via a depository or registrar. Banned transactions may be concluded by obtaining an authorization issued by the government commission for the monitoring of foreign investments, including transactions giving rise to title to securities and immovable property (Decree No. 295 of March 6th, 2022).

04 Restrictions on the payment of dividends and other payments on Russian securities

A ban is imposed on “transferring payments” on securities to any foreign legal entities and individuals. This applies to payments such as dividends and bond interest. It is not yet quite clear whether it applies to income from the sale of shares. It appears that the rule should not apply to LLCs (Central Bank Order No. 018-34-3/1202 of February 28th, 2022).

05 Restrictions on transferring funds abroad

Russian legal entities and citizens are also prohibited from transferring funds held by them in any foreign currency to their accounts in other countries. However, the ban does not yet cover funds transferred to other countries as capital contributions (whether made in foreign currency without opening an account abroad or in roubles) (Edict No. 79 of February 28th, 2022).

Russian legal entities must sell 80% of currency revenue from the sale of goods, work and services that was received from 1 January 2022 onwards (Edict No. 79 of February 28th, 2022).

There will be a limit of USD 5,000 (based on the exchange rate set by the Central Bank on the date of the transfer order) per calendar month on transfers by Russian resident individuals to other resident individuals, including persons who are their spouses and close relatives (Information Letter of the Central Bank of the Russian Federation No. IN-019-12/27 of March 5th, 2022 “On the Restriction of Transfers by Resident Individuals”).

A prohibition on transfers from Russian bank accounts held by foreign individuals and legal entities from sanctioned countries to foreign accounts in any currency. This includes transfers made without opening bank accounts and electronic money transfers (Central Bank Order No. IN-019-12/21DSP of March 1st, 2022).

Money transfers out of Russia made by foreign individuals without opening an account are limited to USD 5,000 per month (Central Bank Order No. IN-019-12/21DSP of March 1st, 2022).

Russian citizens are prohibited from taking foreign currency cash or monetary instruments exceeding the equivalent of USD 10,000 out of the country (Edict No. 81 of March 1st, 2022).

Banned operations may be carried out by obtaining an authorization issued by the government commission for the monitoring of foreign investments, including operations involving the transfer of foreign currency to foreign accounts (Decree No. 295 of March 6th, 2022).

Residents are not prohibited from making payments to non-residents in roubles or foreign currency in order to purchase goods abroad or pay for services. However, it is essential to monitor possible restrictions on imports and exports of raw materials (Explanations on the website of the Central Bank of the Russian Federation Edict No. 100 of the President of the Russian Federation of March 8th, 2022).

06 Trade embargoes

Besides embargoes on timber and fertilisers Russia introduced bans on exports of over 200 products, including technological, telecommunication and medical equipment, vehicles, agricultural machinery, electric equipment, as well as railway cars and locomotives, containers, turbines, metal and stone cutting machines, video displays, projectors, consoles and switchboards.

The export of these goods has been suspended to all countries, excluding member states of the Eurasian Economic Union (EAEU), Abkhazia and South Ossetia, added the release.

A special authorisation procedure, to be approved in a separate Government resolution, shall be applied to exports to the latter states.

Under it, permits for exporting these goods to the EAEU states, Abkhazia and South Ossetia are to be issued by the Ministry of Agriculture,

the Ministry of Transport, the Ministry of Industry and Trade, the Ministry of Digital Development, Communications and Mass Media, and the Ministry of Natural Resources and Environment, said the release.

Trade restrictions, including on exports from Russia to particular countries of certain products and raw materials (e.g., technological, telecommunications and medical equipment, vehicles, agricultural machinery and electrical equipment) until December 31, 2022. Some products may be exported to certain countries or regions with a permit. On April 27, 2022, the Russian government stopped gas flows to Poland and Bulgaria and claimed they would not be restored until the two countries agree to pay for gas in rubles.

In addition, the Government has also suspended the export of several types of timber and timber products to states that are undertaking hostile actions against Russia, in accordance with the approved list.

07 Incentives for the Russian IT sector

Tax reliefs are to be established for accredited IT companies that receive income from the distribution (placement) of advertising or the provision of additional services through applications and/or online tools and income associated with the sale, installation, testing and support of domestic IT solutions. The planned benefits include: a 0% profits tax rate until 2024 inclusively, exemption from tax, currency and other forms of state and municipal control for up to 3 years, the allocation of grants to support promising domestic solutions, and the provision of loans on preferential terms (up to 3% per annum). The Government is expected to develop additional support measures on top of those announced in the Presidential Edict. Edict No. 83 of the President of the Russian Federation of March 2nd, 2022 "On Measures to Ensure the Accelerated Development of the Information Technology Industry in the Russian Federation".

SCENARIOS OF DEVELOPMENT

Indeed; the ability to navigate the sanctions environment has become a crucial part of doing business in the 21st century. European businesses and individuals, especially, are in the line of fire. Hopefully this compass serves as a useful tool for businesses to orientate themselves accordingly in economically turbulent and rapidly evolving times. In the final part we also outline the likely outcomes. Whereas as of 2014 our business routine must take into account a thorough analysis of the business environment and comprehensive understanding of future implications for one's activities.

Short-term scenario

- The Russian economy will not find a way around sanctions and gradually decline which will limit its ability to project power internationally.
- This scenario portrays a picture of a declining Russia that would be likely increasingly mercantilist in fiscal policies via measures targeting dollar and euro in the commodities markets.
- There will be an increased likelihood of economic collapse of Russia and related backlash through the Eurasian economic/political area.
- In this scenario Russia will either be pressured to sell its commodities to Western markets in dire need to fund itself, or conversely it will try to undermine the West via dedollarisation and cumbersome trade embargoes.
- The short-term effects of spiking energy and commodities prices will reflect on inflation rates. The EU27 and Eurasian countries are already witnessing high inflation rates. In April 2022, Russia reached the worst inflation since 1994 at a 17.8 % rate, while the EU27 averages 7.5 %, whilst the worst hit is taking Estonia at 19 %, Lithuania at 16.6 %, the Czech Republic at 14.2 %, and Slovakia at 11.8 %.

- If the current situation is resolved in the short term and agreements on economic exchange are put in place, it is likely that the global prices of commodities will return to their pre-war levels. However, such estimates belong to the most optimistic scenarios regarding the current security crisis in the Eastern Europe as predicted in KPMG Global Outlook.²³

Mid-term scenario

- the longer the Russian economy lasts after the initial shock the less likely it is to collapse.
- As a fallout of current situation the EU27 and Russia trade relations will suffer the most, whilst EU27 is suffering from commodities crisis and related inflation, whilst Russia is encountering financial crisis related to sanction both actors will likely to try outlive the each other.
- With current policies pointing to the bloodletting of Russia the sanctions are likely to stay, nevertheless given the EU-Russia interdependence there is a chance that trade with energy resources will remain in place.
- If trade policies are to remain in place, the Russian economy is likely to survive the current pressure as the oil and gas industry contributes up to 15.2 % of the Russian GDP.
- If the instabilities protract the commodities prices will increase mostly in energy prices expecting surge by 50 % and food prices by 5% as predicted in KPMG Global Outlook.²⁴
- In the mid-term perspective, the inflation, accompanying the continuing trend in the disintegration of EU-Russia trade relations, will translate into recession in the Eurozone and Russia and will likely spread to the US through international markets.

Long-term scenario

- In this case Russia survives sanctions, overcomes difficulty with innovations and mining technologies and finds new customers for its carbohydrate export-based economy.
- Such success will reinforce the redistribution of economic capabilities, global wealth and labour. Suddenly the United States and its ally's role will be shrunk, owning majority of global financial and economic infrastructure which might prove a powerful tool, but not as a decisive measuring in containing Russia and China as major contenders in the Liberal economic order led by the West.
- This scenario will result in sort of multipolarisation of the international system and the economic one with it. Russia will continue to play an important role in commodities markets and European states will face hard decision choosing between their own values and their economic growth. Even if Europe chooses the latter, it is unlikely to politically reconcile with Russia and the pattern of mutual interaction will be purely of economic nature.
- The longer the business isolation of Russia will last, the more likely it is that Russia may try to manipulate the commodity market in order to stimulate an economic crisis in the West. The successful tackling of the Russian tactics will depend on the EU's ability to diversify towards new sources of commodities and recalibrate the energy sector. In the long-term scenario, the chances for mutual bloodletting are likely to increase substantially, resulting in an extensive economic crisis on both sides.
- KPMG Global Outlook predicted a 100 % surge of European gas prices and 10 % surge of food prices globally should the crisis protract to the long term scenario.²⁵

²³ Reader, G. (2022). Global economic outlook. KPMG. Retrieved April 20, 2022, from <https://home.kpmg/xx/en/home/insights/2022/04/global-economic-outlook.html>

²⁴ Reader, G. (2022). Global economic outlook. KPMG. Retrieved April 20, 2022, from <https://home.kpmg/xx/en/home/insights/2022/04/global-economic-outlook.html>

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