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The Russia-Ukraine Conflict: Additional Sanctions and Impact on Global Trade

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As Russia continues its invasion of Ukraine, the United States and other countries have intensified economic sanctions against the Russian Federation.[1] These sanctions ride on the heels of initial sanctions issued prior to Russia's invasion of Ukraine, previously discussed here, which sought to deter the escalating conflict to no avail. These sanctions are in addition to those that have existed or been enhanced since 2014, when Russia invaded Crimea. Companies should continue to evaluate supply chains (both in goods and services), seek assistance from governmental authorities in regard to personnel in the affected region, and consider notices under force majeure clauses in preparation for long term sanctions and impacts on global trade.

The United States' new sanctions:

- Severs the U.S. financial system from Russia's largest and most globally critical financial institution, Sberbank, and its subsidiaries, by restricting its ability to access payments made in the dollar.
- Fully blocked U.S. persons dealing with Russia's other key financial institutions, including; VTB Bank and its subsidiaries; Bank Otkritie, Sovcombank OJSC; and Novikombank, as well as their related 34 subsidiaries.
- Place new restrictions on transactions involving debt and equity payments with Russian enterprises and entities, preventing a major source of Russian revenue generation, which would presumably fund its activity in Ukraine.
- Block certain Russian elites and their family members, who occupy positions of power within the country. These sanctions freeze their U.S. assets and prevent them from traveling to the U.S.
- Sanction Belarus and certain individuals for supporting the Ukrainian invasion.
- Restrict exports to the Russian military, such as export restrictions to military end users, such as the Russian Ministry of Defense.
- Prevent Russia's access to cutting edge technology, including "Russia-wide restrictions on semiconductors, telecommunication, encryption security, lasers, sensors, navigation, avionics

and maritime technologies."

The United States Treasury Department has also issued sanctions against Russia's other largest financial institutions and against Russian elites and their family members, hoping to "fundamentally imperil Russia's ability to raise capital key to its acts of aggression."[2]

The United States is joined by several other countries, including the European Union, Australia, Japan, Canada, New Zealand and the United Kingdom, who have all issued similar sanctions against Russia. The impact of these sanctions is not just within Eastern Europe. The sanctioned financial institutions and individuals provide financing or are involved in projects in many parts of the world, including Asia and Africa. As such, just because a transaction is not in the impacted territories, the sanctions may still be applicable and need additional vetting as to ownership interests, and nuances of a complicated international transaction with multinational stakeholders.

Companies that have a presence in the United States (not just United States domiciled entities) should review existing and potential transactions to determine if sanctioned institutions or individuals is involved. This may include reviewing and updating existing compliance policies. The new sanctions introduce an additional layer of complexity, heightening the burden on U.S. entities to quickly become compliant. Continuity of operations will depend on ensuring all activities are authorized. As part of the policy review, companies should consider reviewing their screening process of investors for new business opportunities, as well as reviewing ongoing business opportunities that may have connections to entities or individuals now sanctioned. It may also be appropriate to obtain written assurances from stakeholders that they are also complying with the various international trade laws and regulations, including the new sanctions.

Companies must also consider the impact the physical conflict itself will have on their supply chains. With escalating violence, agents and employees may have been displaced. Companies should consider alternative routes and means to address the potential displacements that will inevitably halt and slow supply chain flows, including utilization of governmental assistance via embassies and consulates, as appropriate.

Snell & Wilmer continues to closely follow developments in the Russia-Ukraine conflict. Companies should consider reaching out to legal counsel to better understand the impact of the ever-changing economic sanctions, and the potential for additional sanctions, on their business opportunities and employee support as the military conflict continues and expands.

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Note:
[1] *See Joined by Allies and Partners, the United States Imposes Devastating Costs on Russia available at* https://www.whitehouse.gov/briefing-room/statements-releases/2022/02/24/fact-sheet-joined-by-allies-and-partners-the-united-states-imposes-devastating-costs-on-russia/.
[2]*See U.S. Treasury Announces Unprecedented & Expansive Sanctions Against Russia, Imposing Swift and Severe Economic Costs,* available at https://home.treasury.gov/news/press-releases/jy0608.

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specific facts of a particular matter. As guidance in areas is constantly changing and evolving, you should consider checking for updated guidance, or consult with legal counsel, before making any decisions.

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