

ReedSmith

Russia sanctions briefing

Leigh Hansson and Alex Brandt

New U.S. Russia Sanctions

Donetsk ("DNR") and Luhansk ("LNR") Regions of Ukraine

- Restrictions on:
 - new investment in DNR and LNR regions of Ukraine;
 - the import into the U.S., directly or indirectly, of any goods, services, or technology from the DNR and LNR regions;
 - the exportation, re-exportation, sale or supply, directly or indirectly, from the U.S., or by a U.S. person, wherever located, of any goods, services, or technology to the DNR and LNR regions; and
 - any approval, financing, facilitation or guarantee by a U.S. person, wherever located, of any transactions by a non-U.S. person that the sanctions would prohibit a U.S. person from engaging in directly.
- Several General Licenses have been issued which, *inter alia*, allow all transactions that are ordinarily incident and necessary to the wind down of transactions involving the DNR and LNR until 23 March 2022



New U.S. Russia Sanctions

Blocking sanctions

- On individuals and entities including:
 - Six major Russian financial institutions:
 1. Vnesheconombank (VEB)
 2. Promsyvazbank (PSB)
 3. VTB Bank (VTB)
 4. Bank Financial Corporation Otkritie (Otkritie)
 5. Sovcombank
 6. Novikombank
 - and 96 of their subsidiaries
 - Central Bank of Russia, the National Wealth Fund, the Ministry of Finance
 - Five vessels owned by a subsidiary of PSB (Baltic Leader, Linda, Pegas, Fesco Magadan, Fesco Moneron)
 - Nord Stream 2 AG and its subsidiaries
 - Vladimir Putin and individuals in his inner circle, including Ivan Igorevich Sechin (Rosneft Oil's CEO) and Minister of Foreign Affairs Sergei Lavrov
- General Licence 8 authorizes, through 23 June 2022, transactions related to "energy" involving the six financial institutions above



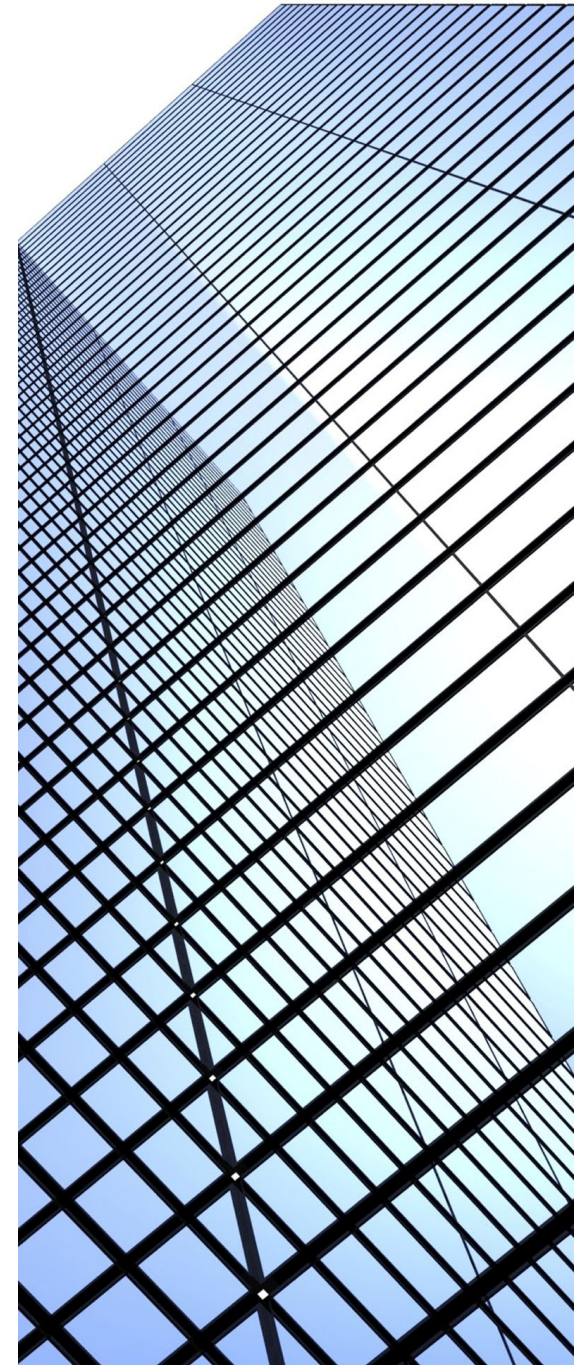
New U.S. Russia Sanctions

Financial Restrictions

- A number of financial restrictions have been imposed
- These include restrictions on providing new debt/equity with a maturity date over 14 days to certain entities (and their 50% or more owned subsidiaries) such as the following:
 - Sovcomflot
 - Gazprom / Gazprom Neft / Gazprombank
 - Transneft
- However, there are no relevant restrictions on regular trading or the provision of insurance to the above entities
- Cut off of Russian banks from SWIFT in coordination with UK/EU

Export Controls

- New export control restrictions on Russia introduced by the U.S.



New UK Russia Sanctions

Asset Freeze

- On Russian banks including: Rossiya, IS Bank, GenBank, Promsvyazbank, Black Sea Bank and VTB Bank
- Transactions involving VTB Bank or VTB Capital are authorised until 27 March 2022
- On entities including United Shipbuilding Corporation, United Aircraft Corporation, Rostec, UrakVagonZavod and Tactical Missiles Armament Corporation
- On President Putin, Minister of Foreign Affairs Sergei Lavrov and a number of Russian oligarchs



New UK Russia Sanctions

Capital Market Restrictions:

1. Exemption removed that previously allowed dealings in securities issued by UK-subs of sectoral sanctioned entities.
2. Prohibition of transferable securities etc. issued after March 1 by a person connected with Russia.
3. Prohibition of dealing with transferable securities issued after March 1 by the Russian Government.

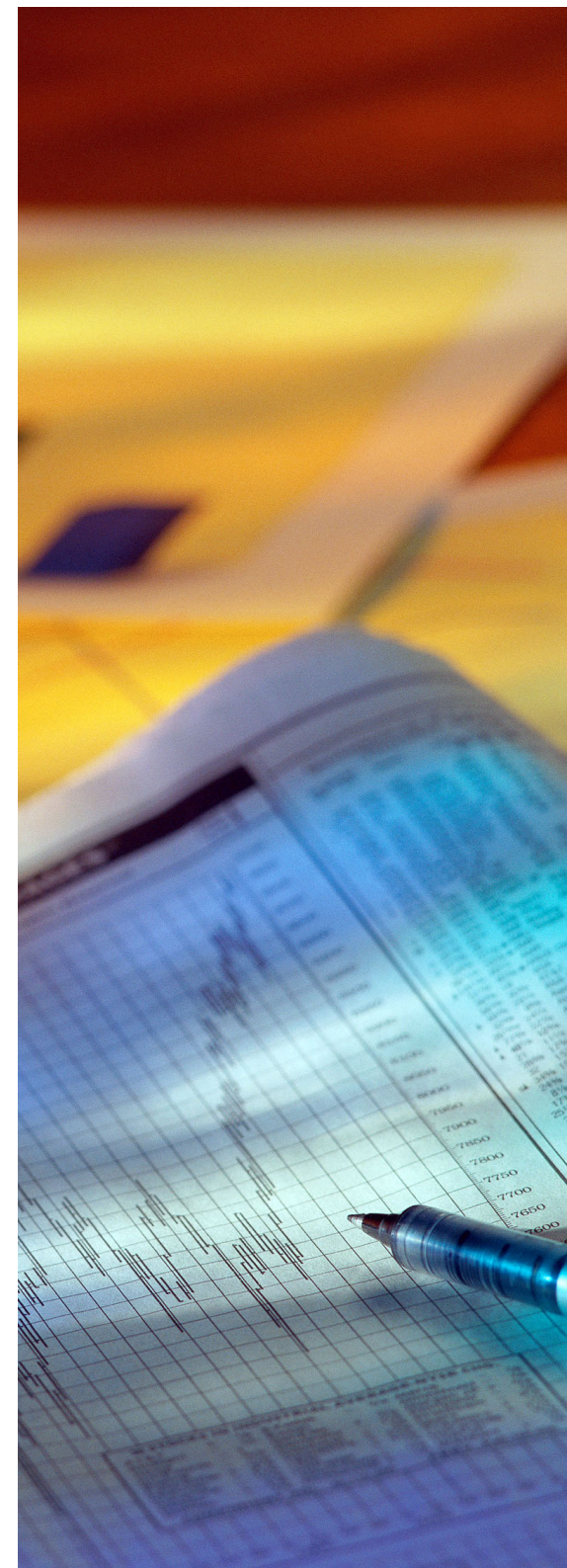
Lending restrictions:

1. Lending restrictions:
 - a. Prohibited to grant a loan with a maturity exceeding 30 days to Russian institutions targeted by sectoral sanctions and “Persons Connected With Russia”
 - b. Prohibited to grant loans to Russian Government post March 1.

Correspondent banking restrictions:

1. Prohibition on establishing or continuing a correspondent bank relationship with banks designated by the UK and Sberbank.

General licenses



New UK Russia Sanctions

Trade Sanctions:

1. Expands existing restrictions on military and dual-use items to cover “critical industry goods”:

- Electronics, computers, telecoms, information security, sensors, lasers, navigation and avionics, marine, aerospace.
- Schedule 2 or 3 to the Export Control Order 2008
- Annex 1 of the EU Dual-Use Regulation
- Suspension of existing dual-use items by Export Control Joint Unit.

Port ban

- The UK has banned access to the following vessels:
 - owned, controlled, chartered or operated by any person connected with Russia
 - owned, controlled, chartered or operated by designated persons
 - flying the Russian flag
 - registered in Russia
 - Otherwise identified by the Secretary of State

Aircraft ban



New EU Russia Sanctions

Blocking sanctions

- On Bank Rossiya, Promsvyazbank and VEB.RF with certain transactions authorised for the termination of contracts or other agreements by 24 August 2022 of operations
- On Russians involved in the decision to claim DNR and LNR including 351 members of Russia's parliament and 27 high profile individuals and entities
- On President Putin, Sergei Lavrov and a number of Russian oligarchs

Donetsk and Luhansk regions

- Wide-ranging sanctions on DNR and LNR regions, largely mirroring existing EU sanctions on Crimea/Sevastopol
- These sanctions include, in particular, trade and investment restrictions concerning those territories relating to the export and import of goods, technology, real estate, tourism etc.



New EU Russia Sanctions

Financial restrictions

- On Russia and its government and the Russian Central Bank or entities / bodies acting on behalf / at the direction of the Russian Central Bank it is prohibited to:
 - purchase, sell or otherwise deal with transferable securities and money-market instruments issued after 9 March 2022 by them; or
 - making/ being part of arrangements creating new loans or credit after 23 February 2022
- In relation to VTB Bank, Gazprombank, VEB, Rosneft, Transneft, Sovcomflot and Gazprom Neft, among others, it is prohibited to:
 - purchase, sell, provide investment services for or assistance in the issuance of, or otherwise deal with any transferable securities and money-market instruments issued by them (or their more than 50% owned subsidiaries) after 12 April 2022 ; or
 - make / be part of any arrangement to make new loans or credit to them (or their more than 50% owned subsidiaries) (**without any maturity threshold applying**)
- Exceptions apply, such as, regarding loans intended for providing emergency funding for EU entities more than 50% owned by Sberbank, VTB Bank, Gazprombank, VEB or Rosselkhozbank
- **BUT** payment terms/delayed payment for goods or services are not considered loans or credit caught by the regulation, provided they are not used to circumvent the prohibition on new loans/credit

New EU Russia Sanctions

Financial restrictions

- The following banks are to be cut off from the SWIFT international payments system
 - Bank Otkritie;
 - Novikombank;
 - Promsvyazbank;
 - Sovcombank;
 - VNECHECONOMBANK (VEB); and
 - VTB Bank
- Prohibition of the sale and supply, transfer or export of euro banknotes to Russia or to any person/entity in Russia including the Government of Russia or for use in Russia
- Prohibition on investing, participating or contributing to projects co-financed by the Russian Direct Investment Fund (“RDIF”), unless the relevant contracts were concluded before 2 March 2022



New EU Russia Sanctions

Energy Industry

- Prohibition on the sale, supply, transfer or export certain listed goods and technology suited for use in oil refining to any natural or legal person, entity or body in Russia or for use in Russia
- The prohibition also applies to the provision of technical assistance, brokering services and other services as well as of financing or financial assistance related to the listed goods and technology
- Temporary exemption to the prohibition for supplies under contracts concluded before 26 February 2022, expiring on 27 May 2022
- Licences are available for the urgent prevention or mitigation of events likely to have a serious and significant impact on human health and safety or the environment
- Suspension of exports from Russian steel producer Severstal to the EU and designation of its main shareholder Alexey Mordashov

Other affected Industry Sectors

- Restrictions to the aviation, space, technology and dual-use goods and technology sectors
- Banning of all Russian flights over EU airspace – no equivalent restrictions regarding EU ports yet
- Suspension of broadcasting licenses of Sputnik and RT – Russia Today channels in the EU





Belarus

Overview of Belarus Sanctions

U.S. Sanctions

- U.S. persons are prohibited from engaging in any transaction with Specially Designated Nationals
- Non-U.S. persons will be at risk of sanctions if they provide “material support” to any of the sanctioned persons, companies or their subsidiaries
- No U.S. dollars for transactions with sanctioned persons / 50 Percent Rule

EU/UK Sanctions

- Asset freezes against targeted individuals and companies (note divergence in EU and UK lists)
- Sectoral sanctions including restrictions in relation to trading in certain potash and petroleum products
- Financial restrictions prohibiting access of certain Belarusian entities and state-owned financial institutions to EU/UK capital markets



New sanctions against Belarus

U.S.

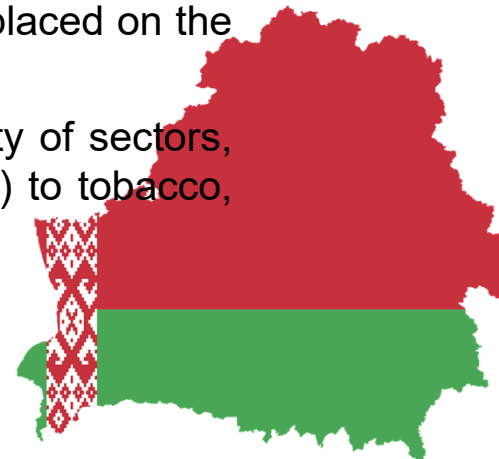
- On 24 February 2022, the U.S. imposed sanctions on Belarus targeting two Belarusian state-owned banks, Belinvestbank and Bank Dabrabyt, as well as the Belarusian defense and security industries
- Transactions involving the official business of international organizations such as the UN and the of U.S. Government by its employees, grantees or contractors are authorized
- **New export restrictions in line with those imposed on Russia (policy of denial on sensitive items that support Belarus's defense, aerospace, and maritime industries)**

UK

- On 1 March 2022, the UK targeted military leaders and military manufacturers

EU

- On 25 February 2022, the EU renewed the application of existing sanctions against Belarus until February 2023 and announced that it will target Belarusian individuals, who facilitated the Russian military aggression from Belarus. 22 Individuals were placed on the lists on 2 March 2022
- On 27 February 2022 the EU indicated that the sanctions will target a variety of sectors, restricting Belarusian exports from mineral fuel (coal, natural gas, petroleum) to tobacco, wooden timbre, iron and steel and individuals helping the Russian war effort
- Prohibition of exporting of machinery to Belarus introduced on 2 March 2022



What are we seeing so far...

- Heightened due diligence but uncertainty around practical application of measures
- Confusion regarding scope and interpretation of legislation – difficulties in reconciling media coverage with applicable laws
- Reluctance to cover credit to any Russian counterparty
- Vessels avoiding calls at Russian ports and owners looking at termination rights (e.g. war risk clauses)
- Significant War Risk Premiums for those wanting to take Russian business in the Black Sea
- Oil majors (BP and Equinor) exiting their shareholding in Rosneft
- Switzerland (which has remained neutral to date) adopting equivalent EU measures



Practicalities – back to basics

1. Identify potentially affected contracts/relationships
2. Understand the restrictions:
 - Trade based restrictions?
 - Asset Freezes?
 - Payment chains?
 - Safety considerations?
3. Understand your contractual position
4. Look at the wider commercial context
5. Act accordingly.



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