



ALERTS

U.S. Further Escalates Russia-Related Sanctions And Export Controls, Targets Belarus

March 4, 2022

Highlights

In response to the Ukraine invasion, the U.S. significantly expanded sanctions against Russia's financial services sector, creating risks for making payments for otherwise lawful business involving Russia.

The U.S. Department of Commerce's Bureau of Security announced significant export control restrictions on the transfer of certain U.S. commodities, software, and technology to Russia and Belarus.

Companies should consider assessing any existing or potential business activities involving Russia, Belarus, and Ukraine to determine any legal, practical, and reputational risks.

In response to Russia's full-scale military invasion of Ukraine, the U.S. has taken a series of actions, including: significantly expanding sanctions against Russia's financial services sector; implementing extensive new export controls on U.S. products; and targeting Russian President Vladimir Putin, other Russian elites, and certain banks and defense and security industries and individuals in Belarus.

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These new sanctions build upon prior Russian-related sanctions.

It is urgent that companies consider reviewing and assessing any business they conduct in and around Russia and Belarus to determine any legal, practical, and reputational risks.

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Expansive Financial Sector Sanctions

On Feb. 24 and 28, the Biden administration announced various sanctions targeting Russia's top financial institutions and its Central Bank, among other measures. Specifically, the new financial sector sanctions include:

- Full blocking sanctions such as restrictions on transactions and asset freezes for VTB Bank (Russia's second-largest bank) and 20 of its subsidiaries, along with three additional major Russian financial institutions, Otkritie, Sovcombank, and Novikombank, and 34 of their subsidiaries
- Restricting access to transactions made in the U.S. dollar for Russia's largest bank, Sberbank, and 25 of its subsidiaries, by imposing correspondent and payable-through account sanctions
- Restrictions on new debt and equity for 13 major Russian firms, including, among others:
 - Alrosa, the world's largest diamond mining company
 - Gazprom, the world's largest natural gas company
 - Gazprom Neft, one of Russia's largest oil producers and refiners
 - Rostelecom, Russia's largest telecommunications company
 - Russian Railways, one of the world's largest railroad companies
 - Sovcomflot, Russia's largest maritime and freight shipping company
- Prohibiting U.S. persons from engaging in any transaction involving the Central Bank of Russian Federation, the National Wealth Fund of the Russian Federation, or the Ministry of Finance of the Russian Federation.

The U.S. also sanctioned the Russian Direct Investment Fund, a key sovereign wealth fund, its management company, and one of the managing company's subsidiaries.

For the financial sector sanctions, the U.S. Department of Treasury's Office of Foreign Assets Control has also issued eight General Licenses to ensure that the sanctions and prohibitions have an impact on the intended targets and to minimize unintended consequences on third parties.

The U.S. coordinated with allies on these sanctions and many are

mirrored by other countries. These new sanctions will make it difficult for companies to make or receive payments for otherwise lawful business with Russia, so such companies should consider these details prior to engaging in any further Russia-related transactions.

New Export Controls

The U.S. Department of Commerce's Bureau of Industry and Security (BIS) issued [new export controls](#), on Feb. 24, imposing restrictions on the export of certain U.S. items (commodities, software, and technology) to Russia, including certain goods produced in foreign countries using controlled U.S. technology. All U.S. businesses – and any non-U.S. business working with U.S. commodities, software, or technology – should carefully review these stringent new measures.

These export control measures include:

- New licensing requirements for the export, re-export, or in-country transfer to or within Russia of all Export Control Classification Numbers (ECCNs) in the Commerce Control List (CCL) Categories 3-9, including electronics, computers, telecommunications and information security, sensors and lasers, navigation and avionics, marine, and aerospace and propulsion technologies
- A general review policy of denial for license applications for exports, re-exports to, or transfers within Russia
- Significant restrictions on the use of license exceptions for shipments to or within Russia
- An expansion of the types of items requiring a license for [military end uses](#) and end users in Russia, now covering EAR99 items
- Two new “foreign direct product” rules, one for all of Russia and one for specified Russian military end users. Under such rules, items produced in non-U.S. countries may be subject to BIS jurisdiction if they are the direct product of certain U.S.-origin software or technology or related plants or major components

For Belarus' substantial support of the Russian invasion, on Mar. 2, BIS [imposed the same export licensing restrictions](#) against Belarus.

Putin, Other Russian Elites, and Belarus Sanctioned

The U.S. [imposed](#) sanctions on Putin, as well as on Russia's Minister of Foreign Affairs Sergei Lavrov and Minister of Defense Sergei Shoigu. Putin joins a select group of foreign heads of state sanctioned by the U.S. including North Korean leader Kim Jong Un. The U.S. also [targeted](#) 10 members of the Russia's Kremlin-connected business elite, including five sons of senior Russian officials (who themselves were subject to sanctions).

Furthermore, due to Belarus' support for, and facilitation of, the Russian invasion, the U.S. [sanctioned](#) 24 Belarusian individuals and entities in the

financial and defense sectors including Belinvestbank (the fourth largest financial institution in Belarus) and Minsk Wheeled Tractor Plant (MZKT) (a leading Belarusian military company).

Impact on U.S. Businesses

Due to the new sanctions and export controls, as well as the evolving situation in the region, companies should consider reviewing their existing business activities involving Russia, Belarus, and Ukraine. Specifically, companies should consider taking the following steps:

- Review the classifications of all of their commodities, software, and technology (including non-U.S. entities who import or export such items), not only to identify items controlled under Categories 3 through 9 of the CCL, but also to identify potential foreign direct product rule issues
- Consider how they will make or receive payment for otherwise lawful Russia and Belarus-related business without running afoul of the financial sector sanctions
- Reassess procedures and due diligence steps to identify entities not specifically named on U.S. restricted parties lists but nonetheless subject to restrictions under the 50 Percent Rule
- Review and enhance strategies for identifying military end uses or end users in Russia and Belarus
- Ensure their transaction and export screening procedures are adequate in light of the new sanctions and export controls, including whether they flag major cities and ports of entry in regions subject to trade embargoes (Crimea and the Donetsk and Luhansk People's Republic separatist regions)

The U.S. and its allies have promised to continue to impose costs on Russia, if and as the conflict worsens. Thus, companies should continue to be prepared for swift changes to U.S. sanctions and export controls.

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