

## **Alert** | Export Controls & Economic Sanctions



May 2022

### **Update: UK Bans Exports of UK Professional Services to Russia and Includes Evraz plc on the UK Sanctions List**

On 4 May 2022, the UK government announced<sup>1</sup> a ban on UK persons or entities exporting certain professional services to Russia, prohibiting Russian businesses from benefitting from these services. The amendments to the UK sanctions regime have not yet been implemented, and a timetable for their introduction is not currently known. It remains to be seen whether and how this ban might impact intracompany services (such as accounting and management consulting) provided by a UK parent company to its Russian subsidiary, or will it instead be limited to arms-length non-affiliated service providers. In light of the tone of the announcement, however, the ban is expected to restrict the provision of such services, directly or indirectly, to persons connected with Russia or in Russia.<sup>2</sup>

The banned services include the provision of accountancy, management-consultancy and Public Relations (PR) services, reported to account for approximately 10% of Russian imports in these sectors. The new measures are targeted at Russia's reliance on Western services companies for the production and export of manufactured goods with the aim of "ratcheting up" economic pressure on Putin's siege economy. When making the announcement, UK Foreign Secretary Liz Truss commented that "*cutting Russia's access to British services will put more pressure on the Kremlin and ultimately help ensure Putin fails in Ukraine.*"

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<sup>1</sup> Russia cut off from UK services.

<sup>2</sup> As defined by Regulation 21.

The UK government also announced designations (asset freezes and travel bans) in relation to 31 people and 32 entities, following publication of a UK-funded research report, on 1 May 2022, exposing how the Kremlin is using a “*troll factory*” to spread lies on social media and in comment sections of popular websites.<sup>3,4</sup> This latest round of sanctions is largely targeted at Russian individuals and entities from mainstream media organisations considered responsible for disseminating destabilising disinformation about Ukraine, including justifying President Putin’s aggression against Ukraine.

Designated individuals include news correspondents connected with Russian state-owned TV-channel Channel One, as well as a number of war correspondents understood to be embedded with Russian forces in Ukraine. Designated entities include the All-Russia State Television and Radio Broadcasting, a major state-owned broadcaster; InfoRos, a news agency; and the Strategic Culture Foundation. The list of Russian and Belarussian individuals and entities sanctioned by the UK government now exceeds 1600.

These developments are consistent with a recent amendment to the UK sanctions regime, in force from 29 April 2022,<sup>5</sup> targeting internet services, social media accounts and app store companies responsible for content from RT (formerly Russia Today) and Sputnik.

### **Evrax plc**

On 5 May 2022, the UK government announced that it added Evrax plc,<sup>6</sup> the UK-incorporated holding company of the multinational steel manufacturing and mining group, to the UK’s consolidated list of asset freeze targets, prohibiting any UK person or entity from conducting any business with Evrax.

The Foreign Office stated that Evrax “*operates in sectors of strategic significance to the government of Russia,*” noting that Evrax produces “*28% of all Russian railway wheels and 97% of rail-tracks in Russia. This is of vital significance as Russia uses rail to move key military supplies and troops to the frontline in Ukraine.*” Roman Abramovich, a designated person since 10 March 2022, retains a 29% shareholding in Evrax and, at the time of his designation, the UK government alleged that Evrax was “*potentially supplying steel to the Russian military which may have been used in the production of tanks.*” Evrax denied this allegation and stated that it did not expect that it would be sanctioned as Abramovich did not have “*effective control*” of the company. It is notable that the allegation was not repeated in the announcement on 5 May 2022 nor within the designation.

This step follows the suspension of shares in Evrax on 10 March and indicates the UK government’s efforts and intent to use sanctions to further deter companies operating in strategic sectors in Russia.

A General Licence, issued by the Office of Financial Sanctions Implementation on 29 April,<sup>7</sup> has been granted permitting UK persons to continue with certain business operations involving the North American subsidiaries, specifically the following Evrax subsidiaries:

- Evrax North America plc;
- Evrax Inc. NA; and
- Evrax Inc. NA – Canada.

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<sup>3</sup> UK exposes sick Russian troll factory plaguing social media with Kremlin propaganda.

<sup>4</sup> Finance Sanctions Notice, Russia. Office of Financial Sanctions Implementation, HM Treasury, April 4, 2022.

<sup>5</sup> The Russia (Sanctions) (EU Exit) (Amendment) (No. 9) Regulations 2022.

<sup>6</sup> Russia: UK sanctions major manufacturer of Russian steel.

<sup>7</sup> General licence - INT/2022/1710676.

In summary, the General Licence enables a UK person or entity to continue business operations including, but not limited to, payments to or from the Evraz subsidiaries under any obligations or contracts, including payments to or from any third party; and receipt of payments made by the Evraz subsidiaries for audit services. The General Licence does not authorise any act which the person knows, or has reasonable grounds to know, will result in funds or economic resources being made available to a designated person.

## Conclusions

The latest raft of sanctions further restricts UK companies and service providers from conducting business in Russia and increases compliance obligations on such companies and service providers to ensure they do not fall foul of these new measures. However, the current UK measures do not come close to a comprehensive sanctions regime, and there remains significant room for further escalation of sanctions against Russia.

The government's ban on the export of these services is understood not to take effect for several weeks and, notably, does not prohibit the provision of legal (or other types of non-enumerated) services to Russian clients, subject to the prohibition on dealing with designated Russian persons or entities without a licence and other related restrictions. Practically, the announcement formalises the exodus of professional services companies from Russia, such as the "Big Four" accountancy firms, which had all, by 7 March, announced that they would be winding down their Russian business operations.

Under the various sanctions measures, UK persons are prohibited from all dealings, direct and indirect, with anyone named on the sanctions list, or anyone owned or controlled by a designated individual or entity. The assets of sanctioned individuals are frozen. Further the Russian government recently announced that until the end of 2022, Russian banks and financial institutions are allowed, under Russian law, to refrain from publishing certain information in order to avoid sanctions of so-called "unfriendly states," in particular as to ownership and control structure, officers and directors, as well as corporate restructuring.<sup>8</sup>

The international response to the Russia-Ukraine conflict has resulted in a rapidly changing sanctions landscape, and companies and organizations should continue to closely monitor communications/guidance from the authorities in the UK, as well as the United States, European Union and other relevant jurisdictions – particularly given the UK's urgent designation procedure.<sup>9</sup> Given the overlapping, but distinct, sanctions regimes at play, companies and organisations with dealings in the region should take into account the sanctions measures of all applicable jurisdictions.

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<sup>8</sup> Please note that this summary does not constitute legal advice under Russian law.

<sup>9</sup> In March 2022, the UK adopted an "urgent designation procedure" to enable the UK to designate individuals and entities, if they have been designated by the United States, European Union, Australia, Canada, and others, under a similar sanctions regime and the relevant UK government Minister considers it to be in the public interest to use this procedure. Such a designation remains for a maximum of 112 days, after which it will cease to have effect, unless certified by the Minister that there are reasonable grounds to suspect the person meets the criteria for designation under the UK sanctions regime.

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