

Alert | Export Controls & Economic Sanctions



October 2022

Incoming UK Sanctions on Professional Services

Go-To Guide:

- UK to ban providing professional services to Russia in key sectors.
- The sanctions intend to damage Russia's heavy reliance on imported Western services.
- Scope, timing, and potential impact of the new legislation not yet clear.

On 30 September the UK announced a series of significant additional sanctions in response to Russia's illegal annexations in Ukraine following internationally condemned sham referendums.

The latest sanctions will prohibit the provision of IT consultancy, architecture, engineering, advertising, auditing and certain transactional legal advisory services¹ by UK persons or entities to Russia, a move that will have a considerable impact on UK professional services firms. The measures bolster the existing sanctions on the provision of accounting services (which had expressly excluded auditing), business and management consulting, and public relations services directly or indirectly to "*persons connected to Russia*", which came into force in July 2022.²

The new legislation has not been implemented yet, and it is unclear when it will come into effect. While the precise scope of these sanctions is therefore unknown, it is expected they will have a broad impact on

¹ UK Press release: 'Sanctions in response to Putin's illegal annexation of Ukrainian regions,' 30 September 2022 (accessed 4 October 2022).

² See Russia (Sanctions) (EU Exit) (Amendment) (No. 14) Regulations 2022.

both Russian and domestic UK business, with UK businesses no longer able to provide services required by Russian businesses. As with previous legislation, “*persons connected with Russia*” (as defined in Regulation 21(2)) are likely to be covered – this will prevent the named services from being provided to persons (individuals and entities) ordinarily resident in Russia, located in Russia, incorporated under the law of Russia or domiciled in Russia – including persons temporarily outside the jurisdiction.

To further disrupt Russia’s supply chain and cut off Russia’s development from the rest of the world, the new UK measures will also ban the export of nearly 700 goods described as critical to Russia’s manufacturing sector and its industrial and technological capabilities. The ban likely will also cover the export of additional aviation products, electronic parts, and specific chemical substances, exports which the EU has announced it will ban in its eighth package of proposed sanctions, together with the provision of certain professional services.³ The proposed EU sanctions appear more aggressive than the UK measures, which also propose a prohibition on EU nationals sitting on governing bodies of Russian state-owned enterprises in efforts to prevent Russia from benefitting from European knowledge and expertise.⁴ Aggressive additional sanctions have also been recently announced by the United States, in a concerted effort to ramp up international pressure on President Putin, consistent with the multilateral measures imposed since the Russian invasion into Ukraine in February 2022.

Commentary

The purpose of sanctions on services is clear: cut off Russia’s economy – isolate its key industries and make President Putin too poor to fund the war in Ukraine. Sanctions also, while not intended to punish or impact the ordinary citizens and residents of a sanctioned country, can sometimes work to increase internal domestic pressure on a regime from its population who become frustrated with shortages or inconsistent supply of goods and services.

Russia imports 67% of its services, relying heavily on services by sanctioning countries.⁵ Estimates suggest 80% of Russian imports in accounting, audit, bookkeeping and tax consultancy come from the UK, EU and U.S.⁶ Notably, Russia imports 85% of its legal services from the G7 countries, with the UK accounting for 59% of that figure.

Interestingly, the new UK measures in respect of legal services will cover “*transactional legal services for certain commercial activity*” only.⁷ At the time of writing, no details on the exact legal activities this will cover have been released. However, it is expected that guidance will be updated and published alongside the regulations to assist businesses in their efforts to assess risk. Taking the recently implemented prohibition on the provision of business and management consultancy services as a comparison, the guidance defines and ties the provision of such services to the “Extended Balance of Trade Payment Services Classification” 2010 (EBOPS).⁸ On review, the “classifications” and “subclasses” detailed enable businesses to assess whether their business activities may fall within the prohibited services. For example, EBOPS classifies business and management services as “including advisory, guidance and operational assistance services provided to businesses for business policy and strategy and the overall planning,

³ European Commission, ‘[Press statement by President von der Leyen on a new package of restrictive measures against Russia](#),’ 28 September 2022 (accessed 4 October 2022).

⁴ European Commission, ‘[Press statement by President von der Leyen on a new package of restrictive measures against Russia](#),’ 28 September 2022 (accessed 4 October 2022).

⁵ Foreign, Commonwealth & Development Office et al., ‘[Sanctions in response to Putin’s illegal annexation of Ukrainian regions](#),’ 30 September 2022 (accessed 4 October 2022).

⁶ Foreign, Commonwealth & Development Office et al., ‘[Sanctions in response to Putin’s illegal annexation of Ukrainian regions](#),’ 30 September 2022 (accessed 4 October 2022).

⁷ Foreign, Commonwealth & Development Office et al., ‘[Sanctions in response to Putin’s illegal annexation of Ukrainian regions](#),’ 30 September 2022 (accessed 4 October 2022).

⁸ [Russia sanctions: guidance](#) (accessed 5 October 2022).

structuring or control of an organisation” – a lengthy and difficult definition to contend with. The subclass, however, identifies such activities as including the development of management reports and audits.

Notably, the new measures against the provision of professional services, particularly legal services, do not appear to go as far as those proposed in recent calls in Parliament. A Parliamentary debate on 22 September 2022⁹ called for the UK Government to prevent Russian state entities, such as Gazprom and VTB Bank, from using the UK courts to “*effectively conduct a form of lawfare against Ukraine*”. The rationale is that damages won by Russian entities in UK litigation will ultimately fund Russia’s invasion, thwarting the purpose, efforts and spirit of the UK sanctions regime against Russia. It was also proposed that there be further measures against UK law firms and banks which do not comply with existing sanctions regimes, with managing partners to be held individually accountable for their work should violations be found; and a direct prohibition on UK law firms representing entities in which Russia has a significant or controlling interest.

One dramatic deterrent proposed in Parliament calls for legislation that mandates “*all UK professional advisers*” who have dealt with a sanctioned person to provide their books to the authorities, in order to assist with tracking funds through complex shell companies.¹⁰ While such a draconian measure has not yet been introduced, a call for a crackdown on the apparent circumvention of sanctions regulations appears to be gaining traction globally. For example, the EU has announced it will list those who circumvent the regime by purchasing goods in the EU, shipping them to third countries and exporting to Russia from there. Participants from the G7, Australia and the European Commission also met as part of the Russian Elites, Proxies, Oligarchs (REPO) Task Force on 30 September to discuss joint efforts against Russian elites and their cronies for complicity in the Russia-Ukraine war, including to “*forfeit property used to facilitate sanctions evasion*.¹¹

Such proposals might adversely but unnecessarily limit the right to legal representation to contest government contentions. While intended for altruistic and humanitarian purposes, those purposes may be better served by freezing judgment awards or settlement amounts as blocked property so that the funds do not go to the benefit of the sanctioned Russian entities or individuals.

Conclusions

How the UK’s latest announcement of sanctions will be implemented and what the ramifications on UK professional services will be remain to be seen. Furthermore, as in previous rounds of UK sanctions implementation, there may be a significant lag between announcements and actual adoption of the sanctions measures. For example, in June 2022, the UK indicated it would introduce measures preventing Russia from accessing UK trusts services, a major element of the UK’s financial services. However, months later, the UK has failed to introduce such measures despite those restrictions already being imposed by the EU and U.S.¹² Further measures are likely to be implemented in future, but it is difficult to predict at what pace or whether the UK’s restrictions will catch up with the more onerous regimes imposed by its counterparts. It raises an interesting side note, which is by making the announcement, but without legislation following in quick succession, the UK effectively previews to the sanctions target (and would-be enablers and facilitators) what restrictions are coming and allows time for the target of

⁹ HC Deb 22 September 2022, vol 719, cols 908-920.

¹⁰ HC Deb 22 September 2022, vol 719, col 916.

¹¹ Department of Justice, Office of Public Affairs, ‘[Readout of Russian Elites, Proxies and Oligarchs \(REPO\) Task Force Deputies Meeting](#),’ 30 September 2022 (accessed 4 October 2022).

¹² Foreign, Commonwealth & Development Office, ‘[UK sanctions Russia’s second richest man](#),’ 29 June 2022) (accessed 4 October 2022).

sanctions to modify relationships, supply channels, goods and services providers, without facing sanctions enforcement actions. It also allows those acting in good faith and those committed to compliance with laws and sanctions in particular to begin to wind down relationships or transactions that may become impermissible once the measures are fully adopted. Historically, sanctions (particularly in the U.S.) are issued with an element of surprise to minimize the risk of asset flight, corporate restructuring, and other evasion techniques being deployed. Whether the delay between pronouncements and implementation impacts UK sanctions enforcement opportunities will be interesting to watch.

Authors

This GT Alert was prepared by:

- Annabel Thomas | +44 (0) 203.349.8700 | Annabel.Thomas@gtlaw.com
- Bethany Histed | +44 (0) 203.349.8700 | Bethany.Histed@gtlaw.com
- Gavin Costelloe | +44 (0) 203.349.8700 | Gavin.Costelloe@gtlaw.com
- Tina Kang | +44 (0) 203.349.8700 | Tina.Kang@gtlaw.com

Additional Contacts

- Erik de Bie | +31 20 301 7315 | Erik.deBie@gtlaw.com
- Kara M. Bombach | +1 202.533.2334 | bombachk@gtlaw.com
- Cyril T. Brennan | +1 202.533.2342 | brennanct@gtlaw.com

Albany. Amsterdam. Atlanta. Austin. Boston. Charlotte. Chicago. Dallas. Delaware. Denver. Fort Lauderdale. Germany.[~] Houston. Las Vegas. London.* Long Island. Los Angeles. Mexico City.^ Miami. Milan.» Minneapolis. New Jersey. New York. Northern Virginia. Orange County. Orlando. Philadelphia. Phoenix. Portland. Sacramento. Salt Lake City. San Francisco. Seoul.^ Shanghai. Silicon Valley. Tallahassee. Tampa. Tel Aviv.^ Tokyo.^ Warsaw.^ Washington, D.C.. West Palm Beach. Westchester County.

*This Greenberg Traurig Alert is issued for informational purposes only and is not intended to be construed or used as general legal advice nor as a solicitation of any type. Please contact the author(s) or your Greenberg Traurig contact if you have questions regarding the currency of this information. The hiring of a lawyer is an important decision. Before you decide, ask for written information about the lawyer's legal qualifications and experience. Greenberg Traurig is a service mark and trade name of Greenberg Traurig, LLP and Greenberg Traurig, P.A. ~Greenberg Traurig's Berlin office is operated by Greenberg Traurig Germany, an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. *Operates as a separate UK registered legal entity. +Greenberg Traurig's Mexico City office is operated by Greenberg Traurig, S.C., an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. »Greenberg Traurig's Milan office is operated by Greenberg Traurig Santa Maria, an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. ^Operates as Greenberg Traurig LLP Foreign Legal Consultant Office. ^Greenberg Traurig's Tel Aviv office is a branch of Greenberg Traurig, P.A., Florida, USA. #Greenberg Traurig's Tokyo Office is operated by GT Tokyo Horitsu Jimusho and Greenberg Traurig Gaikokuhojimubengoshi Jimusho, affiliates of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. ~Greenberg Traurig's Warsaw office is operated by GREENBERG TRAURIG Nowakowska-Zimoch Wysokiński sp.k., an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. Certain partners in GREENBERG TRAURIG Nowakowska-Zimoch Wysokiński sp.k. are also shareholders in Greenberg Traurig, P.A. Images in this advertisement do not depict Greenberg Traurig attorneys, clients, staff or facilities. No aspect of this advertisement has been approved by the Supreme Court of New Jersey. ©2022 Greenberg Traurig, LLP. All rights reserved.*