

U.S. – E.U. RUSSIA SANCTIONS AND THEIR IMPACT

February 28, 2022

I. Executive Summary

In response to the Russian invasion of Ukraine beginning on February 24, 2022, western allies, including the United States, Canada, the European Union's (EU) 27 member states and other countries, non-governmental organizations and others imposed escalating rounds of financial and other sanctions on the Russian Federation (Russia or Russian), including dozens of banks and financial institutions, other industrial enterprises and individuals, including Russian President Vladimir Putin and persons closely associated with him. Additional sanctions are almost certainly in store. Following is a review of the principal U.S. sanctions imposed to date and their probable impact.

II. U.S. Sanctions Imposed to Date and Impact

Most U.S. Sanctions on Russia to date are imposed by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) as directives under Executive Order (EO) 14024, although coordination with other U.S. departments and agencies is ongoing. In addition, individual U.S. states are imposing Russia sanctions, such as prohibiting sales of Russian products. As of February 28, OFAC sanctions, in most cases joined by the EU, France, Germany, Italy, the United Kingdom (UK) and Canada, include:

- On February 28, a freeze and prohibition on U.S. persons from engaging in transactions with the Russian Central Bank and the Russian National Wealth Fund, the principal Russian sovereign wealth fund and the Russian Ministry of Finance. The action immobilizes any Russian Central Bank and Russian National Wealth Fund assets held in the U.S. or by U.S. persons, whether within or without the U.S. and prevents any transactions that would result in such holdings.
- Also on Feb. 28, a freeze and prohibition on the Russian Direct Investment Fund (RDIF), another Russian sovereign wealth fund, its affiliated entities and its CEO, Kirill Dmitriev, a Putin ally. RDIF is a principal resource for Putin and his allies to raise funds abroad, and transactions involving RDIF are similarly frozen or prohibited for assets held in the U.S. or by U.S. persons within or without the U.S.

- On Feb. 26, a freeze and prohibition on transactions involving more than \$600 billion in Russian Central Bank reserves.
- On Feb. 25, a freeze or prohibition on transactions involving assets and property in the U.S. or in U.S. persons' possession and control, or entities owned (50% or more), directly or indirectly, by Putin, Russian Foreign Minister Sergei Lavrov and 11 members of the Russian Security Council.
- On Feb. 24, a freeze on and prohibition on transactions involving almost 90 of the largest Russian financial institutions, including Russia's two largest banks, Sberbank and VTB Bank, which collectively account for more than half of Russian bank assets. Russian financial institutions conduct approximately \$46 billion worth of foreign exchange transactions daily, 80% of which is denominated in U.S. dollars. Additional sanctions on Russian elites, as well as new prohibitions involving debt and equity of major Russian state-owned enterprises and privately owned financial institutions, were also announced. To attempt to avoid spikes and shortages in energy markets, particularly in the EU, several general licenses to the sanctions for energy suppliers were issued as carve-outs.
- On Feb. 22, a freeze and prohibition on transactions involving VEB Bank, a critical player Russian fundraising and PSB Bank, a critical player in Russia's defense sector, and 42 of their subsidiaries. Additional sanctions on transactions involving Russian sovereign debt and on Russian elites were also announced.

III. Other Significant Actions

- Extraordinarily, on Feb. 28, Switzerland announced a freeze on Russian financial assets in the country, setting aside its long history of strict neutrality and bank secrecy (Switzerland is not an EU or NATO member). Upwards of U.S. \$11 billion in Russian assets are believed to be held by Swiss banks. Switzerland also immediately froze the assets of Putin, Russian Prime Minister Mikhail Mishustin and Lavrov as well as the 367 Russian individuals sanctioned last week by the EU.
- On Feb. 28, Switzerland also closed its airspace to Russian registered, owned or operated aircraft, as have its EU neighbors, except for those on humanitarian or diplomatic reasons. Russian Foreign Minister Lavrov immediately canceled a planned trip to address the United Nations Human Rights Council in Geneva on Thursday.

- On Feb. 27, Equally extraordinarily, Germany set aside its long-standing post-war policy of not selling arms into active conflict zones, offering significant military aid to Ukraine.
- On Feb. 26, expulsion of leading Russian financial institutions (full list still being finalized) from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system, the critical communications network for interbank transactions of all sizes used by over 11,000 banks and financial institutions in over 200 countries.

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