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Canada announces fresh sanctions on Russia over actions in Ukraine

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On February 22, 2022, the Canadian federal government announced its intention to levy new economic sanctions on Russia. The sanctions are in response to Russia's recognition of two breakaway regions in Eastern Ukraine as independent and its deployment of military forces into the regions. The new sanctions, if enacted as announced, will prohibit Canadians and persons in Canada from engaging in most transactions and activities in the breakaway regions in Ukraine, transactions with two state-backed Russian banks, and transactions involving buying Russia's sovereign debt. Canada has stated that it will also sanction all members of the Russian State Duma (the lower house of its parliament) who voted in favour of the recognition. While at the time of writing the federal government has not yet announced a date for the sanctions to take effect, implementation is anticipated imminently.

This update includes a brief background on events in the region, the content of Canada's new sanctions, a high-level overview of Canada's existing sanctions on Russia and anticipated future developments.

Background

On February 21, 2022, Russian President Vladimir Putin recognized two breakaway regions in Eastern Ukraine — Donetsk and Luhansk, in the Donbas region — as independent territories, and ordered Russian forces to the territories to "maintain peace". This is the latest development in the region's growing destabilization that began in early 2014 with protests by pro-Russian, anti-government separatist groups and continued in March 2014 with Russia's occupation and formal annexation of the Crimean Peninsula. Following this annexation, pro-Russian separatists in the Donbas region held referendums and, despite calls from Ukraine and other Western countries contesting the referendums' legitimacy, declared independence from Ukraine. In the months following, violence increased as Russian-backed insurgents clashed with Ukrainian government forces.

By mid-2014, Russian-backed militants gained further control of significant portions of the Donetsk and Luhansk regions of Eastern Ukraine. While peace agreements were reached at talks in Minsk, Belarus in September 2014 and February 2015, tensions once again arose recently with a dramatic increase in Russia's military presence at its border with Ukraine. Ongoing diplomatic efforts for resolution, de-escalation and de-militarization in the area have so far been unsuccessful.

New sanctions on Russia

Based on the federal government's announcement, Canada's new sanctions on Russia will include the following:

- Canadians and persons in Canada will be prohibited from "all financial dealings" with the non-Ukrainian controlled areas of the Luhansk and Donetsk regions. These sanctions will effectively prohibit Canadians from engaging in specific transactions and activities in these regions, and will likely be similar in form to Canada's existing prohibition on dealings in the Crimea region of Ukraine.
- Canadians and persons in Canada will be prohibited from buying Russia's sovereign debt, including government bonds or other efforts by the Russian State to raise capital.
- Canadians and persons in Canada will be prohibited from entering into any dealings with two state-backed Russian banks: Corporation Bank for Development and Foreign Economic Affairs Vnesheconombank (VEB) and Promsvyazbank Public Joint Stock Company (PSB).
- Canada will sanction all members of the Russian State Duma who voted in favour of recognizing the independence of the Ukrainian territories. This amounts to more than 350 Russian politicians. Based on Canada's existing sanctions on designated Russian individuals, the new sanctions will likely include a freeze on assets in Canada and prohibitions on engaging in certain dealings with any such individuals, directly or indirectly.

Canada's existing sanctions on Russia remain in place

The new sanctions are an expansion of Canada's existing sanctions imposed upon Russia for its prior conduct in the region. Canada's existing sanctions on Russia are implemented under the *Special Economic Measures Act* (SEMA) Russia Regulations and Ukraine Regulations. Existing sanctions target certain designated persons (approximately 450 individuals and entities), and provide for restrictions on certain sectors such as the financial (e.g., new debt and equity financing for certain entities) and energy (e.g., oil exploration or production) sectors, as well as dealings in the Crimea region of Ukraine. These sanctions are expected to remain in place.

Canadians and persons residing in Canada who are conducting business in or around this region of the world should pay close attention to the existing and amended sanctions regime to ensure full compliance with all measures.

Anticipated future developments

As indicated above, though these sanctions have been announced, they have not yet been formally implemented. However, implementation of these measures is anticipated imminently and, as such, businesses should be poised to ensure compliance once the sanctions take effect. Prime Minister Trudeau has indicated that the sanctions will remain in place until "the territorial integrity of Ukraine is restored".

Given that Canada has indicated these measures were a "first round" of sanctions, that the conflict in Ukraine continues to develop, and that the West has ruled out taking on Russia militarily, additional sanctions against Russia may be levied in the future. Canada's allies,

including both the United States and the European Union, have announced sanctions mirroring those expected to be implemented in Canada, and have indicated that tougher sanctions are on the horizon. If Canada's allies take steps to impose tougher sanctions, it is expected that Canada will likely follow suit.

Osler's International Trade group is watching this rapidly developing area of law closely. If you require any assistance or have any questions regarding this or any matter regarding compliance with Canada's trade and sanctions regulatory regime, please contact a member of our team who would be happy to assist.