



How should you prepare for imminent economic sanctions against Russia?

Reports are that US and allied sanctions are likely to be adopted rapidly after any military action by Russia against Ukraine, and possibly sooner in the case of Russian cyberattacks. Russia's timing for potential action is unknown. Some sources used by major media are focusing on February 20 as a possible trigger date for Russian action or escalation. Analysts are predicting that Russia will not take action that might overshadow China's Olympic games which end on February 20. That date also coincides with the day that Russia and Ukraine's neighbor Belarus are due to complete a large military exercise. More recently, however, senior administration officials have warned that attack could happen at any time.

Why is the US likely to impose sanctions? Because arguably sanctions would be most crippling for Russia -- like penalties on major Russian banks or energy giants. But those sanctions could also translate into major damage to economies throughout the rest of the world by potentially spiking gas prices and hampering European trade and investment with Russia.

What is the current outlook on whether sanctions will be adopted?

- The Biden administration is promising to enact serious sanctions if Russia takes any military action against Ukraine, and the administration is working rapidly to prepare the necessary legislative and executive actions to take immediate action.
- Congressional authorization for US sanctions is expected to pass soon. The draft legislation is reported to be wide ranging and may include the imposition of sanctions even in the absence of a military invasion of Ukraine by Russia (particularly in the case of further cyberattacks against Ukraine that may be attributed to Russia).
- The US is closely coordinating with its allies including NATO, the EU and the UK, so companies in those locations are also likely to be impacted by sanctions.
- Importantly, these sanctions could have immediate effect, with little or no grace period for US companies to comply.

What could the sanctions look like?

The sanctions are likely to be targeted to a much wider range of Russian companies, products and persons than the prior sanctions adopted in 2014 after Russia took control over the Crimean Peninsula. New sanctions may target specific sectors and industries as well as following the general approach in the 2014 sanctions that named specific Russian officials, persons and companies (such as energy giant Gazprom).

- **Oil/Gas industries:** It was initially reported that the Biden administration does not plan to target Russia's enormous oil and gas export industry; however this may be changing as details of the potential sanctions program continue to be firmed up, particularly in view of recent reports regarding the potential for the Biden Administration to issue sanctions designed to impact the Nord Stream 2 gas pipeline from Russia to Germany. Administration officials are saying that no option is off the table.
- **Financial industry:** US sanctions are likely to target major Russian state owned and private banks, including the two largest Russian banks, Sberbank and VTB, both of which are majority state-owned. Consistent with previous sanctions programs, these sanctions are likely to stop any US bank from dealing with the Russian financial sector. This move could have far-ranging impacts on anyone engaged in or planning financial transactions with Russians,

lending to entities directly or indirectly owned by the Russian government, or holding Russian securities (including Russian sovereign debt). Some reports speculate that this may even result in the Russian financial sector being wholly cut off from global financial communications and payments mechanisms (such as SWIFT).

- **Technology and other commerce with Russia:** The administration is considering adopting commerce controls similar to the kind that the Trump Administration imposed on Chinese telecommunications company Huawei. Under these sanctions, the Commerce Department would prohibit US companies from providing technology (or other products/services) to those Russian individuals or companies that are under US sanction. The aim of these actions would be to cut off the supply chain needed by Russian companies to produce advanced technologies (such as semiconductors, quantum, biotech, AI) and in any other vector where Russian companies are dependent on US suppliers and business partners. This could also directly impact Russia's most strategic sectors (oil/gas, defense, etc.).
- **Russian owned and affiliated companies:** US sanctions are likely to also extend to non-Russian companies owned or controlled by one or more targeted Russian companies/persons, whether directly or indirectly. They may also extend to companies supporting Russia and its actions in Ukraine or targeted Russian companies/persons.

What should US companies, their affiliates (both within and outside the US) and key business partners be doing now?

- Identify all direct and indirect exposures to Russia, including existing and planned financial, service or product arrangements, Russian clients or key suppliers, treasury exposure to Russian currency or market fluctuations, as well as any personnel that may be located in or traveling/planning to travel to Russia.
- For each exposure, identify how action could be taken immediately to comply with possible sanctions; look for termination or suspension rights in legal agreements, as well as practicalities of how payments, product shipments, and interactions could be stopped (who are the right people to notify, are phone numbers known, who will handle possible government interactions, etc.).
- Assess whether there are reasonable alternatives for critical relationships.
- If there are significant exposures, consider contacting counsel to help assess options.

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