

CANADA CLAMPS DOWN ON SERVICES PROVIDED TO RUSSIA

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We provide further updates on the expansion of Canada's sanctions regime against Russia to cover a wide range of services, as well as a report on asset freezes and blocked transactions involving designated persons. This is the McMillan trade group's fifth bulletin on the topic since Russia's invasion of Ukraine in February 2022.^[1]

Sanctions Restricting Services Provided to Russia

On June 6, 2022, Canada imposed further sanctions on Russia by adding a new set of prohibitions to the *Special Economic Measures (Russia) Regulations* (the "**Regulations**").^[2] These sanctions were implemented in conjunction with additional sanctions by the United States and the European Union.^[3] Building on prior restrictions related to exports and imports of goods, Canada is now targeting the provision of many types of services.

The amendments prohibit any person in Canada or Canadian outside of Canada from providing a broad range of services for use in key natural resource industries to Russia, or any person in Russia (not just designated persons that are the subject of dealings prohibitions and asset freezes).

The Affected Industries

The seven affected industries are defined broadly by reference to the UN's International Standard Industrial Classification of All Economic Activities. They focus on the oil and gas, mining, and chemical manufacturing industries. According to Global Affairs Canada, these sectors account for approximately 50% of Russia's federal budget revenues.^[4]

The Affected Services

A broad list of 28 types of services are prohibited. They are defined based on the Provisional Central Product Classification, published by the United Nations in 1991. These are services that Canada considers vital to the operation of oil and gas, mining and chemical industries in Russia.^[5]

The prohibited services include various activities that are specific to these sectors, such as bulk storage services of liquids or gases; wholesale trade services of fuels and related products; and transportation of petroleum and

natural gas. They also include numerous other services, such as construction; engineering; accounting, auditing and bookkeeping; computer services; market research and public opinion polling; scientific, technical and management consulting; equipment rental and repair; and water transportation.

The prohibitions are effective immediately. There is no exemption for prior commitments or contracts entered into prior to the coming into force of the prohibitions. This means that the termination, force majeure and dispute resolution clauses in contracts will be of vital importance when discontinuing the supply of services that are no longer allowed to be provided.^[6]

The prohibitions are likely to have far-reaching impacts on Canadian entities, with particular risk to those with foreign operations or affiliates in Russia. For example, intercompany services provided by a Canadian entity to a Russian affiliate or to a franchise or distributor may be restricted. Employers should also be aware of the increased risk to Canadian employees (located anywhere in the world) engaged in the performance of such services for a person in Russia.

Royal Canadian Mounted Police (RCMP) Reports on Frozen Assets and Blocked Transactions

Canada's sanction regime requires Canadian financial institutions and other Canadians (anywhere in the world), as well as other persons in Canada, to report to Canadian enforcement authorities when they have possession of property of designated persons or are involved in certain transactions with, designated persons.^[7] There are currently 828 persons designated under the SEMA (Russia) Regulations, as well as 146 under the SEMA (Belarus) Regulations and 409 under the SEMA (Ukraine) Regulations.

While such information historically has not been released, the RCMP has published aggregate data on the reported impacts of Canada's sanctions on Russia. From February 24 to June 7, 2022, approximately C\$123 million in assets have effectively been frozen and approximately C\$289 million in transactions have been blocked.^[8] These amounts do not include property or transactions of persons designated under the Belarus or Ukraine Regulations.

The McMillan trade team expects that the economic impact of Russian sanctions is vastly higher, given the compliance actions taken by companies that will have avoided acquiring possession of property or engaging in activity giving rise to disclosure obligations.

McMillan LLP's international trade group continues to assist companies in evaluating and understanding the risks associated with Canadian sanctions. We advise leading Canadian and global companies and help ensure compliance with these changing rules.

[1] See our previous bulletins from [February 25, 2022](#), [March 4, 2022](#), [March 29, 2022](#), and [June 1, 2022](#).

[2] [Regulations Amending the Special Economic Measures \(Russia\) Regulations](#) (SOR/2022-215), amending

SOR/2014-58.

[3] See [Russia's aggression against Ukraine: EU adopts sixth package of sanctions](#), (June 3, 2022); [Export Administration Regulations: Revisions to Russia and Belarus Sanctions and Related Provisions; Other Revisions, Corrections, and Clarifications](#), (June 6, 2022).

[4] [Canada imposes sanctions on Russian oil, gas and chemical industries](#).

[5] [Canada imposes sanctions on Russian oil, gas and chemical industries](#).

[6] See [Robert Wisner, "Managing Supply Chain Disruptions: The Importance of Force Majeure and Dispute Resolution Clauses", McMillan LLP](#) (19 March 2022).

[7] See [Dr. A. Neil Campbell & William Pellerin, "Canada Ratchets Up its Sanctions in Response to the Russia-Ukraine Crisis", McMillan LLP](#) (4 March 2022).

[8] [Update on the reporting of frozen assets under the Special Economic Measures Act – Russia Regulations](#), (June 9, 2022).

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A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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