

CANADIAN SANCTIONS REVISITED: MORE RUSSIAN AND NEW IRANIAN SANCTIONS, INCLUDING PRICE CAP ON RUSSIAN OIL

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This is McMillan's seventh update on Canada's sanctions since Russia's illegal and unprovoked invasion of Ukraine earlier this year.^[1]

Since our last update, Canada has:

- sanctioned an additional 148 Russian individuals and 17 Russian entities, including Russian military officials, senior government officials, financial elites, and their family members, as well as defence sector entities;
- created a new prohibition on investing in, importing into, or exporting from the Russian-occupied regions of Kherson and Zaporizhzhia in Ukraine (applicable October 30, 2022 for pre-existing contracts);
- sanctioned an additional 35 Ukrainian individuals and one Ukrainian entity, the so-called government body in Kherson, rendering them subject to a dealings ban for their role in the illegal occupation of these territories;
- announced a sweeping new regime will be put in place to establish a price cap on Russian oil and petroleum exports; and
- imposed new sanctions on individuals and entities from Iran for the first time since 2016.

We discuss the proposed price cap regime as well as the new Iranian sanctions below.

G7 Price Cap on Russian Oil and Petroleum Products

Canada has previously implemented numerous sanctions on Russian oil and petroleum. For instance, Canadians and persons in Canada are prohibited from importing Russian petroleum,^[2] and are prohibited from supplying any goods to Russia that can be used in oil exploration or production.^[3] Canadians and persons in Canada are also prohibited from supplying various services to the Russian petroleum industry.^[4] Many Canadian allies maintain similar sanctions.

Despite these regimes, international demand has allowed for a relatively stable revenue stream for Russia. Western countries have struggled since the Russian invasion with reducing their dependence on Russian

energy – Russia’s main source of funding for its illegal war – while maintaining supplies and preventing substantial price increases and consequential inflationary pressures.

In early September, the G7 nations and the EU joined forces to design a price cap mechanism on Russian-origin crude oil and petroleum products.^[5] In effect, service providers will only be permitted to continue transacting in seaborne Russia oil and petroleum products so long as these products are sold at or below an agreed-upon price ceiling. By committing to a price cap, above which Russian oil and petroleum imports would be prohibited by each country, downward pressure should be applied on global energy prices while limiting funds needed by Russia for its war effort.

Preliminary guidance from the US Department of the Treasury indicates that this new regulation will effectively be structured as a ban, subject to an exception for products sold below the price cap. The guidance also indicates that the prohibition will take effect in the United States on December 5, 2022 with respect to crude oil and on February 5, 2023 with respect to petroleum products.^[6] The EU has agreed to match any price cap set by the G7 and plans to implement the ban on the same dates as the United States. No country has yet identified the applicable price cap levels, although we understand that technical assessments are ongoing, and that the US Office of Foreign Assets Control (“OFAC”) will issue additional guidance on how the level of the price cap will be published and updated.

Although Canada has yet to announce its implementation dates or measures, Canadian companies should take steps to prepare for the price cap ban on the expectation that Canada may implement it on the same dates as the G7 and EU. However, given Canada’s existing ban on imports of crude and refined petroleum products and prohibitions on supplying certain services to the Russian petroleum industry, the scope and impact of Canada’s price cap mechanism remains unknown.

Iranian Sanctions Refocused on Human Rights

Canada imposed sanctions against Iran in 2007 in response to the proliferation risks presented by Iran’s nuclear program, which failed to meet certain requirements of the International Atomic Energy Agency and failed to comply with the provisions of earlier UN Security Council resolutions.^[7] However, by 2015, Iran entered into a Joint Comprehensive Plan of Action with the five permanent members of the UN Security Council and Germany, which was endorsed by UN Security Council Resolution 2231 (2015). This led to a roll back of Iranian sanctions by Canada in 2015 and 2016.

Earlier this week, Canada announced sanctions against Iran prompted by the recent death of 22-year-old Mahsa Amini, who died while in custody of the Iranian “Morality Police” for allegedly wearing a hijab improperly. Canada further condemned Iran’s violence against civilian protestors and its own citizens, and its rejection of appeals from Canada and the international community to respect human rights.^[8]

Canada has added 25 individuals and 9 entities, including the Morality Police, to the dealings ban as a result of gross and systematic violations of human rights in Iran.^[9]

The Future of Sanctions in Canada

Canada's capacity to design and implement sanctions is growing. As a result, sanctions appear increasingly relied upon as a tool of political persuasion and reprimand. McMillan LLP's International Trade Group anticipates that new sanctions will continue to be applied by the Government of Canada to address diverse threats and issues.

Canadian and global companies should act diligently to evaluate the risks associated with Canadian sanctions. McMillan LLP remains committed to helping its clients ensure compliance with these changing rules.

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[1] [Canada Strengthens Its Economic Sanctions and Export Controls Against Russia and Supports Russia's Removal from SWIFT](#) (February 25, 2022); [Canada Ratchets Up its Sanctions in Response to the Russia-Ukraine Crisis](#) (March 4, 2022); [Canada Further Expands its Sanctions Regime Against Russia](#) (March 29, 2022); [Canada Expands Sanctions on Russia and Proposes Broad Legislative Changes to its Sanctions Regime](#) (June 1, 2022); [Canada Clamps Down on Services Provided to Russia](#) (June 13, 2022); [Services, Sensitive Technologies, Luxury Goods, Gold and Disinformation Sanctions – Plus a Forfeiture Regimes: Canada's Latest Responses to the Russian Invasion of Ukraine](#) (July 13, 2022)

[2] *Special Economic Measures (Russia) Regulations*, [SOR/2014-58](#), s. 3.5(1)

[3] *Special Economic Measures (Russia) Regulations*, [SOR/2014-58](#), s. 3.3(1).

[4] *Special Economic Measures (Russia) Regulations*, [SOR/2014-58](#), s. 3.10(1).

[5] Department of Finance Canada, [C7 Finance Ministers' Statement on the united response to Russia's war of aggression against Ukraine](#), 2 September 2022.

[6] US Department of the Treasury, [Preliminary Guidance on Implementation of a Maritime Services Policy and Related Price Exception for Seaborne Russian Oil](#), September 9, 2022.

[7] *The Regulations Implementing the United Nations Resolutions on Iran*, as amended, implement the decisions of the Security Council in Canadian domestic law.

[8] Global Affairs Canada, Canada Sanctions Related to Iran, [Recent Developments](#).

[9] *Regulations Amending the Special Economic Measures (Iran) Regulations*, [SOR/2022-205](#).

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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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