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Tax Alert – Canada

Government of Canada imposes new sanctions on Russia, ceases issuance of export permits for exports of goods to Russia

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 24 February 2022, the Government of Canada announced the imposition of additional sanctions under the *Special Economic Measures (Russia) Regulations*¹ and the *Special Economic Measures (Ukraine) Regulations*, in response to ongoing events in the Russia-Ukraine conflict. In addition, exports to Russia are restricted by halting new export permit applications and cancelling valid existing export permits, with certain exceptions.²

Background

In March 2014, the *Special Economic Measures (Russia) Regulations* (the Regulations) came into force in Canada, in response to political and diplomatic developments between the governments of Ukraine and Russia. The Regulations impose an asset freeze and dealings prohibition on designated persons listed in Schedule 1 of the Regulations, which include both individuals and entities. It is prohibited for any person in Canada and any Canadian outside Canada to:

- ▶ Deal in any property, wherever situated, held by or on behalf of a designated person whose name is listed in Schedule 1
- ▶ Enter into or facilitate, directly or indirectly, any transaction related to such a dealing

¹ SOR/2014-58. The Regulations were amended on 19 March, 21 March, 28 April, 4 May, 12 May, 21 June, 24 July, 6 August, 16 September and 19 December 2014; 17 February and 29 June 2015; 18 March 2016; 4 and 15 March 2019; 21 and 29 March 2021; and 24 and 28 February 2022.

² [Canada announces additional measures to support Ukraine | Prime Minister of Canada \(pm.gc.ca\)](https://pm.gc.ca). 24 February 2022.

- ▶ Provide any financial or other related services in respect of such a dealing
- ▶ Make any goods, wherever situated, available to a designated person listed in Schedule 1
- ▶ Provide any financial or related service to, or for the benefit of, a designated person listed in Schedule 1³

The Regulations also impose restrictions on certain sectors, such as the financial and energy sectors. With some exceptions, they prohibit any person in Canada and Canadians abroad from dealing in new debt of longer than 30 days maturity in relation to persons listed in Schedule 2 and 90 days maturity in relation to persons listed in Schedule 3. Additionally, the Regulations prohibit any person in Canada or Canadians abroad from dealing in new securities in relation to persons listed in Schedule 2.

The Regulations also prohibit the export, sale, supply or shipping of goods listed in Schedule 4, to Russia or to any person in Russia for their use in offshore oil (depth greater than 500m), shale oil or Arctic oil exploration and production. This includes a ban on the provision of any financial, technical or other services related to the goods subject to this prohibition.

Amendments to Canadian sanctions on Russia and new export controls policy on goods destined for Russia

In light of Russian recognition of the independence and sovereignty of the Luhansk People's Republic (LNR) and Donetsk People's Republic (DNR) regions in Ukraine, on 24 February 2022, Canada amended the Regulations *twice* to implement additional sanctions on Russia.

In the first instance, amendments were made in response to the Russian recognition of the independence and sovereignty of the DNR and LNR regions by adding:

- ▶ 351 individuals to Schedule 1⁴
- ▶ 2 entities to Schedule 1:
 - ▶ VEB
 - ▶ Promsvyazbank PJSC
- ▶ New prohibitions on Russian sovereign debt and new criteria for listing targets

In the second instance, amendments were made in response to the Russian military attack against Ukraine's territory in the DNR and LNR regions; 31 new individuals and 19 new entities were added to Schedule 1 of the Regulations. These are subject to a broad dealings ban. In addition, five entities included in the prior version of the Regulations were moved from Schedule 2⁵ to Schedule 1 and three entities previously listed in the Regulations were moved from Schedule 3 to Schedule 1 resulting in broader prohibitions imposed on these entities. Subsequently three entities (Central Bank of the Russian Federation, National Wealth Fund of

³ [Canadian Sanctions Related to Russia \(international.gc.ca\)](https://international.gc.ca), 24 February 2022.

⁴ SOR/2014-58, Schedule 1 - Persons, as amended by SOR/2022-0027 and SOR/2022-0029. On 28 February, 18 more individuals were added to this list by SOR/2022-0032.

⁵ SOR/2014-58, Schedule 2 - Entities, as amended by SOR/2022-0027 and SOR/2022-0029.

the Russian Federation, Ministry of Finance of the Russian Federation) were moved from Schedule 3.1 to Schedule 1 and Schedule 3.1 was repealed.⁶

The 30 entities added by SOR/2022-029 and SOR /2022-031 are accordingly the following:

- ▶ Sberbank
- ▶ VTB
- ▶ Russian Direct Investment Fund
- ▶ Eximbank of Russia
- ▶ Bank Otkritie Financial Corporation PJSC
- ▶ Novikombank JSCB
- ▶ Cetelem Bank
- ▶ Alfa-Bank
- ▶ Transkapitalbank PJSC
- ▶ Ural Bank for Reconstruction and Development
- ▶ Genbank
- ▶ Black Sea Bank for Development and Reconstruction
- ▶ Rostec
- ▶ Sovcombank
- ▶ Wagner
- ▶ Rostelecom
- ▶ RusHydro
- ▶ Alrosa
- ▶ Sovcomflot
- ▶ Russian Railways
- ▶ Gazprombank
- ▶ Gazprom
- ▶ Gazpromneft
- ▶ Transneft
- ▶ Russian Agricultural Bank
- ▶ Tactical Missiles Corporation
- ▶ United Aircraft Corporation
- ▶ Central Bank of the Russian Federation
- ▶ National Wealth Fund of the Russian Federation
- ▶ Ministry of Finance of the Russian Federation

⁶ SOR/2014-58, Schedule 3 - Entities, as amended by SOR/2022-0031.

Coupled with new sanctions, effective 24 February 2022, Global Affairs Canada (GAC) will halt the issuance of new permits for the export and brokering of controlled goods and technology to Russia. Furthermore, exporters with valid permits for the export or brokering of items to Russia issued prior to 24 February 2022 will have their permits immediately cancelled. Only permits and applications related to specific end uses such as medical supply and humanitarian needs may be considered for exception, on a case-by-case basis. GAC will continue to monitor the evolving situation and may reassess measures as events develop.⁷

On 28 February 2022, the Government of Canada announced it will ban crude oil imports from Russia. Canada currently does not import any crude oil from Russia, and has not since 2019, but the import ban will ensure this remains the case going forward. The import ban will, once approved, be effective until further notice. The Government of Canada is also taking steps to identify additional petroleum products that may be included in the import ban.⁸

Impact

Both importers and exporters in Canada will need to review their supply chains and ensure they are compliant with the amended Canadian sanctions on Russia; sanctions may be added or removed as the situation evolves.

Exporters in particular will need to assess whether any GAC-issued export permits they possess for shipments to Russia have now been invalidated and review potential risks for diversions of export shipments to Russia or to sanctioned persons and entities. Businesses should take steps to ensure their Restricted Party screening procedures are updated to comply with this latest round of sanctions.

Learn more

For more information, please contact your EY or EY Law advisor or one of the following EY Global Trade professionals:

Sylvain Golsse

+1 416 932 5165 | sylvain.golsse@ca.ey.com

Mike Cristea

+1 416 932 4432 | mihai.cristea@ca.ey.com

Denis Chrissikos

+1 514 879 8153 | denis.chrissikos@ca.ey.com

Traci Tohn

+1 514 879 2698 | traci.tohn@ca.ey.com

⁷ [Notice to Exporters and Brokers - Export and Brokering of items listed on the Export Control List and the Brokering Control List to Russia \(international.gc.ca\). 24 February 2022.](#)

⁸ [Government of Canada Moves to Prohibit Import of Russian Oil \(canada.ca\). 28 February 2022.](#)

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