

REGULATORY INTELLIGENCE

G7 increases sanctions pressure on Russia over war in Ukraine

Published 15-Jun-2023 by
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This year's G7 summit was held amid a tense macro-political and macro-economic background. Tensions with China concerning the potential flashpoint of Taiwan, risks to the G7's supply chains at home and accusations of Chinese economic coercion abroad held much of the leaders' attention, further signalling that storm clouds are on the horizon. It was, however, the maelstrom of Russia's invasion of Ukraine and the economic turbulence left in its wake that dominated the club's discussions for the second year running.

Meeting in Hiroshima, the G7 advanced a three-pronged response to the war in Ukraine. The first of the group's tasks at the summit was to communicate continued resolve and cohesion, signalling to the Kremlin that efforts to drive a wedge between the G7's members last year regarding energy supplies had failed.

The second objective was to commit to continued support for Ukraine, ensuring that Kiev has the resources it needs to continue to govern in the near- to mid-term, while concurrently committing material, military support, not only to bolster the Ukrainian spring counter-offensive but also to strengthen the Ukrainian position in the longer term, as is evident in the United States' commitment to train Ukrainian pilots to fly American-made F-16s. The third dimension of the G7's approach confronts Russia directly with the aim of shifting the strategic landscape to Ukraine's favour, principally by way of increasing sanctions pressure on the Kremlin and its supporters.

Sanctions

The G7 Leaders' Statement on Ukraine [affirms](#) the majority of G7 countries and Australia issuing a series of coordinated sanctions to increase the cost of Russian aggression in Ukraine and to work toward a "free and democratic future" for the people of Ukraine.

With regards to additional sanctions, the G7 pledged to further limit Russia's access to national economies and take action on the Russian energy sector by applying further export bans, as well as more price caps on crude oil and refined products originally sourced from Russia. The day before the G7 Summit, the United States [released an assessment](#) detailing the impact of the oil price cap, highlighting that oil revenues in Russia had decreased by 40% between January to March 2023 compared with the same period in 2022.

G7 countries also have Russian-origin rough and polished diamonds in their sights, including those that are mined or produced in Russia. Sanctions were not announced, but G7 countries indicated that they would look to restrict trade in diamonds "mined, processed, or produced in Russia" and would explore diamond-tracing technologies, likely to prevent future sanctions evasion. It remains uncertain if and when these future coordinated measures would be announced.

G7 leaders indicated that they would take additional steps to prevent access by Russia to sectors that are essential to Russia's war machine, restricting exports to industrial machinery, tools and other technology. The G7 said its members would designate natural and legal persons operating in manufacturing, construction, transportation and business services as well as companies that engage in the transportation of supplies to the front. The leaders said they would continue to engage via the Russian Elites, Proxies, and Oligarchs (REPO) Task Force to coordinate measures and increase their impact.

During the G7 Summit, Canada, the UK, the United States and Australia released a new set of sanctions, while the EU is negotiating its 11th package of sanctions against Russia. The UK [indicated](#) that it would introduce legislation in 2023 to ban Russian-origin diamonds, copper, aluminium and nickel. [Canada](#), the [United States](#) and the [UK](#) also released alerts to allow firms to detect sanctions evasion and Russian-linked money laundering activities. The UK recently released a [list of Common High Priority Items](#) sourced from the West that are critical to Russia's "weapons systems and its military development".

Sanctions circumvention was also a central area of focus, and the G7 pledged to counter the evasion of sanctions, including the evasion of oil price caps. G7 members also indicated that they would act against third parties providing arms, and material support and financing to Russia, including branches of Russian banks operating in third countries that facilitate the circumvention of sanctions. G7 countries said they would work through the Enforcement Coordination Mechanism (ECM) to increase the effectiveness of measures.

Non-proliferation financing

With nuclear non-proliferation a priority of the summit's Japanese hosts, and Russia's President Vladimir Putin refusing to rule out the use of nuclear weapons, the G7 leaders issued the [G7 Leaders' Hiroshima Vision on Nuclear Disarmament](#), which should be considered in the context of proliferation financing. The issuance of the statement emphasised the importance of counter-proliferation financing (CPF) risk assessments and work by regulated firms in monitoring suspicious payments linked to the development and shipment of nuclear weapons.



The statement places emphasis on nuclear disarmament, [clearly stating](#) the leaders' commitment to "achieving a world without nuclear weapons with undiminished security for all". The statement [further emphasises](#) that the G7 "affirm that a nuclear war cannot be won and must never be fought".

The G7 reaffirmed that full and rigorous implementation of sanctions by all states must occur if North Korea continues to develop weapons of mass destruction (WMDs) and test ballistic missiles. Additionally, all countries must implement [UNSCR 2231](#), which endorses the Joint Comprehensive Plan of Action (JCPOA) as a solution to "the Iranian nuclear issue".

The statement further stressed the need for transparency concerning the management of civil plutonium, and that plutonium for military programmes should not be produced under the façade of civilian programmes. It also made clear the need to adopt the International Atomic Energy Agency's Guidelines for the Management of Plutonium ([INFCIRC 549](#)).

G7 leaders also [committed](#) to managing stocks in highly enriched uranium for civil purposes "with the same sense of responsibility as the plutonium covered by these guidelines" and committed to reducing "the production and accumulation of weapons-usable nuclear material for civil purposes around the world". In the summit's communiqué, the leaders welcomed steps to "strengthen effective and responsible export controls", also recognising the importance of multilateral export control regimes to reduce the proliferation of nuclear weapons.

Sanctions risk management and CPF risk assessment

As sanctions measures become increasingly complex, firms should ensure that they have an adequate level of resourcing to manage sanctions risks, queries and potential matches and alerts. Firms should also ensure that staff working in the sanctions arena are receiving the correct type and level of training to properly understand sanctions exposures, and that front office staff are also aware of the risks and methods used to circumvent sanctions.

Firms should ensure that their sanctions policies, processes and procedures remain up-to-date and agile to allow firms to quickly address emerging industries and products covered by sanctions. Firms should also be carrying out regular assurance on sanctions, including systems testing, to make sure that, as sanctions are announced, they are immediately addressed.

Firms should review the G7 statement and incorporate any new identified risks into their counter-proliferation financing (CPF) risk-assessment. They should consider including financing of activities related to nuclear materials, including for civil purposes as being potentially higher-risk.

They should also ensure that they are aware of customers who work in the provision of materials as well as those who support the extraction, transportation and provision of materials that can be used to support civilian nuclear weapons programmes. This includes mining companies that operate in countries rich with plutonium and uranium.

Enhanced due diligence and transaction monitoring should be carried out and firms should adopt enhanced measures to ensure compliance with international sanctions and detect attempted sanctions evasion activity.

About the authors

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Produced by Thomson Reuters Accelus Regulatory Intelligence

15-Jun-2023



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