The EU's 18th Sanctions Package Against Russia

A Full-court Press on Moscow's Economic Foundations

EU – July 2025

On 18 July 2025, the European Union adopted its 18th package of restrictive measures against Russia, reinforcing its long-standing policy response to the war in Ukraine.

This new package marks a notable escalation in both scope and enforcement mechanisms, aiming not only to degrade Russia's economic capacity but also to close loopholes used for circumvention, particularly through maritime routes, third-country intermediaries and financial service networks.

This package is wide ranging and multilayered, introducing restrictions on energy infrastructure, stricter price caps on Russian oil, banking and investment funds, military-industrial suppliers, and individuals or entities complicit in the war effort or human rights violations. New legal mechanisms also shield EU jurisdictions from abusive investment treaty claims filed by sanctioned Russian entities.

Energy Sector

Nord Stream 1 and 2 – Total Transaction Ban: Article 5af

The newly inserted Article 5af imposes a comprehensive prohibition on any transaction related to the Nord Stream 1 and Nord Stream 2 pipelines. This includes not only the transport of gas but any involvement in their maintenance, financing, technical support or future commercial exploitation. This provision is aimed at permanently neutralising both assets as viable instruments of geopolitical influence.

Derogations under Article 5af allow for narrowly defined exceptions where necessary to prevent environmental hazards or fulfil preexisting legal obligations, provided these are notified to the commission and do not undermine the regulation's intent. These safeguards ensure the pipelines remain effectively decommissioned, with no realistic path to reactivation, even if political conditions were to shift.

Oil Price Cap Reform – A Dynamic Enforcement Mechanism: Article 3n

The prior static cap on Russian crude oil shipped by sea, fixed at US$60, has been lowered to US$47.6 under Article 3n, and is now governed by a new dynamic pricing mechanism established under Article 3n.

This dynamic mechanism ensures that the cap is recalculated every six months to reflect 15% below the average market price of Urals crude during a predefined reference period. Article 3n mandates the European Commission to publish updates to this cap, ensuring transparency and adaptability.

Transitional provisions under Article 3n provide a 90-day grace period for preexisting contracts. This gives traders time to adjust supply chains and pricing mechanisms, while avoiding unintended contract breaches or retroactive penalties.

Maritime Circumvention and Energy Measures

To curb persistent efforts to evade sanctions via maritime channels, the EU has taken decisive steps against Russia's so-called "shadow fleet": a network of vessels engaged in opaque or deceptive practices to transport restricted goods. The 18th Sanctions Package significantly expands the blacklist of such vessels by adding 105 ships to the list in Annex XVI to Council Decision 2014/512/CFSP, bringing the total number of designated vessels to 444. These ships are implicated in the covert shipment of Russian crude oil, the transport of military equipment, and in some cases, the carriage of stolen Ukrainian agricultural products. The designations restrict the listed vessels from entering EU ports and locks, and from receiving services tied to maritime logistics, insurance or brokerage within the union. However, three liquefied natural gas (LNG) tankers were removed from the sanctions list following commitments to cease operations linked to sanctioned Russian projects, illustrating a willingness to reassess in good faith where compliance is demonstrated.

Importantly, the package also targets entities associated with or facilitating the operations of the shadow fleet. This includes measures against international flag registry services, which enable vessels to mask their Russian ties, and Nayara Energy, an Indo-Russian oil refining company, closely tied to Rosneft, reflecting the EU's willingness to extend pressure to non-EU actors who play a critical role in laundering or redistributing sanctioned commodities. In a symbolic but unprecedented move, the EU has also sanctioned the captain of a designated vessel, indicating a personal accountability dimension to enforcement efforts.

The regulation also introduces a significant new restriction on the import of refined petroleum products processed in third countries using Russian crude oil. Under Article 3ma(1), as of 21 January 2026, it is prohibited to purchase, import or transfer petroleum products derived from Russian-origin crude, even if refined outside Russia. This measure addresses a well-documented loophole whereby Russian oil was rebranded and imported into the EU under the guise of third-country origin. To ensure compliance, importers must provide evidence of the origin of the crude oil used in the refining process unless the product originates from "partner countries" applying equivalent restrictions. These include Canada, Norway, Switzerland, the UK and the US, as identified in the new Annex LI.

Moreover, the council has terminated the temporary derogation previously granted to the Czech Republic, effectively ending the country's ability to import Russian crude oil via pipeline as of 1 July 2025 (Article 3m). This change reinforces the EU's commitment to a uniform phasing-out of Russian energy imports across member states.

Together, these measures mark a tightening of the EU's energy sanctions architecture, closing critical loopholes, increasing personal and institutional accountability, and signalling a readiness to sanction actors across the global supply chain that enable Russia's sanctions evasion.

Financial Sector – New Transaction Bans and Software Controls

Banking Restrictions Deepen

The EU has substantially escalated its financial restrictions against Russia through a series of new measures aimed at severing the remaining arteries of financial support for the Kremlin's war effort. Most notably, the regulation imposes a full transaction ban on 22 additional Russian credit and financial institutions, which are now listed in Annex XIV of Regulation (EU) No 833/2014. This complements earlier removals of key Russian banks from the SWIFT financial messaging system and reflects a broader intent to isolate the Russian financial system, not just from Western markets, but from the global capital network altogether. These institutions are deemed crucial to Russia's regional and federal finances, cross-border payment facilitation, and financial operations in occupied Ukrainian territories.

In a significant widening of enforcement scope, the package also targets third-country financial institutions and crypto-asset service providers that have been significantly frustrating the purpose of EU sanctions. Under Article 5ad(1), new prohibitions apply to non-EU entities that support Russian financial resilience, especially those that process transactions or provide export financing tied to sanctioned trade. This includes entities linked to Russia's System for Transfer of Financial Messages (SPFS) – an alternative to SWIFT developed by the Russian Central Bank. Entities using SPFS or similar services are now subject to a transaction ban under the revised Article 5ac, with such entities designated in the newly created Annex XLIV. These measures explicitly recognise that SPFS is not merely a domestic workaround but a strategic tool used by Russia to evade Western financial restrictions and shield its international trade.

Targeting the Russian Direct Investment Fund: Article 5ag

The EU has also sharpened its focus on the Russian Direct Investment Fund (RDIF), a state-controlled vehicle used to funnel foreign currency and sustain war-related economic activity. The RDIF, its subsidiaries, and several significant investment targets are now under a blanket transaction ban. The regulation defines a "significant investment" as one tied to state policy objectives or critical sectors such as banking, energy, defence or advanced technology. Four affiliated companies have already been listed in Annex XLIX, and additional sanctions apply to any financial or investment service provider aiding the fund, as reflected in Annex L. Derogations exist for transactions strictly necessary for the purchase of medical or pharmaceutical goods, or for the wind-down of business in Russia until 31 December 2026.

Software Prohibitions: Article 5n

Lastly, the package includes a prohibition on the sale, supply, transfer and export of software used in enterprise management, industrial design, and the banking and financial sector. These software bans are intended to erode the technological infrastructure that enables the operation of Russian institutions and industrial sectors. A transitional provision allows execution of preexisting contracts involving certain banking-related software until 30 September 2025, but the overall goal is to sever Russia's access to key Western-developed digital systems, thereby impeding both financial management and long-term industrial resilience.

To Summarise

Taken together, the amendments:

- Sever residual correspondent-banking channels for ruble clearing and sanctions evasion
- Lock RDIF – a key conduit for defence-linked inward investment – out of EU capital markets
- Deny Russian state entities the enterprise and banking software needed to modernise treasury, payment and risk-management systems

Military-Industrial Infrastructure

The EU has significantly intensified its efforts to undermine Russia's military production capabilities by reinforcing export controls and expanding the list of sanctioned entities. Under the 18th Sanctions Package (Regulation (EU) 2025/1494), the EU has added 26 entities to the Annex IV list of legal persons and bodies that support Russia's military-industrial complex, thereby subjecting them to tightened restrictions on the export of dual-use goods and advanced technologies. Notably, 11 of these entities are based in third countries, including China, Hong Kong and Turkey, which highlights the growing sophistication and geographic spread of Russia's sanctions circumvention networks. This marks a notable evolution in EU sanctions policy, as it explicitly targets non-Russian actors that facilitate military procurement on Russia's behalf.

In tandem with these designations, the EU has expanded the scope of Annex VII to Regulation (EU) No 833/2014 to include a wider array of goods and technologies deemed critical to arms production. These additions include computer numerical control (CNC) machines and specific constituent chemicals for propellants, which are essential to the development of weapons systems and munitions. The inclusion of these items reflects a targeted approach to cutting off Russia's access to precision manufacturing and explosive materials.

Beyond Russia, the EU has also taken action against eight Belarusian firms that play a role in supporting the Russian military-industrial infrastructure. These entities have been sanctioned in recognition of Belarus's ongoing logistical and industrial support for Russia's war efforts. Further bolstering the regime, the EU has extended its existing transit bans to include additional categories of machinery, chemicals, metals and plastics, which are considered economically significant and potentially usable in the construction and transport sectors. These changes aim to minimise the risk that such goods are rerouted via Russian territory to evade restrictions.

In sum, this tranche of sanctions reflects a coordinated and granular strategy to impede Russia's access to critical industrial inputs and to deter third-country actors from contributing, knowingly or otherwise, to the continuation of its war economy. The European Commission estimates the value of newly restricted exports under this package to exceed €2.5 billion.

Entity Listings and Circumvention Controls

While the regulation does not directly list new entities in Annex IV to Regulation (EU) No 833/2014, the strengthened controls create a compliance environment where national competent authorities are empowered to target any exporter suspected of facilitating diversion to Russia or Belarus. These changes significantly tighten oversight of transactions involving high-risk goods and jurisdictions.

Compliance Implications

Exporters of goods listed in Annex VII (Council Regulation (EU) 2025/1494) or Annex Va (Council Regulation (EU) 2025/1472) must immediately:

- Implement due diligence mechanisms to detect diversion risks through third countries
- Monitor notifications from national authorities regarding suspicious counterparties
- Review all pending and new transactions for exposure to high-specification machinery, chemical compounds and precision manufacturing tools

Listings – Expanding the Target Base

The package includes 55 new designations: 14 individuals and 41 entities. These include actors involved in the deportation and indoctrination of Ukrainian children, propaganda dissemination, and cultural suppression in occupied territories.

This brings the total number of listings under the EU sanctions regime to over 2,500.

Legal and Procedural Innovations

To prevent the circumvention of EU sanctions against Russia via third countries, the EU has introduced a "catch-all" administrative mechanism. It allows the member state authorities to require prior authorisation for the export of advanced technology items listed in Annex VII of Regulation (EU) No 833/2014, even when they are not being directly exported to Russia. An identical mechanism was also created to prevent circumvention against the EU's Belarus sanctions (see Regulation (EC) No 765/2006, Annex Va).

This applies if the exporter has been informed by the authorities in member states in which it is resident or "established" that the items may ultimately be destined for Russia, used in Russia, or intended for Russian entities, even indirectly. Use of this mechanism is optional and discretionary for member states and operates alongside the existing ban on indirect exports to Russia.

Investor-state Arbitration Shield

To protect against spurious arbitration claims, new legal safeguards have been introduced. These include:

- Nonrecognition of international judgments arising from disputes tied to sanctions
- Damage recovery rights for EU member states
- Jurisdictional clarifications to ensure claims cannot be brought in non-EU forums against EU sanctions

Impact and Strategic Context

Economic Toll on Russia

The EU reports a near 80% drop in Russia's oil and gas revenues since 2022, from €100 billion to €22 billion. Inflation remains near 10%, despite a 100-basis point policy rate cut. Delinquency rates in household and corporate debt are rising, and the Russian state has drawn deeply on its National Wealth Fund to finance its deficit.

Exports of critical goods, machinery, chemicals and electronics have collapsed. The economy's productive capacity is shrinking even as wartime demand rises.

Geopolitical Signalling

The sanctions reflect both a legal commitment to Ukraine's sovereignty and a strategic message: Russia's efforts to evade sanctions through third countries or digital workarounds will be met with legal, financial and reputational penalties.

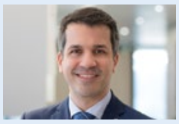
Takeaways for Businesses and Practitioners

- **Risk review** – Firms must reassess exposure to RDIF-backed ventures, shadow fleet logistics and any flagged financial operators in third countries.
- **Compliance reinforcement** – Export control frameworks should be updated to incorporate the new "catch-all" risks, especially where high-risk goods or partners are involved.
- **Software and services** – Tech providers should immediately review contracts with Russian clients for potential exposure under the new software bans.
- **Legal positioning** – Multinational investors should consider the legal protections and arbitration defences now embedded in EU regulations.

This package reinforces that message: circumvention will be punished, third-country facilitators will be held accountable, and the cost of Russian aggression will remain high and rising.

Contacts

José María Viñals
Partner, Madrid/Brussels
T +34 91 426 4840
T +34 649 133 822
E josemaria.viñals@squirepb.com



Diego Sevilla Pascual
Senior Associate, Brussels
T +322 627 7612
E diego.sevillapascual@squirepb.com

Tigran Piruzyan
Senior Associate, Madrid
T +34 618 017 354
E tigran.piruzyan@squirepb.com

Jimena Machado
Associate, Madrid, Spain
T +34 91 426 4850
E jimena.machado@squirepb.com

Ana Morales
Associate, Madrid, Spain
T +34 91 426 2682
E ana.morales@squirepb.com