



RUSSIAN CONTRACTS AIMED AT CIRCUMVENTING SANCTIONS

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This **ADVISORY NOTE** is produced by the Australian Sanctions Office (ASO) to inform the regulated community of a developing issue presenting significant sanctions risk. It provides a summary of relevant sanctions laws but does not cover all possible sanctions risks. Users should consider all applicable sanctions measures and seek independent legal advice. This document should not be used as a substitute for legal advice. Users are responsible for ensuring compliance with Australian sanctions laws.

As Russia's illegal and immoral war against Ukraine continues, Russian businesses are increasingly seeking to use contractual mechanisms to protect their supply chains and businesses from the impact of global sanctions against Russia, including those imposed by Australia.

TACTICS USED BY RUSSIAN BUSINESSES

Russian enterprises may adopt specific strategies when conducting business with Australian counterparts due to Australian-imposed sanctions. Australian businesses should remain informed of these considerations and thoroughly assess potential sanctions-related risks when engaging with Russian entities. High risk behaviour includes:

- Insisting on anti-sanctions clauses in contracts, or refusing 'force majeure' or illegality clauses.
- Expressly providing that the laws of a country where sanctions on Russia are present are not the governing law applicable to the contract.
- Using brokers to conduct the financial transactions, or the transfer of physical goods.
 - Contracts may be named in the name of an intermediary (such as a broker or intermediaries) with aide agreements managing the real ownership of transfer of benefits.
- Using layered contracts, (known as back-to-back agreements), where a front-end contract is with a non-Russian entity, and a back-end agreement is between the non-Russian entity and a Russian or other sanctioned entity.
- A contractual requirement that payment occurs through alternative currencies to the Australian or US dollar, such as Chinese Yuan, Indian Rupee, or the Russian Ruble.
- Non-monetary payments – essentially proposing a barter payment for goods and services to avoid formal banking services or SWIFT.

Other red flag indicators of behaviour consistent with sanctions circumvention

- If the Russian business has transferred its operations to a third country outside Russia, including the UAE, Kazakhstan, Armenia, or Turkey.
- The ownership (both direct and through beneficial ownership structures) has been transferred from a sanctioned individual or entity, to a non-sanctioned individual or entity. This includes:
 - Using offshore shell companies,

- Rebranding the company under new names, logos or public facing structures.

Risk to Australian Businesses

- Entering into contracts with Russians or Russian businesses could result in legal risk for Australian businesses, including sanctions risk, litigation risk and risk of adverse Russian court decisions being enforced against business interests and holdings in foreign jurisdictions friendly to Russia and that do not recognise Australian sanctions on Russia.
- The ASO recommends Australian business apply additional legal scrutiny to contracts involving Russians or Russian businesses, and seek legal advice on their potential sanctions exposure, and other risks.

Further information and resources

While this advisory note provides a framework for understanding key sanctions risks and compliance requirements, it is essential to remember that it does not cover every possible scenario. Sanctions compliance is an ongoing obligation rather than a one-time assessment. Sanctions measures and associated risks are constantly evolving, requiring regulated entities to continuously monitor and reassess their compliance strategies. Australian regulated entities are encouraged to seek independent legal advice tailored to their specific situations and ensure thorough due diligence in all activities.

We recommend users also refer to the following resources to assist in their evaluation of sanctions risks:

- [Sanctions Compliance Toolkit](#)
- [Sanctions Risk Assessment Tool](#)

Further information is available on the [Department's website](#), or by making an enquiry to sanctions@dfat.gov.au.