Observatoire ARGA

ARGA Atlas

SECONDARY SANCTIONS: CHAINS OF LIABILITY, INTERMEDIARIES, AND EXTRATERRITORIAL PRESSURE

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Purpose of the document:

This report examines secondary sanctions as a distinct form of sanctions pressure in which legal and compliance risk is transferred from the primary target to third parties, intermediaries, financial institutions, service providers, and other entities involved in transactions, supply chains, payment infrastructure, or corporate support. Its purpose is to show that secondary sanctions are not merely "additional sanctions," but a mechanism of extraterritorial coercion that converts another party's sanctions toxicity into the recipient's own legal, banking, and operational risk, even where the recipient is formally outside the original designation. In official Treasury and OFAC materials, U.S. authorities repeatedly state that foreign financial institutions and other non-U.S. persons may face consequences for knowingly conducting or facilitating significant transactions for designated persons or sanctioned sectors, while the European Union continues to treat extraterritorial third-country sanctions as a threat to EU operators and maintains the Blocking Statute as a protective instrument. FATF, for its part, described in 2025 the use of intermediaries, obscured beneficial ownership, technological channels, and maritime and shipping structures as key sanctions-evasion typologies. It is at the intersection of these regimes that the modern zone of maximum risk emerges. (U.S. Department of the Treasury)

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1. EXECUTIVE SUMMARY

Secondary sanctions operate through a logic of indirect coercion. Formally, the sanctioning state or authority imposes consequences not only on the primary target, but also on third parties that continue interacting with that target in certain ways. In official U.S. practice, this is especially visible with respect to foreign financial institutions: Treasury repeatedly states that such institutions may risk sanctions if they knowingly conduct or facilitate significant transactions for designated persons or in support of specified sanctions priorities, including, for example, Russia's military-industrial base or other sanctions-sensitive networks. The consequences may include prohibitions or strict conditions on opening or maintaining correspondent accounts or payable-through accounts in the United States. (U.S. Department of the Treasury)

The practical effect of secondary sanctions is much broader than the formal text of the rule. Even where direct secondary sanctions have not yet been imposed, the threat of their use already changes behavior. Banks, brokers, insurers, logistics providers, commodity traders, corporate service firms, and technology intermediaries start acting in advance. For that reason, the main force of secondary sanctions often lies in anticipated exposure rather than merely in final designation. That anticipatory logic is what makes them such an effective pressure tool in transnational and corporate conflicts. (U.S. Department of the Treasury)

The central conclusion is that defense against secondary sanctions must be built not only around the question whether the client is directly prohibited from acting, but around the chain of involvement: significance of the transaction, the knowledge standard, the role of intermediaries, opacity in ownership and control, correspondent exposure, trade routing, shipping patterns, beneficial ownership, and compliance signaling. Secondary sanctions rarely punish only the obvious center of the scheme. They are designed precisely to make the periphery police itself. That, for defense, is usually the least charming part. (U.S. Department of the Treasury)

2. WHY THIS ISSUE HAS LEGAL AND INTERNATIONAL SIGNIFICANCE

This issue matters because secondary sanctions disrupt the standard intuition that sanctions are simply a direct prohibition imposed on a direct target. Here, sanctions risk arises for a participant who may not be a designated person, but who occupies such a position within the chain that its conduct is characterized as knowing facilitation, support for a significant transaction, intermediary activity, shipping assistance, payment handling, trade routing, or other material support. As a result, the risk perimeter expands outward from the sanctioned person to the broader commercial ecosystem around that person. (U.S. Department of the Treasury)

Its international significance is heightened by the fact that secondary sanctions are extraterritorial in practical effect. Even where their formal legal basis lies in domestic U.S. authorities, the operational impact falls on foreign banks, non-U.S. corporates, shipping actors, insurers, commodity networks, and service providers outside the sanctioning state. That is why the European Union continues to treat extraterritorial sanctions as a strategic problem and maintains the Blocking Statute to protect EU operators from the effects of such third-country legislation, while the Commission's 2026 planning materials expressly refer to protecting EU operators from risks caused by extraterritorial sanctions imposed by third countries. (Eur-Lex)

The issue is especially important in corporate and financial conflicts because secondary sanctions transform ordinary due diligence into a system of intensive self-restraint. Wherever there is even a hint of a nexus with a sanctioned ecosystem, private actors often prefer withdrawal to analysis. That means secondary sanctions function not only as public enforcement, but as a market-wide coercive incentive structure. In other words, their force lies not only in law, but in the fact that legal fear scales efficiently through banks and intermediaries. (U.S. Department of the Treasury)

3. NORMATIVE AND INSTITUTIONAL FRAMEWORK

In the U.S. framework, secondary sanctions appear through various statutory and executive authorities implemented by OFAC and Treasury. Official Treasury press releases regularly state that participating foreign financial institutions may face secondary sanctions where they knowingly conduct or facilitate significant transactions on behalf of certain designated persons or in support of specified sanctioned conduct. Treasury also states that OFAC can prohibit or impose strict conditions on the opening or maintaining in the United States of correspondent accounts or payable-through accounts of such foreign financial institutions. This is the central operational mechanism of secondary sanctions in financial practice. (U.S. Department of the Treasury)

For Russia-related matters, Treasury and OFAC in 2024 and 2025 also published guidance and advisories for foreign financial institutions regarding support to Russia's military-industrial base, while press materials repeatedly warned that non-U.S. persons, including foreign financial institutions, could face sanctions for knowingly facilitating significant transactions for blocked persons or sensitive sectors. These official signals have not only informational but behavioral significance: they set market expectations and compliance thresholds well beyond the four corners of any single designation notice. (U.S. Department of the Treasury)

On the European side, the main counter-mechanism remains Council Regulation (EC) No 2271/96, the EU Blocking Statute. According to its official text and EUR-Lex summaries, Regulation 2271/96 is intended to protect against and counteract the effects of the extraterritorial application of certain third-country legislation. In associated materials, Article 5 is framed around the rule that covered persons shall not comply, directly or through intermediaries, with specified extraterritorial laws unless authorized. In 2026, the Commission separately confirmed that it would continue implementing the Blocking Statute to protect EU operators from extraterritorial sanctions risks. That does not eliminate real market fear, but it does show that secondary sanctions are also a sovereignty conflict, not merely a compliance issue. (Eur-Lex)

From the perspective of global risk architecture, FATF's position is important. In 2025, FATF published its report on complex proliferation-financing and sanctions-evasion schemes, identifying four major typologies: use of intermediaries to evade sanctions, concealment of beneficial ownership information, use of virtual assets and other technologies, and exploitation of maritime and shipping sectors. This is critical for understanding secondary sanctions because it is precisely these chains of intermediaries and opaque structures that create the field in which secondary exposure becomes plausible and commercially devastating. (fatf-gafi.org)

4. KEY MECHANISMS OF PRACTICE AND APPLICATION

The first mechanism is correspondent-account leverage. Secondary sanctions often bite through access to the U.S. financial system rather than by immediately placing every participant under full blocking sanctions. Where Treasury states that a foreign financial institution may face restrictions on opening or maintaining U.S. correspondent or payable-through accounts, the threat is not theoretical. For many institutions, loss or restriction of U.S. correspondent access is itself a near-systemic commercial shock. Therefore, even partial secondary-sanctions exposure may radically alter institutional behavior. (U.S. Department of the Treasury)

The second mechanism is knowledge-plus-significance analysis. Official formulations repeatedly refer to institutions that knowingly conduct or facilitate significant transactions. This means that secondary sanctions are not built purely on accidental adjacency, but they also do not always require the kind of final judicial proof of bad faith that laypeople imagine. In practice, the dispute often centers on what the institution knew, should have recognized, documented, ignored, or escalated internally, and whether the transaction pattern was significant in context. This is where many defensive structures fail, especially those built around the phrase, "but we were not the direct party." (U.S. Department of the Treasury)

The third mechanism is intermediary capture. FATF's typologies make clear that sanctions evasion frequently relies on intermediaries, obscured beneficial ownership, virtual assets, and maritime layers. From a secondary-sanctions perspective, that means the intermediary is not just collateral scenery. It may become the main point of enforcement focus, especially where the primary target is already isolated and the real regulatory value lies in deterring the facilitation network around it. (fatf-gafi.org)

The fourth mechanism is signaling enforcement. Treasury press releases themselves often function as part of the sanctions tool. When Treasury announces that it will leverage all tools, including secondary sanctions, or warns foreign financial institutions to be on notice, it is not merely recording a legal fact. It is shaping market behavior in advance. Secondary sanctions thus operate partly through formal authority and partly through explicit regulatory signaling aimed at inducing self-policing by the private sector. (U.S. Department of the Treasury)

5. TYPICAL SCENARIOS AND MODELS OF USE

The first typical scenario is the foreign-bank facilitation case. A foreign bank is not itself directly sanctioned, but continues servicing transactions, trade-finance flows, payment chains, or account structures that benefit a designated person or a sanctioned sector. If Treasury views those transactions as knowing and significant, the bank may face secondary exposure through correspondent-account restrictions or related measures. In such cases, the main battlefield is often the factual and compliance record, not abstract legal theory. (U.S. Department of the Treasury)

The second scenario is the shipping and commodities chain. FATF's 2025 report specifically identifies maritime and shipping sectors as typologies used in sanctions-evasion schemes, while U.S. Treasury actions in 2024 through 2026 repeatedly targeted oil-smuggling, shadow-fleet, or procurement-related networks across multiple jurisdictions. In that environment, charterers, managers, insurers, brokers, port-service actors, and commodity intermediaries may all face secondary-sanctions-sensitive scrutiny even if none of them appears as the obvious headline actor. (fatf-gafi.org)

The third scenario is the technology and routing network. Treasury's public actions against Russia-related and other networks have repeatedly targeted sprawling evasion structures across numerous jurisdictions, and OFAC guidance has warned that providing services involving specified military-industrial bases may expose foreign financial institutions and other non-U.S. actors. Here, secondary sanctions are used not just to punish a central node, but to raise the cost of every surrounding service layer. (U.S. Department of the Treasury)

The fourth scenario is the EU operator conflict. A European company or bank may simultaneously face U.S. secondary-sanctions pressure and EU Blocking Statute obligations. In that position, the operator may be pulled in opposite legal directions: comply with U.S. expectations and risk EU-law issues, or resist and risk U.S. financial-system exposure. This is one of the clearest illustrations that secondary sanctions generate not only compliance burden, but a direct conflict of legal orders. (Eur-Lex)

6. MAIN RISKS, CONFLICT ZONES, AND PROBLEM POINTS

The first risk is false comfort derived from non-designation. Participants in a chain often assume that if they themselves are not listed, there is no risk. Secondary sanctions exist precisely to make that assumption dangerous. In many real settings, the practical question is not "are you sanctioned today," but "are you participating in a pattern that makes you sanctionable or commercially untouchable tomorrow." (U.S. Department of the Treasury)

The second risk is opacity in intermediaries and beneficial ownership. FATF identifies obscured beneficial ownership and intermediary use as central typologies in sanctions-evasion schemes. This means that weak beneficial-ownership mapping and superficial counterparty screening create direct secondary-sanctions vulnerability. Where structural opacity exists, innocence is not a compliance system. It is a future regulatory problem in polite clothing. (fatf-gafi.org)

The third risk is overreaction by private actors. Even where the formal threshold for secondary sanctions may not yet be met, banks and service providers may still disengage because Treasury's signaling and strict enforcement climate make nuance commercially unattractive. Thus, a client may suffer account closures, service withdrawals, and transactional paralysis before any official secondary measure is imposed. Secondary sanctions therefore generate both legal exposure and anticipatory market exclusion. (U.S. Department of the Treasury)

The fourth risk is conflict of laws. EU operators may face incompatible expectations between U.S. extraterritorial sanctions pressure and EU Blocking Statute obligations. This does not merely complicate legal advice; it can make full compliance with one side appear as a violation risk on the other. Such cases require not generic geopolitical commentary, but precise jurisdiction-by-jurisdiction analysis of exposure, authorization possibilities, reporting obligations, and damage containment. (Eur-Lex)

7. INTERNATIONAL AND EUROPEAN STANDARDS AND LIMITS

At least five stable reference points emerge from the official sources. First, U.S. Treasury openly uses and signals secondary sanctions against foreign financial institutions and other non-U.S. participants in certain significant transactions. Second, correspondent-account restrictions remain one of the central operational levers of such measures. Third, FATF identifies intermediary use, concealment of beneficial ownership, technological channels, and maritime sectors as major sanctions-evasion typologies. Fourth, the EU Blocking Statute formally aims to protect EU operators against the extraterritorial application of specified third-country laws. Fifth, the European Commission continues to treat extraterritorial sanctions risk as a live policy issue in 2026. Together, these points show that secondary sanctions are not a marginal doctrinal curiosity. They are a functioning transnational governance mechanism. (U.S. Department of the Treasury)

But those same materials also reveal the limit. Secondary sanctions are not infinitely automatic. Official U.S. formulations still refer to standards such as knowingly and significant transaction, which means factual context matters. On the EU side, the Blocking Statute does not magically remove market fear or neutralize dollar-access exposure. On the FATF side, typologies illuminate risks but do not themselves decide liability in an individual case. Accordingly, defense must work with evidence, nexus, transaction mapping, counterparty knowledge, and jurisdictional conflict management, not slogans. (U.S. Department of the Treasury)

8. PRACTICAL CONCLUSIONS AND A LEGAL-RESPONSE MODEL

The first practical task is secondary-sanctions mapping. One must determine whether there is a U.S. nexus in enforcement terms, whether exposure exists through correspondent banking, which counterparties or sectors are in scope, what role the client plays in the chain of facilitation, and where transaction significance may arise. Without that map, defense becomes a blend of hope and irritation, which is not a recognized legal methodology. (U.S. Department of the Treasury)

The second task is an intermediary and beneficial-ownership file. FATF's 2025 typologies make clear that intermediaries and obscured ownership are central to sanctions-evasion detection. Counsel should therefore prepare a structured file on beneficial ownership, control, payment routing, shipping chains, service roles, contractual purpose, and chronology of knowledge. This is not merely AML housekeeping. In a secondary-sanctions case, it is often the spine of survival. (fatf-gafi.org)

The third task is to separate legal exposure from market reaction, but manage both. A client may be legally arguable and still be commercially collapsing. Banks may exit before regulators act. Service providers may disengage before any final determination. Accordingly, defense must include both

formal legal analysis and proactive market-facing risk management. Otherwise the client may "win" the doctrinal point after losing every practical channel of operation. (U.S. Department of the Treasury)

The fourth task is a conflict-of-laws strategy for EU operators. Where the client is an EU person, counsel must assess Blocking Statute implications, possible authorizations, reporting and documentation needs, and the real commercial exposure to U.S. measures. This is not a field for simplistic speeches about sovereignty. It is a field for careful damage containment between incompatible legal pressures. (Eur-Lex)

The fifth task is sanctions-sensitive governance. Boards, compliance committees, treasury functions, and transaction-approval chains need documented escalation rules where secondary-sanctions risk appears. Treasury's public signaling shows that regulators expect institutions to notice red flags and act on them. In this environment, undocumented ambiguity is not flexibility. It is a future exhibit. (U.S. Department of the Treasury)

9. CONCLUSION

Secondary sanctions are best understood as a mechanism for exporting enforcement pressure through networks rather than merely against named targets. They shift the center of gravity from the sanctioned person alone to the surrounding commercial, financial, shipping, technology, and intermediary ecosystem. That is why they are so effective. They convert someone else's designation into everyone else's compliance problem. (U.S. Department of the Treasury)

The main conclusion is brutally practical. In secondary-sanctions matters, one must analyze not only who is listed, but who is exposed through facilitation, significance, knowledge, routing, correspondent access, and extraterritorial pressure. Defense must be built around transaction mapping, intermediary control, beneficial-ownership clarity, conflict-of-laws strategy, and preservation of market stability. If this is not done, the system will very quickly explain that the client was not the direct sanctions target. And that is exactly why everything was already lost. (European Commission)

APPENDIX A. TERMINOLOGY

Secondary sanctions. Sanctions measures or threats of measures directed at third parties, including foreign financial institutions and other non-U.S. actors, for knowing facilitation of or significant dealings connected with designated persons or sanctioned conduct. (U.S. Department of the Treasury)

Correspondent-account sanctions leverage. The use of access to U.S. correspondent or payable-through accounts as a pressure instrument against foreign financial institutions. (U.S. Department of the Treasury)

Intermediary exposure. Secondary-sanctions risk arising for an intermediary, service provider, or other chain participant that materially facilitates a sanctions-sensitive transaction pattern. (fatf-gafi.org)

Blocking Statute. EU Regulation 2271/96, intended to protect EU operators against specified extraterritorial third-country legislation and its effects. (Eur-Lex)

Sanctions-evasion typologies. Typical sanctions-evasion schemes, including intermediaries, obscured beneficial ownership, virtual assets, and maritime/shipping exploitation, identified by FATF in 2025. (fatf-gafi.org)

APPENDIX B. MATRIX OF RISKS / POWERS / LEGAL CONSEQUENCES

Foreign financial institution facilitation.
Legal risk: knowingly conducting or facilitating a significant transaction for a designated person or sensitive sanctioned activity.
Legal limit: official U.S. formulations focus on knowledge and significance.
Consequence: correspondent-account restrictions or other secondary exposure.
Practical note: build transaction-by-transaction significance analysis. (U.S. Department of the Treasury)

Opaque intermediary chain.
Legal risk: the use of intermediaries and obscured beneficial ownership triggers sanctions-evasion suspicion.
Legal limit: FATF typologies show why intermediaries are a central enforcement focus.
Consequence: enhanced scrutiny, bank exits, possible secondary-designation risk.
Practical note: prepare ownership and routing documentation before the institution is asked for it under pressure. (fatf-gafi.org)

Shipping / maritime route.
Legal risk: maritime and shipping structures are used to facilitate sanctions-sensitive trade.
Legal limit: FATF and Treasury materials treat this sector as high-risk for evasion.
Consequence: operational disruption, insurer withdrawal, payment refusal, exposure escalation.
Practical note: integrate cargo, vessel, ownership, charter, and payment-chain evidence. (fatf-gafi.org)

EU operator conflict.
Legal risk: exposure to U.S. extraterritorial pressure and EU Blocking Statute obligations simultaneously.
Legal limit: the Blocking Statute aims to protect EU operators but does not erase market exposure.
Consequence: conflict-of-laws pressure and compliance paralysis.
Practical note: analyze authorization, reporting, banking exposure, and damage mitigation together. (Eur-Lex)

Signaling-driven de-risking.
Legal risk: private actors withdraw based on Treasury warnings before any formal secondary action reaches the client.
Legal limit: not every signal equals immediate liability, but market behavior changes fast.
Consequence: anticipatory exclusion from services and financial channels.
Practical note: manage both legal exposure and market narrative. (U.S. Department of the Treasury)

OFFICIAL SOURCES

- U.S. Treasury / OFAC press releases and guidance concerning foreign financial institutions and secondary sanctions. The main official source on how Treasury describes secondary-sanctions exposure for foreign financial institutions and other non-U.S. actors. (U.S. Department of the Treasury)

- OFAC / Treasury Russia-related guidance for foreign financial institutions. Important for understanding how secondary-sanctions risk is communicated in practice, especially around support to Russia's military-industrial base. (U.S. Department of the Treasury)

- Council Regulation (EC) No 2271/96 and related EUR-Lex / Commission materials. The key European framework for protecting EU operators from the extraterritorial effects of specified third-country legislation. (Eur-Lex)

- FATF 2025 report, *Complex Proliferation Financing and Sanctions Evasion Schemes*. The main international source on intermediary typologies, beneficial-ownership concealment, virtual assets, and maritime and shipping evasion patterns. (fatf-gafi.org)

- FATF Recommendations, as amended October 2025. The baseline standard-setting background for understanding the broader global framework on proliferation financing and targeted financial sanctions. (fatf-gafi.org)