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Committee Secretary
Foreign Affairs, Defence and Trade References Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600
AUSTRALIA

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Dear Committee Secretariat,

Thank you for the opportunity to provide input into the inquiry on the effectiveness of Australia's sanctions against the Russian Federation.

KordaMentha is an advisory firm specialising in complex commercial challenges, including financial crime, restructuring, forensic analysis, and regulatory compliance. Our work across Australia and internationally involves detailed analysis of corporate structures, trade and vessel-financing arrangements, and sanctions-related due diligence for clients operating in high-risk sectors.

Drawing on our experience, we offer observations on the practical effectiveness of Australia's sanctions regime against the Russian Federation since February 2022. While the framework is broadly consistent with international partners, we have identified key structural challenges particularly in relation to beneficial ownership (BO) transparency, vessel-screening requirements, and the absence of investigatory powers that materially constrain enforcement outcomes.

Australia's sanctions operate within a context of limited trade exposure to Russia which represents only a small portion of Australia's trade profile prior to 2022. Consequently, the direct economic impact of Australian sanctions alone is modest compared to measures imposed by the EU, UK and US, where Russia had significantly greater commercial engagement. Nonetheless, Australia's sanctions carry symbolic and diplomatic value, even though their practical economic impact is inherently constrained.

While Australia's legal framework is robust, its enforcement capability is comparatively limited. Overseas partners (e.g. OFAC in the US and OFSI in the UK) possess substantial investigatory powers and well-resourced enforcement units. In contrast, the ASO's reliance on partner agencies for investigation weakens Australia's ability to detect and respond to breaches. Further, additional guidance and expectations over beneficial ownership and vessel monitoring would assist in identifying efforts by Russian actors to evade sanctions, strengthening Australia's overall response.

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Beneficial Ownership and Complex Ownership Structures

One of the most significant challenges in enforcing sanctions against Russian entities is the prevalence of opaque, multi-layered ownership structures. Russian companies and individuals linked to the Russian state increasingly restructure their commercial arrangements using:

- third-country intermediaries
- shell companies
- nominee shareholders
- subsidiaries incorporated across multiple jurisdictions
- contracts denominated in alternative currencies
- layered supply chains that obscure origin or control

This restructuring enables sanctioned entities to remain active in the global economy while evading sanctions. From an Australian perspective, the challenge is not the legality of these activities (which remain prohibited when they involve sanctioned persons, materials and/or activities) but rather the difficulty of detection. Once beneficial ownership is masked across several jurisdictions, it becomes increasingly difficult for Australian firms and Australian authorities to reliably determine whether an entity is sanctioned or controlled by a sanctioned person. The absence of robust BO transparency requirements creates a structural weakness that sanctioned Russian networks can exploit.

Adopting an approach aligned with AUSTRAC's KYC requirements, particularly the explicit expectations to determine beneficial-ownership, third-party controls, and heightened oversight for high-risk jurisdictions would materially uplift the quality and consistency of sanctions-related due diligence. This would establish clearer, more prescriptive standards and would close common loopholes exploited to obscure true ownership, reduce compliance ambiguity for industry, and significantly limit the ability of sanctioned entities to penetrate Australian financial and commercial systems through opaque structures or intermediary arrangements. Though many industry players in Australia are regulated by AUSTRAC and therefore need to undertake the steps set out here, Australian sanctions laws extend beyond the industries covered by the AML / CTF Act and Rules. Building the requirements for BO due diligence into the ASO's regime would strengthen effectiveness of the sanction's regime.

Lack of Transparency and Guidance on Vessel Screening Requirements

A further challenge relates to vessel-based sanctions compliance, including the identification of vessels owned, controlled, or operated by sanctioned persons.

There is currently:

- limited guidance on screening expectations relating to vessels involved in trade with Australia.
- uncertainty around the treatment of ship-to-ship transfers, reflagging, ownership changes, and chartering arrangements.
- minimal transparency around relevant maritime risk indicators (e.g., Automatic Identification System (AIS) manipulation, shadow fleet associations, high-risk registries).

Australian exporters, importers, financiers, and insurers are often unsure of what constitutes adequate due diligence. In practice, this results in significant compliance variability across industry and increases the risk of inadvertent breaches.

Publishing clearer, operationally focused guidance on minimum vessel-screening standards including expectations for registry verification, ownership-change monitoring, AIS behaviour analysis, high-risk port interactions, and indicators of “shadow fleet” activity would directly improve industry’s ability to detect and mitigate sanctions-evasion risks. This would drive greater consistency and uplift in private-sector due diligence, reduce inadvertent exposure to illicit maritime practices, enhance early-warning capabilities across the supply chain, and ultimately strengthen the integrity and enforceability of Australia’s maritime sanctions framework.

Absence of Investigatory Powers for ASO

While Australia’s sanctions legislation is comprehensive, the ASO currently lacks investigatory powers. As a result, potential breaches must be referred to the Australian Federal Police (AFP), which may not always have the capacity, resources, or specialised sanctions expertise necessary to pursue complex financial crime investigations.

This creates an enforcement gap even where breaches are suspected, there may be no mechanism to trace transactions, examine ownership structures, or follow maritime supply chain networks.

The lack of investigatory authority also means that the ASO cannot compel information or audit compliance, tools on which comparable agencies in the US and UK heavily rely.

Granting the ASO investigatory powers or establishing a dedicated sanctions-investigations capability within an agency like AUSTRAC with clear referral and information-sharing pathways would significantly strengthen Australia’s ability to detect, disrupt, and deter sanctions non-compliance by closing a current enforcement gap. This shift would create a more proactive, intelligence-led enforcement posture, reducing reliance on voluntary disclosures or incidental findings, improving the consistency and timeliness of investigations, and increasing the credibility and effectiveness of Australia’s sanctions regime.

Limited Australia–Russia Commercial Engagement

It is worth noting that prior to Russia’s 2022 invasion of Ukraine, Australia’s direct trade and financial engagement with Russia was already minimal.

Australia’s sanctions regime therefore functions primarily as:

- a demonstration of alignment with key allies (US, UK, EU);
- a contribution to broader coordinated multilateral pressure.
- a signalling mechanism reinforcing Australia’s international commitments.

These roles are valuable, but they do not translate into substantial independent economic leverage.

Australia’s sanctions against the Russian Federation are principled and aligned with global efforts. However, their practical effectiveness is limited by structural barriers that hinder detection and enforcement particularly in relation to beneficial ownership, vessel screening and investigatory capability.

Addressing these challenges would significantly improve Australia’s capacity to enforce sanctions, support international coordination and uphold the credibility of its sanction’s framework.

Thank you for considering this submission. KordaMentha welcomes the opportunity to engage further with the ASO on these matters.

Yours sincerely,



Rachel Waldren
Partner

