UNICREDIT BANK GMBH V CELESTIAL AVIATION SERVICES LTD

[2026] UKSC 10

KEY TAKEAWAYS:

1. UK sanctions regulations "cast a wide net" and, as in this case, can catch letters of credit that were entirely lawful when issued but subsequently restricted by amendments.
2. The phrase "in connection with" requires a factual, not a causal, connection.

ISSUE

Whether the obligation of a bank to make payments under various letters of credit was prohibited by a UK sanction imposed on Russia, until licenses to do so were obtained.

FACTUAL BACKGROUND

The Appellants leased civilian aircraft to two Russian airlines. Letters of credit were issued as security for obligations under the leases. Payments under the letters of credit were to be made by the Respondent, the London branch of a German bank, to the Appellants. Shortly after regulation 28(3)(c) (see right) was amended to encompass certain civilian goods, including critical-industry goods such as aircraft, the Appellants terminated the leases and demanded the return of the aircraft. However, most aircraft continued to be used in Russia without the Appellants' consent and in breach of the lease terms. The Appellants demanded that the Respondent pay them under the letters of credit. The Respondent did not immediately pay but applied for licences to do so. The Appellants commenced proceedings, in which the following issues were raised: (i) whether the obligation of the Respondent to make payments under letters of credit was prohibited by regulation 28(3)(c) until licences to do so were obtained; and (ii) the interpretation of section 44 Sanctions and Anti-Money Laundering Act 2018 (see below).

REGULATION 28

Russian (Sanctions) (EU Exit) Regulations 2019 (SI 2019/855)

(3) A person must not directly or indirectly provide financial services or funds in pursuance of or in connection with an arrangement whose object or effect is - ...

(c) directly or indirectly making restricted goods or restricted technology available -

(i) to a person connected with Russia, or

(ii) for use in Russia.

(as amended with effect from 1 March 2022)

SECTION 44
Sanctions and Anti-Money Laundering Act (SAMLA) 2018

Protection for acts done for purposes of compliance

(1) This section applies to an act done in the reasonable belief that the act is in compliance with -

(a) regulations under section 1, or

(b) directions given by virtue of section 6 or 7.

(2) A person is not liable to any civil proceedings to which that person would, in the absence of this section, have been liable in respect of the act.

(3) In this section "act" includes an omission.

FIRST HIGH COURT JUDGMENT
[2023] EWHC 663 (Comm)
Regulation 28(3)(c)

The Appellants were successful in the High Court. The Judge identified the purpose of regulation 28(3)(c) as being "to ensure that financial assistance was not provided to Russian parties in relation to, inter alia, the supply of aircraft."

The Judge reasoned that the payments under the letters of credit were outside the purpose of regulation 28(3)(c) as the supply of the aircraft had occurred long before the prohibition came into effect. He held that regulation 28(3)(c) did not prohibit the Respondent from making payments to the Appellants under the letters of credit.

SECOND HIGH COURT JUDGMENT
[2023] EWHC 1071 (Comm)
Section 44

The Judge found that the Respondent believed that regulation 28(3)(c) applied, but that that belief was not a reasonable one. Therefore, section 44 was not engaged.

COURT OF APPEAL JUDGMENT
[2024] EWCA Civ 628
Males, Snowden and Falk LJJ

The Court of Appeal held that payment under the letters of credit would be in connection with an arrangement, the aircraft leases, under which aircraft were made available to a person connected with Russia for use in Russia. Therefore, the Respondent was correct that payment under the letters of credit was prohibited until licences to do so were obtained.

The Court held that the effect of regulation 28(3)(c) was that the Respondent's obligation to pay was suspended and could not be enforced during the period between the obligation to pay arising and the UK licences being obtained.

The section 44 issue was addressed by the Court on an obiter basis. It overturned the Judge's finding that the Respondent's belief was not a reasonable one and held that on its proper construction, section 44 would not have protected the Respondent from "an action to recover a debt which is otherwise lawfully due but which has not been paid".

SUPREME COURT JUDGMENT

The Supreme Court unanimously dismissed the Appellant's appeal on the regulation 28(3)(c) issue and allowed the Respondent's cross-appeal on the section 44 issue.

REGULATION 28(3)(c)

The Court rejected the Appellant's argument that the words "in connection with" required a causal connection between the provision of financial services or funds and the prohibited supply of aircraft for several reasons:

- the language of regulation 28(30(c) required a connection with the provision of financial services or funds and an arrangement, not the prohibited supply of aircraft;
- the purpose of regulation 28(3)(c) is served by casting a wide net, prohibiting payments but with the safety valve of a licensing system to mitigate unintended consequences; and
- the use of "in connection with" in conjunction with the phrase "in pursuance of" indicates that the clear purpose is to cast the net more broadly.

The Supreme Court also found that the words "whose object or effect is" do not require a temporal coincidence between the provision of funds and the existence of the arrangements.

Therefore, the Respondent was prohibited under regulation 28(3)(c) from making payments under the letters of credit until licences to do so were obtained.

SECTION 44

Although not necessary, the Supreme Court felt that it was appropriate to deal with the interpretation of section 44(2) as it was likely to affect a significant number of other cases.

The Court expressed that the purpose of section 44 is to provide protection for a person who acts or omits to act in the reasonable belief that the act or omission is in compliance with regulation 28(3)(c).

The Supreme Court recognised that this protection furthers the public purpose of the provision as making payments despite having the requisite belief might undermine the sanction regime.

Section 44 was held not to prohibit civil proceedings (which would require clear words due to it preventing access to justice), but rather provide a defence.

The Court found that, as the Respondent's liability was "in respect of" its omission to pay upon receipt of a compliant demand under the letters of credit, the protection afforded fell within the language of section 44(2).

Therefore, section 44 would have provided protection to the Respondent against an action to recover a debt, an award of interest on the amount of the debt, and an award of associated costs.

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