

CLIENT MEMORANDUM

U.S. Imposes Sectoral Sanctions Against Russia; Targets Banking, Energy and Arms, But Scope Is Limited

July 18, 2014

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On July 16, 2014, the United States expanded sanctions against Russia in response to that country's continued role in providing weapons and support to Ukrainian separatists and its continued occupation of Crimea. The latest U.S. sanctions target Russia's financial, energy, and arms sectors for the first time and add eleven entities and five individuals in Russia and Ukraine to the List of Specially Designated Nationals and Blocked Persons (the SDN List).

Acting under the authority of Executive Order 13662, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) imposed new, but limited, sanctions on Russia's financial and energy sectors, creating a new Sectoral Sanctions Identification List (SSIL) and designating four entities. Under the first SSIL directive, U.S. Persons¹ are now prohibited from transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days' maturity or new equity of two specifically targeted financial institutions—Gazprombank and VEB. Gazprombank is Russia's third largest lender, with three million private and 45,000 business customers. VEB is a state-owned development lender.

Under the second SSIL directive, U.S. Persons are now prohibited from dealing in new debt of longer than 90 days' maturity of two designated entities, their property or their interests in property. The designated entities are the energy

¹ A U.S. Person is defined as a United States citizen, permanent resident alien, entity organized under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States.

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firms Novatek and Rosneft. Rosneft is Russia's largest oil producer. OAO Novatek is Russia's second largest gas company.

Importantly, the new OFAC sanctions do not otherwise block the designated entities' property, prevent U.S. Persons from conducting other transactions with them beyond the specific financing restrictions detailed above, or prevent transactions in debt or equity instruments that predate July 16, 2014. Thus, the new sectoral sanctions essentially prohibit the sanctioned entities from obtaining new medium- and long-term financing from U.S. sources.

OFAC also targeted the Russian arms sector by adding eight suppliers of military equipment to the OFAC SDN List. Under U.S. law, any assets of an SDN within the jurisdiction of the United States must be frozen. Furthermore, transactions by U.S. Persons, or within the United States, involving an SDN, or entities owned fifty percent or more by an SDN, are generally prohibited. The following entities were designated as SDNs under the expanded sanctions:

- Almaz-Antey
- Federal State Unitary Enterprise State Research and Production Enterprise Bazalt
- JSC Concern Sozvezdie
- JSC MIC NPO Mashinostroyenia
- Kalashnikov Concern
- KBP Instrument Design Bureau
- Radio-Electronic Technologies
- Uralvagonzavod

OFAC also designated the following individuals as SDNs based on their status as Russian government officials:

- Sergey Besesda (head of the Federal Security Service's Fifth Service, the Service for Operational Information and International Communications)
- Oleg Savelyev (Minister for Crimean Affairs)
- Sergei Neverov (Deputy Chairman of the State Duma)
- Igor Shchegolev (aide to the President of the Russian Federation)

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The following two entities and one individual were designated as SDNs for threatening the peace, security, stability, sovereignty, or territorial integrity of Ukraine:

- Luhansk People's Republic
- Donetsk People's Republic
- Aleksandr Borodai (self-declared Prime Minister of Donetsk People's Republic)

Crimea-based Feodosiya Enterprise was also added to the SDN list for being complicit in the misappropriation of state assets of Ukraine.

The U.S. Commerce Department's Bureau of Industry and Security also announced that it will add the new SDNs to its "Entities List" in accordance with the Export Administration Regulations. By placing these companies on the "Entities List," the Commerce Department is imposing a license requirement, with a presumption of denial, for the export, re-export, or other foreign transfer of U.S.-origin items to these companies. Of note, the two financial institutions (Gazprombank and VEB) and two energy firms (Novatek and Rosneft) designated on the SSIL were not added to the "Entities List."

Companies that are subject to OFAC trade restrictions and do business in or with Russia or Russian entities should know whom they are dealing with and whether that entity or individual or the proposed transaction is subject to sanctions. As noted above, U.S. sanctions apply not only to the listed individuals and entities, they also extend to companies in which the designated person has a direct or indirect ownership interest of fifty percent or more. In addition to having adequate screening procedures in place that utilize the most current information, companies subject to U.S. trade restrictions need to conduct sufficient due diligence on their customers and vendors to know whether these companies are owned or controlled by a sanctioned entity or individual.

Related Links

Executive Order 13662, [Blocking Property of Additional Persons Contributing to the Situation in Ukraine](#), Federal Register, Volume 79, Number 56 (March 24, 2014)

Office of Foreign Assets Control, [Specially Designated Nationals List Update](#), Ukraine-Related Designations (July 16, 2014)

Office of Foreign Assets Control, [Sectoral Sanctions Identification List](#) (July 16, 2014)

Office of Foreign Assets Control, [Questions Related to Sectoral Sanctions under Executive Order 13662](#) (July 16, 2014)

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Relevant U.S. Press Releases

Press Release, U.S. White House, [Statement by the President on Ukraine](#) (July 16, 2014)

Press Release, U.S. Department of Treasury, [Announcement of Treasury Sanctions on Entities Within the Financial Services and Energy Sectors of Russia, Against Arms or Related Material Entities, and those Undermining Ukraine's Sovereignty](#) (July 16, 2014)

Press Release, U.S. Department of Commerce, [Commerce Department Announces Further Expansion of Export Restrictions on Russia](#) (July 16, 2014)

Forthcoming European Union Sanctions

Client Memorandum, [EU Sanctions Update – Russia/Ukraine](#) (July 17, 2014)

If you have any questions or need any assistance in determining whether your company may be affected by U.S./E.U. sanctions against Russia, please contact Martin J. Weinstein (202-303-1122, mweinstein@willkie.com), Robert J. Meyer (202-303-1123, rmeyer@willkie.com), Jeffrey D. Clark (202-303-1139, jdclark@willkie.com), Peter Burrell (+44 20 3580 4702, pburrell@willkie.com), Miriam A. Bishop (202-303-1126, mbishop@willkie.com) or the Willkie attorney with whom you regularly work.

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