

Recent U.S. Sanctions Designations Create Additional Risks for Companies Doing Business with Venezuela

March 28, 2019

Key Points:

- OFAC recently added a Moscow-based Russian-Venezuelan joint venture bank, Evrofinance Mosnarbank (“Evrofinance”), to the List of Specially Designated Nationals and Blocked Persons (the “SDN List”) for engaging in sanctions circumvention activities and providing support to the Venezuelan state-owned oil company, Petróleos de Venezuela S.A. (“PdVSA”), which was designated as an SDN on January 28, 2019.
- Additionally, OFAC recently added CVG Compania General de Minería de Venezuela CA (“Minerven”), the Venezuelan state-run metals mining company; Banco de Desarrollo Económico y Social de Venezuela (“BANDES”), Venezuela’s national development bank; and certain other financial institutions owned or controlled by BANDES to the SDN List.
- Further, on March 25, 2019, with strong bipartisan support, the U.S. House of Representatives passed two Venezuela-related bills that would impose additional export control restrictions on transfers of arms and certain dual-use items to Venezuela and require the President to assess the national security risks posed by potential Russian acquisition of the U.S. energy infrastructure holdings of CITGO, among other provisions.

In recent days, the United States government ratcheted up sanctions against Venezuela in an effort to apply increasing pressure on the Maduro regime, resulting in additional risk for both U.S. and non-U.S. companies with ongoing or potential business in or with the country. These actions follow the designation of Venezuelan state-owned oil company PdVSA on January 28, which we discussed in prior client updates on [February 6, 2019](#) and [February 13, 2019](#).

Specifically, the administration designated Moscow-based bank Evrofinance as an SDN for supporting PdVSA and engaging in alleged sanctions circumvention activities. This action highlights risks for non-U.S. companies that provide financial support to SDNs or blocked persons or otherwise support the Maduro regime. In addition, the administration designated as SDNs several major state-owned companies operating in the financial and metals sectors of Venezuela.

Contact Information

If you have any questions concerning this alert, please contact:

Nnedinma C. Ifudu Nweke
Partner

nifudu@akingump.com
Washington, D.C.
+1 202.887.4013

Wynn H. Segall
Partner

wsegal@akingump.com
Washington, D.C.
+1 202.887.4573

Melissa J. Schwartz
Partner

mjschwartz@akingump.com
Washington, D.C.
+1 202.887.4539

Jonathan C. Poling
Partner

jpoling@akingump.com
Washington, D.C.
+1 202.887.4029

Christian C. Davis
Partner

chdavis@akingump.com
Washington, D.C.
+1 202.887.4529

Dallas Woodrum
Counsel

dwoodrum@akingump.com
Washington, D.C.
+1 202.887.4591

Michael Adame
Associate

madame@akingump.com
Washington, D.C.
+1 202.887.4323

Furthermore, the U.S. House of Representatives passed two bills on March 25, 2019 with overwhelming bi-partisan support that, if enacted into law, would further restrict the Maduro regime's access to U.S. munitions and dual-use items, as well as apply scrutiny to any potential Russian acquisition of the U.S. energy infrastructure holdings of CITGO, a PdVSA subsidiary.

This update summarizes these recent actions, as well as other recent Venezuela-related sanctions developments.

Imposition of U.S. Secondary Sanctions: SDN Designation of Moscow-based Bank Evrofinance

On March 11, 2019, OFAC added Evrofinance, a Moscow-based bank, to the SDN List pursuant to Executive Order (EO) 13850 for providing support to PdVSA and engaging in alleged sanctions circumvention activities. OFAC's March 11 [press release](#) stated that Evrofinance is owned jointly by Russian and Venezuelan state-owned companies and was founded as a bi-national bank to fund joint Russia-Venezuela oil and infrastructure projects. According to OFAC, "[a]t the time of incorporation, Russia's Gazprombank, in which the majority Russian state-owned gas producer Gazprom is a shareholder, and Russian state bank, VTB Bank, which is Russia's second largest bank, each owned a 25 percent stake in Evrofinance." Both Gazprombank and VTB Bank are subject to U.S. sectoral sanctions under [Directive 1 of EO 13662](#).

Evrofinance's designation reflects the secondary sanctions risks that exist for non-U.S. companies that engage in transactions with PdVSA and other SDNs or blocked persons connected with the Maduro regime. The Trump administration has explicitly warned of these risks, with National Security Advisor John Bolton [stating](#) on March 6, 2019 that foreign financial institutions are "on notice that they will face sanctions for being involved in facilitating illegitimate transactions that benefit Nicolas Maduro and his corrupt network." Treasury Secretary Steven T. Mnuchin stated that OFAC's action against Evrofinance "demonstrates that the United States will take action against foreign financial institutions that sustain the illegitimate Maduro regime and contribute to the economic collapse and humanitarian crisis plaguing the people of Venezuela."

SDN Designation of Minerven, a Venezuelan State-Run Metals Mining Company

On March 19, 2019, OFAC [added](#) Minerven, the Venezuelan state-run metals mining company, and its president, Adrian Antonio Perdomo Mata, to the SDN List pursuant to EO 13850, which targets entities and individuals that operate in the gold sector of the Venezuelan economy. In its [press release](#) announcing these SDN designations, OFAC stated that the Maduro regime has enriched itself using the state-owned mining company to the detriment of the Venezuelan people.

SDN Designations of BANDES and Other Venezuelan Financial Institutions

On March 22, 2019, pursuant to EO 13850, OFAC [designated](#) BANDES as an SDN, as well as four additional financial institutions that BANDES owns or controls: Banco Bandes Uruguay S.A. ("Bandes Uruguay"); Banco Bicentenario del Pueblo, de la Clase Obrera, Mujer y Comunias, Banco Universal C.A. ("Banco Bicentenario del Pueblo"); Banco de Venezuela, S.A. Banco Universal ("Banco de Venezuela"); and Banco Prodem S.A. OFAC's [press release](#) states that Maduro and his inner-circle use BANDES and its subsidiaries to move funds abroad to further support of the Maduro regime.

Simultaneous with these designations, OFAC issued several General Licenses (GL) authorizing specific types of transactions involving certain of these designated banks:

- **GL-4A:** Authorizes certain transactions involving Banco de Venezuela and Banco Bicentenario del Pueblo related to agricultural commodities, medicine, medical devices, and replacement parts and components.
- **GL-15:** Authorizes certain transactions between Banco de Venezuela or Banco Bicentenario del Pueblo and specified U.S. financial services companies (MasterCard Incorporated, Visa Inc., American Express Company, Western Union Company, and MoneyGram International) until March 22, 2020.
- **GL-16:** Authorizes the maintenance of U.S. person accounts at and noncommercial personal remittances involving Banco de Venezuela or Banco Bicentenario del Pueblo until March 22, 2020.
- **GL-17:** Authorizes, until May 21, 2019, certain transactions that are ordinarily incident and necessary to the wind down of operations, contracts, or other agreements involving Banco de Venezuela, Banco Bicentenario del Pueblo, or Banco Prodem S.A. that were in effect prior to March 22, 2019.
- **GL-18:** Authorizes certain transactions that are ordinarily incident and necessary to maintaining or operating Integración Administradora de Fondos de Ahorro Previsional, S.A., whose fund administrator is a blocked person because it is owned 50 percent or more by Bandes Uruguay.

Extension of General License for PDV Holding, Inc., CITGO Holding, Inc., and their Subsidiaries

On March 14, 2019, OFAC amended GL 7A (**GL-7A**) to extend the expiration date to September 2020, with additional automatic renewals on the first day of each month, for periods of 18 months from the date of each such renewal. GL-7A authorizes U.S. persons to engage in all transactions or activities prohibited by EO 13850 with respect to PDV Holding, Inc. (PDVH), CITGO Holding, Inc. (CITGO), and their respective subsidiaries, where the only PdVSA entities involved are these entities.

Recent U.S. Congressional Activity

On March 25, 2019, in a sign of strong bi-partisan support for increasing pressure on the Maduro regime, the United States House of Representatives passed two Venezuela-related bills through voice vote. Neither bill has a U.S. Senate companion bill to date, but it is possible that Senate could consider these two bills in the weeks or months ahead.

The first bill, the Russian-Venezuelan Threat Mitigation Act (**H.R. 1477**), would (1) require the President, within 90 days of enactment, to assess the national security risks posed by potential Russian acquisition of the U.S. energy infrastructure holdings of PdVSA's U.S. subsidiary, CITGO; (2) impose visa restrictions on persons acting on behalf of the Russian Government in direct support of Venezuelan security forces; and (3) require the Secretary of State to provide to Congress an assessment of the threats that Russian-Venezuelan security cooperation poses to the U.S. and the Western Hemisphere and a strategy to counter those threats. Regarding the bill, sponsor Representative Debbie Wasserman Schultz (FL-23) stated that "the growing military relationship between Nicolas Maduro and Vladimir Putin will severely obstruct any effort to restore real democracy in Venezuela . . . This kind of military alliance poses

an imminent threat to our allies in the region, namely Colombia, and will only strengthen the foothold of Maduro's brutal regime."

The second bill, the Venezuela Arms Restriction Act ([H.R. 920](#)), would (among other measures) prohibit the export of defense articles or services and certain dual-use items to security forces in Venezuela that are under the authority of a government not recognized by the United States, i.e., the Maduro regime.

Conclusion

As these recent actions illustrate, we can expect that the U.S. government will continue to impose sanctions and use other foreign policy tools to exert pressure on the Maduro regime. At the same time, the U.S. government has indicated that it would relax Venezuela-related sanctions in the event that control of the government transfers to Interim President Juan Guaidó or to a subsequent, democratically elected government that is committed to taking concrete and meaningful actions to combat corruption, restore democracy, and respect human rights.

As political unrest continues in Venezuela, companies with current or potential business involving Venezuela should continue to assess sanctions and political developments to ensure compliance and mitigate against sanctions-related, political, and business risk. Specifically, U.S. persons should exercise diligence to ensure compliance with the general prohibitions on engaging in transactions involving SDNs designated under Venezuela sanctions and other blocked persons. Non-U.S. companies should also assess secondary sanctions risks associated with activities that may involve or support SDNs or blocked persons, sanctions circumvention, or the Maduro regime, as the recent designation of Russian bank Evrofinance illustrates.

akingump.com