

International Trade Alert

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Russia Sanctions Update: OFAC, BIS Expand Sanctions Lists

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) issued new Russia/Ukraine-related sanctions on Thursday, September 1, 2016. This action marks OFAC's first major expansion of the Specially Designated Nationals (SDN) List and Sectoral Sanctions Identifications (SSI) List for the Russia sanctions program since December 22, 2015. Additionally, the U.S. Department of Commerce's Bureau of Industry and Security (BIS) made corresponding additions to its Entity List on September 7, 2016.

Despite the feeling in some quarters that inertia was beginning to set in with respect to the Russia sanctions program, the Russia/Ukraine-related sanctions remain active and do not appear likely to be lifted soon. Specifically, OFAC described its actions as part of its "ongoing efforts to counter attempts to circumvent sanctions on Russia, to assist the private sector with sanctions compliance, and to foster a diplomatic resolution to the conflict in Ukraine." In a similar vein, BIS is taking action "to ensure the efficacy of existing sanctions on the Russian Federation (Russia) for violating international law and fueling the conflict in eastern Ukraine."

OFAC announced the following additions to the SDN List:

- Seven entities involved in the development of the Kerch Bridge, a project that would connect the Crimean peninsula with Russia. These entities include the prime contractor for the project, SGM-Most OOO, along with the lead construction company, PJSC Mostotrest; three other contractors; and two Russian federal agencies tied to the project. These designations have been made pursuant to Executive Order 13685.
- Eleven entities operating in the defense and maritime sectors within Crimea. These entities include the shipping and logistics company Sovfracht-Sovmortrans Group and five of its affiliates. Also included are two shipbuilding companies, OOO Shipyard "Zaliv" and Federal SUE Shipyard "Morye," and a ship repair company, OAO Ship Repair Center "Zvezdochka," as well as two other military equipment providers. These designations have also been made pursuant to Executive Order 13685.
- Seventeen individuals identified as Ukrainian separatists who hold official positions in the annexed Republic of Crimea or hold leadership positions in the separatist movement in eastern Ukraine. These designations have been made pursuant to Executive Order 13660.
- The Salvation Committee of Ukraine, an entity affiliated with former Ukrainian Prime Minister Mykola Azarov, and CJSC ABR Management, an entity affiliated with Bank Rossiya. These designations have been made pursuant to Executive Orders 13660 and 13661, respectively.

OFAC also announced the following additions to the SSI List:

- Ninety-six subsidiary entities of Bank of Moscow, Gazprombank or Gazprom. All of these subsidiaries were already subject to sectoral sanctions due to being 50 percent or more owned by their sanctioned parent entities. OFAC added them to the SSI List to help companies better manage compliance with respect to Bank of Moscow-, Gazprombank- and Gazprom-affiliated entities. These additional SSI identifications have been made pursuant to Executive Order 13662.

Finally, OFAC has issued General License 10 to allow companies one month to divest or transfer to non-U.S. persons any holdings in PJSC Mostotrest, the lead construction company for the Kerch Bridge project. Any transactions pursuant to this General License must be made by 12:01 a.m. Eastern time on October 1, 2016, and must be accompanied by a detailed report to OFAC within 10 days of the conclusion of any divestment activities.

With respect to BIS, the Entity List will now include 81 new entities that BIS believes to be involved in, or pose a significant risk of being or becoming involved in, activities contrary to the national security or foreign policy interests of the United States—namely, “violating international law and fueling the conflict in eastern Ukraine.” The 81 new entities include the 18 above-referenced entities added to the SDN List pursuant to Executive Order 13685; 51 Gazprom subsidiaries (all of which were also added to the SSI List by OFAC); the Salvation Committee of Ukraine; and 11 other entities operating in Russia’s arms and material sector, including entities of, or affiliated with, Angstrom, Mikron, Micran, Perm Scientific-Industrial Instrument-Making Company, Radioexport Foreign Economic Association, NPC Granat and Technopole.

Companies with business interests that intersect Russia or Ukraine should ensure that their sanctions compliance programs have adequate measures in place to address these new announced sanctions and are prepared to undertake careful diligence to ascertain the identity and ownership of potential Russian and Ukrainian counterparts. Companies with holdings in PJSC Mostotrest will also need to respond expeditiously to OFAC’s divestiture requirement in order to meet the October 1, 2016 deadline and associated reporting requirement. We continue to advise clients on the legal and business risks associated with conducting business in compliance with the Russia/Ukraine-related sanctions and effectively managing the risks associated with these sanctions.

Contact Information

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

Jonathan C. Poling

jpoling@akingump.com

+1 202.887.4029

Washington, D.C.

Edward L. Rubinoff

erubinoff@akingump.com

+ 202.887.4026

Washington, D.C.

Wynn H. Segall

wsegall@akingump.com

+1 202. 887.4573

Washington, D.C.

Nnedinma C. Ifudu Nweke

nifudu@akingump.com

+1 202.887.4013

Washington, D.C.

Melissa J. Schwartz

mjschwartz@akingump.com

+1 202.887.4539

Washington, D.C.

James B. Powell

powellb@akingump.com

+1 202.887.4312

Washington, D.C.

Dallas Woodrum

dwoodrum@akingump.com

+1 202.887.4591

Washington, D.C.