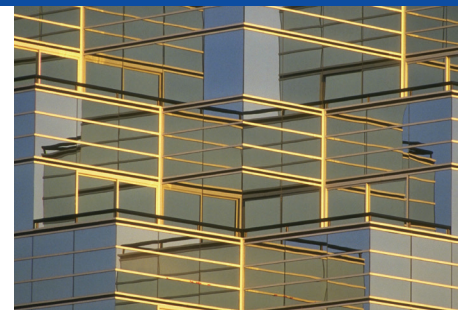


ClientAlert

International Trade

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United States Issues Further Sanctions Targeting Russian Financial, Defense and Energy Sectors



On July 29, 2014, the United States expanded sectoral sanctions, targeting the Russian financial, defense and energy sectors in response to the ongoing unrest in Ukraine. The new sanctions include the addition of three Russian financial institutions to the Sectoral Sanctions Identifications List (SSI List) pursuant to Executive Order 13662 (EO 13662). The United States also added an entity operating in Russia's defense sector to the List of Specially Designated Nationals and Blocked Persons (SDN List) pursuant to Executive Order 13661 (EO 13661). Both lists are administered by the US Department of the Treasury's Office of Foreign Assets Control (OFAC). The United States additionally imposed further export control restrictions on exports intended for Russian energy projects. Finally, the United States announced the suspension of US export credit and financing for development projects in Russia.

New Additions to the SSI List

Three additional Russian banks were identified on the SSI List. The SSI List currently includes persons (individuals or entities) determined by OFAC to be operating in the financial services and energy sectors of the Russian economy identified in EO 13662, which was signed on March 20, 2014. EO 13662 targeted sectors of the Russian economy including financial services, energy, metals and mining, engineering, and defense and related materiel.

The SSI List includes two directives that describe prohibitions on dealings with the persons identified on the SSI List. Directive 1 prohibits US persons¹ from transacting in, providing financing for, or otherwise dealing in debt with a maturity of longer than 90 days or equity, if that debt or equity is issued on or after July 16, 2014 ("New Debt" or "New Equity"), by, or on behalf of, or for the benefit of persons named under Directive 1, their property, or their interests in property.² The three additional banks, which were added to the SSI List pursuant to Directive 1, are the following:

- BANK OF MOSCOW (f.k.a. AKTSIONERNY KOMMERCHESKI BANK BANK MOSKVY, OTKRYTOE AKTSIONERNOE OBSHCHESTVO; a.k.a. JOINT STOCK COMMERCIAL BANK – BANK OF MOSCOW, OPEN JOINT STOCK COMPANY), 8/15 Korp. 3 ul. Rozhdestvenka, Moscow 107996, Russia; Bld 3 8/15, Rozhdestvenka St., Moscow 107996, Russia; SWIFT/

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¹ A US Person is defined to include any US 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.

² For purposes of these new restrictions, the term "debt" includes bonds, loans, extensions of credit, loan guarantees, letters of credit, drafts, bankers acceptances, discount notes or bills, or commercial paper. "Equity" includes stocks, share issuances, depositary receipts, or any other evidence of title or ownership.

BIC MOSW RU MM; Website www.bm.ru; Email Address holmogorov_ss@mmbank.ru; alt. Email Address info@mmbank.ru; BIK (RU) 044525219; Registration ID 1027700159497; Government Gazette Number 29292940 [UKRAINE-EO13662].

- RUSSIAN AGRICULTURAL BANK (f.k.a. OTKRYTOE AKTSIONERNOE ROSSISKI SELSKOKHOZYAISTVENNY BANK; a.k.a. ROSSELKHOZBANK; a.k.a. ROSSIYSKI SELSKOKHOZYAISTVENNY BANK OAO; a.k.a. RUSSIAN AGRICULTURAL BANK OAO), 3, Gagarinsky Pereulok, Moscow 119034, Russia; 3 Gagarinsky per., Moscow 119034, Russia; SWIFT/BIC RUAG RU MM; Website <http://www.rshb.ru>; Email Address office@rshb.ru; Registration ID 1027700342890; Government Gazette Number 52750822 [UKRAINE-EO13662].
- VTB BANK OAO (f.k.a. BANK VNESHNEY TORGOVLI ROSSIYSKOY FEDERATSII, CLOSED JOINT-STOCK COMPANY; f.k.a. BANK VNESHNEY TORGOVLI RSFSR; f.k.a. BANK VNESHNEY TORGOVLI, JOINT-STOCK COMPANY; f.k.a. BANK VNESHNEY TORGOVLI, OPEN JOINT-STOCK COMPANY; a.k.a. BANK VTB OAO; a.k.a. BANK VTB, OPEN JOINT-STOCK COMPANY; a.k.a. JSC VTB BANK; f.k.a. VNESH TORGBANK; f.k.a. VNESH TORGBANK ROSSII, CLOSED JOINT-STOCK COMPANY; a.k.a. VTB BANK, OPEN JOINT-STOCK COMPANY), 29, Bolshaya Morskaya str., St. Petersburg 190000, Russia; 37 Plyushchikha ul., Moscow 119121, Russia; 43, Vorontsovskaya str., Moscow 109044, Russia; SWIFT/BIC VTBRRUMM; Website www.vtb.com; Registration ID 1027739609391 (Russia); Tax ID No. 7702070139 (Russia); Government Gazette Number 00032520 (Russia); License 1000 (Russia) [UKRAINE-EO13662].

The prohibitions under Directive 1 also apply to entities in which the above-listed companies have a 50 percent or greater ownership interest and include all financing in support of and any dealing in—including provision of services in support of—the prohibited New Debt or New Equity. In effect, these prohibitions restrict access to the US credit and equity markets for the companies on the SSI List and certain of their subsidiaries.

OFAC issued General License 1 (GL 1) on July 16, 2014. GL1 authorizes all transactions by US persons, wherever located, and transactions within the United States involving derivative products whose value is linked to an underlying asset that constitutes New Debt or New Equity.³

All other transactions with persons on the SSI List or involving any property in which one or more of these persons has an interest *are permitted*, provided such transactions do not otherwise involve property or interests in property of a person blocked under the Ukraine-related sanctions or any other sanctions program implemented by OFAC. OFAC also provided guidance that

“US financial institutions may continue to maintain correspondent accounts and process US dollar-clearing transactions for the persons identified in the directives,” provided that those activities do not involve transacting in, providing financing for, or otherwise dealing in the transactions prohibited under the SSI List.

Persons identified on the SSI List are *not blocked* persons unless they separately appear on the SDN List. The Bank of Moscow, Russian Agricultural Bank and VTB Bank do not currently separately appear on the SDN List. Therefore, at present, prohibited dealings with these entities are limited to those concerning New Debt or New Equity, and the property and interests in property of these companies are not deemed blocked for US sanctions purposes.

New Addition to the SDN List

The United States also announced the designation on the SDN List of the following entity operating in Russia’s defense sector pursuant to Executive Order 13661:⁴

- UNITED SHIPBUILDING CORPORATION (a.k.a. OBEDINENNAYA SUDOSTROITELNAYA KORPORATSIYA OAO; a.k.a. OJSC UNITED SHIPBUILDING CORPORATION; a.k.a. UNITED SHIPBUILDING CORPORATION JOINT STOCK COMPANY; a.k.a. “OSK OAO”), 90, Marata ul., St. Petersburg 191119, Russia; 11, Sadovaya-Kudrinskaya str., Moscow 123242, Russia; Website <http://www.oaosk.ru/>; Email Address info@oaosk.ru [UKRAINE2].

All property and interests in property of this entity located in the United States or within the possession or control of a US person, wherever located, are considered blocked and may not be dealt in. Any entity in which a blocked party holds a 50 percent or greater ownership interest is itself considered blocked by operation of law. US persons may not engage in any dealings, directly or indirectly, with blocked parties. Provision of goods, services or support for blocked parties are criteria for potential future designation.

Further Export Restrictions

The United States also has substantially expanded export restrictions on Russia. The US Department of Commerce Bureau of Industry and Security (BIS) has instituted a policy denying export, reexport or foreign transfer of certain items for use in Russia’s energy sector that may be used for exploration or production from deepwater, Arctic offshore, or shale projects that have the potential to produce oil. Implementing regulations are expected to be issued in the coming days, which should provide greater clarity on these restrictions.

³ A copy of General License 1 is available [here](#).

⁴ A discussion of Executive Order 13660 is available [here](#) and a discussion of Executive Order 13661 is available [here](#).

Additionally, BIS added United Shipbuilding Corporation, designated at the same time on the SDN List by OFAC, to the Entity List. Designation on the Entity List imposes a license requirement for the export, reexport or foreign transfer of items subject to the Export Administration Regulations to the designated entities, with a presumption of denial. This includes most US-origin products, as well as some non-US made items that incorporate greater than *de minimis* US-origin content and items that are the direct product of certain US-origin technology. This action supplements the earlier BIS announcements placing an indefinite hold on all pending export license applications for exports or reexports to Russia, effective March 1, 2014, denying any pending applications to export or reexport any high-technology item subject to the Export Administration Regulations (EAR) to Russia or Crimea that contribute to Russia's military capabilities, and revoking existing licenses that meet these conditions.

This policy impacts not only US businesses engaged in exports to Russia, but also non-US companies engaged in exports to Russia from third countries of products that are of US-origin and that require BIS licenses. This can include products with US-origin content or made as the direct product of US-origin technology.

Suspension of Export Credit and Financing for Economic Development Projects

The final measure adopted by the United States was a formal suspension of the provision of US export credit and financing for economic development projects to Russia. As a result of this action, USDA is suspending all bilateral export credit and development finance for Russia. Further, OPIC has suspended consideration of any new financing and insurance transactions in Russia. Finally, the Export-Import Bank is imposing a hold on all new transactions for exports to Russia.

More information about EO 13662 can be found [here](#). This EO was preceded by two other Executive Orders, [13660](#) and [13661](#), as well as a bill signed into law by the President on April 3, 2014 (more information found [here](#)). As noted above, the Ukraine-related sanctions measures also have been supplemented by export licensing restrictions. More information about the previous export restrictions can be found [here](#) and [here](#).

Companies doing business in Russia and Ukraine should monitor closely any measures imposed by the United States to ensure compliance. Penalties for noncompliance can be severe. We will continue to track and report on any additional sanctions developments.

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