

# US Expands Russian Defense and Intelligence Sanctions, Targets Chinese Parties

September 2018

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On September 20, 2018, the US government imposed sanctions on a Chinese entity and its director for engaging in significant transactions with persons on the Countering America's Adversaries Through Sanctions Act of 2017 (CAATSA) Section 231 List of Specified Persons (LSP).<sup>1</sup> These are the first sanctions the United States has imposed on non-US persons under CAATSA Section 231.

Separately, the State Department added 33 additional persons to the Section 231 LSP for being a part of, or operating for or on behalf of, the defense or intelligence sectors of the Government of the Russian Federation.

## Imposition of Sanctions Under Section 231 of CAATSA

Section 231 of CAATSA requires the President to impose sanctions on persons determined to have knowingly engaged in a "significant transaction"<sup>2</sup> with parties that are part of, or operating for or on behalf of, the defense or intelligence sectors of the Government of the Russian Federation (as identified on the Section 231 LSP). Pursuant to this authority, the US imposed sanctions on the Chinese entity Equipment Development Department (EDD) and its director, Li Shangfu, for engaging in significant transactions with Rosoboronexport (ROE), Russia's main arms export entity. ROE is included on the LSP as a person that is part of, or operates for or on behalf of, the defense sector of the Government of the Russian Federation.

Two transactions for the sale of goods from Russia to China formed the basis of the sanctions: a December 2017 transaction for ten SU-35 combat aircraft and a transaction for S-400 surface-to-air missile-related

<sup>1</sup> To further the implementation of certain sanctions in CAATSA and the Ukraine Freedom Support Act of 2014 (UFSA) with respect to the Russian Federation, on September 20, 2018 President Trump also issued a new Executive Order "Authorizing the Implementation of Certain Sanctions Set Forth in the Countering America's Adversaries Through Sanctions Act" ([available here](#)).

<sup>2</sup> The term "significant transaction" is not expressly defined in CAATSA, although the State Department has advised that in determining whether a transaction is "significant" for purposes of Section 231, it will consider "the totality of the facts and circumstances surrounding the transaction and weigh various factors on a case-by-case basis." The factors considered in the determination may include, but are not limited to:

- The significance of the transaction to US national security and foreign policy interests, in particular whether it has a significant adverse impact on such interests;
- The nature and magnitude of the transaction; and
- The relation and significance of the transaction to the defense or intelligence sector of the Russian government.

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equipment delivered in 2018.<sup>3</sup> Notably, although these sales were negotiated prior to the imposition of sanctions on August 2, 2017, a senior administration official indicated that the “driver for this was the delivery of the Sukhoi fighters ... at the end of 2017, and also a batch of S-400 missile system-related equipment in January of 2018.”<sup>4</sup>

As a result of this determination, the US government imposed the following sanctions on EDD and Li Shangfu:

- a denial of export licenses (EDD);
- a prohibition on foreign exchange transactions under US jurisdiction (EDD and Li Shangfu);
- a prohibition on transactions with the United States financial system (EDD and Li Shangfu);
- blocking of all property and interests in property within US jurisdiction (EDD and Li Shangfu); and
- a visa ban (Li Shangfu).

As a result of these sanctions, EDD and Li Shangfu were added to the Office of Foreign Assets Control’s (OFAC) List of Specially Designated Nationals and Blocked Persons (SDN List). All property and interests in property of EDD and Li Shangfu within US jurisdiction are blocked, and US persons<sup>5</sup> are generally prohibited from transacting with them or any entity 50 percent or greater owned by one or more blocked parties.

These are the first sanctions imposed on a non-US party for engaging in “significant transactions” with a party on the Section 231 LSP.

## Expansion of the List of Specified Persons

The Secretary of State also added 33 persons to the LSP for being a part of, or operating for or on behalf of, the defense or intelligence sectors of the Government of the Russian Federation. This action increases the number of persons identified on the LSP to 72. According to State Department guidance, significant transactions with persons not listed on the LSP, such as subsidiaries of listed persons, are not currently the focus of Section 231 implementation efforts.<sup>6</sup>

The State Department determined that the following persons operate for or on behalf of the defense sector of the Government of the Russian Federation:

- PMC Wagner
- Oboronlogistika, OOO
- Komsomolsk-na-Amur Aviation Production Organization (KNAAPO)

In addition, the State Department determined that the following persons operate for or on behalf of the intelligence sector of the Government of the Russian Federation:

- Internet Research Agency LLC
- Concord Management and Consulting LLC
- Concord Catering
- Yevgeniy Viktorovich Prigozhin
- Mikhail Ivanovich Bystrov
- Mikhail Leonidovich Burchik
- Vladimir Venkov
- Viktor Borisovich Netyksho
- Boris Alekseyevich Antonov
- Dmitriy Sergeyevech Badin
- Ivan Sergeyevech Yermakov
- Aleksey Viktorovich Lukashev

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<sup>3</sup> The State Department’s fact sheet can be found [here](#).

<sup>4</sup> A transcript of the State Department’s September 20, 2018 briefing can be found [here](#).

<sup>5</sup> US persons include US citizens and permanent residents, wherever located, entities organized under US law (including foreign branches), and parties located within the United States.

<sup>6</sup> <https://www.state.gov/t/isn/caatsa/275118.htm>

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- Aleksandra Yuryevna Krylova
  - Anna Vladislavovna Bogacheva
  - Sergey Pavlovich Polozov
  - Maria Anatolyevna Bovda
  - Robert Sergeyeovich Bovda
  - Dzheykhun Nasimi Ogly Aslanov
  - Vadim Vladimirovich Podkopaev
  - Gleb Igorevich Vasilchenko
  - Irina Viktorovna Kaverzina
  - Sergey Aleksandrovich Morgachev
  - Nikolay Yuryevich Kozachek
  - Pavel Vyacheslavovich Yershov
  - Artem Andreyevich Malyshev
  - Aleksandr Vladimirovich Osadchuk
  - Aleksey Aleksandrovich Potemkin
  - Anatoliy Sergeyeovich Kovalev
  - Igor Valentinovich Korobov
  - Sergey Aleksandrovich Gizunov

Any person who knowingly engages in a significant transaction with any of these persons is subject to mandatory sanctions under CAATSA Section 231.

The State Department stated the purpose of these actions was “to impose costs on Russia in response to its interference in the United States election process, its unacceptable behavior in eastern Ukraine, and other malign activities.” Companies doing business or looking to do business with parties related to Russia’s defense or intelligence sector should monitor these measures closely to ensure compliance. Sanctions imposed on non-US parties under CAATSA can be severe.

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