

New OFAC Sanctions Target Russian Companies

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On September 1, 2016, the U.S. Department of the Treasury, Office of Foreign Assets Control ("OFAC") expanded its sanctions to target: (1) individuals and firms working to destabilize the Donbass and Crimea regions of Ukraine; (2) entities 50% owned by Gazprom, Gazprombank or the Bank of Moscow; and (3) sanctions evaders. In a press release, OFAC said the new measures were intended "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." See Press Release, *Treasury Sanctions Individuals and Entities for Sanctions Evasion and Activities Related to the Conflict in Ukraine* (Sept. 1, 2016), available at <https://www.treasury.gov/press-center/press-releases/Pages/j15048.aspx>.

In total, OFAC added 133 new entries to its Specially Designated Nationals ("SDNs") and Sectoral Sanctions Identifications ("SSI") lists. (The SDN list imposes complete blocking sanctions; the SSI list imposes sanctions targeted to particular sectors and types of transactions.) OFAC also announced a new general license to authorize divestment from PJSC Mostotrest, a major Russian construction company added to the SDN list.

The sanctions come as tensions are increasing in Ukraine and days after reports that Russian state hackers allegedly accessed voting registration systems in Illinois and Arizona, which is the latest incident in a series of escalating state-sponsored cybersecurity breaches over the summer. See, e.g., Ellen Nakashima, *Russian hackers targeted Arizona election system*, Wash. Post (Aug. 29, 2016), available at https://www.washingtonpost.com/world/national-security/fbi-is-investigating-foreign-hacks-of-state-election-systems/2016/08/29/6e758ff4-6e00-11e6-8365-b19e428a975e_story.html. The announcement also comes a week ahead of the G-20 meeting, which both the U.S. and Russian presidents plan to attend, as well as weeks before Russia is scheduled to conduct military drills in the Donbass region.

New Additions to the SDN List Include Construction, Shipping and Defense Companies Involved in Building Bridge to Crimea

The new round of sanctions added 20 new entities to the SDN list. They include 7 construction, engineering, and design companies working on construction of the Kerch Strait Bridge, which would connect mainland Russian with the Crimean peninsula. This group includes PJSC Mostotrest and SGM-Most OOO.

The new entities additionally include 5 defense firms and 6 maritime firms operating in the Crimea region. The defense firms include 3 companies that build and repair ships. The 6 maritime firms are all related to the Sovfracht-Sovmortrans Group, a shipping and logistics company that operates a ferry line that travels the same route as the Kerch Strait Bridge between Russia and Crimea.

The SDN list also adds 17 new individuals, including 6 officials in the self-proclaimed Luhansk People's Republic and 11 officials from the Republic of Crimea. The Salvation Committee of Ukraine was added because it is owned or controlled by, or acts on behalf of, former Ukraine Prime Minister Mykola Azarov, who is an SDN.

New Additions to the SSI List

OFAC added 96 new entities to the SSI list. These entities are all subsidiaries owned 50% or more by one of three existing parent companies already listed on the SSI list. Specifically, 52 of the new entities are linked with Gazprom, 25 are linked with Gazprombank, and 19 are linked with Bank of Moscow.

The 44 entities linked with Gazprombank and Bank of Moscow are subject to Directive 1, which prohibits certain transactions or dealing in debt and equity of the sanctioned entities. The 52 entities linked with Gazprom are subject to Directive 4, which prohibits U.S. persons from providing support pertaining to Russian deepwater, arctic offshore, or shale oil projects.

These 96 entities were already subject to sanctions because they are 50% or more owned by companies designated on the SSI list. Because determining ownership is often difficult, these listings will make due diligence, screening and compliance easier for industry.

Bank Rossiya Related Entity Named as Sanctions Evader

CJSC ABR Management was designated as an SDN. The OFAC press releases states that this company was established by officials at Bank Rossiya, an SDN, to manage the bank's assets. Bank Rossiya was previously designated for its close ties to Vladimir Putin's inner circle.

New General License

OFAC announced the release of General License 10, which authorizes U.S. persons to divest their holdings in PJSC Mostotrest, one of the new additions to the SDN list, which would otherwise be blocked. The general license is valid until October 1, 2016.

PJSC Mostotrest is one of the largest construction companies in Russia, and the fact that OFAC issued the general license suggests that there is U.S. investment in this company.

Conclusion

The sanctions announced on September 1, 2016 represent an escalation of the U.S.'s sanctions against Russia. Although this round of sanctions is the first from OFAC in nearly nine months, it demonstrates the administration's willingness to react to increased Russian activity in eastern Ukraine, Crimea and cyberspace. In addition to sending a message about continued U.S. support for Ukraine, these sanctions also send a message to Russia that hacking and any attempts to interfere with the November elections will have severe consequences.

For more information, please contact:

F. Amanda DeBusk, *Partner*
+1 (202) 721-4790
amanda.debusk@hugheshubbard.com

Melissa Duffy, *Partner*
+1 (202) 721-4689
melissa.duffy@hugheshubbard.com

Tyler Grove, *Associate*
+1 (202) 721-4625
tyler.grove@hugheshubbard.com

Michael Grant, *Associate*
+1 (202) 721-4623
michael.grant@hugheshubbard.com

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Hughes Hubbard & Reed

Hughes Hubbard & Reed LLP
A New York Limited Liability Partnership | One Battery Park Plaza
New York, New York 10004-1482 | +1 212-837-6000

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