

# Understanding the July 16, 2014 Enhanced U.S. Sanctions On Russian Interests And Their Potential Impact to Your Business

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On July 16, 2014, the U.S. Treasury Department, acting under the authority granted by President Obama's Executive Order 13662, materially escalated sanctions against Russia, imposing a broad-based package of restrictions on Russian entities in the financial services, energy, and arms or related materiel sectors of Russia. The Treasury Department also imposed new sanctions on those undermining Ukraine's sovereignty or misappropriating Ukrainian property. This includes Treasury's targeting of eight state-owned defense firms; four Russian government officials (including an aide to President Vladimir Putin and a top official in the Federal Security Service); an oil shipping facility in Crimea; a pro-Russian separatist leader; and two rebel organizations in the eastern Ukrainian cities of Donetsk and Luhansk.

### **RUSSIAN FINANCIAL INSTITUTION SANCTIONS**

The new sanctions prohibit U.S. persons from providing new financing to two major Russian financial institutions, **Gazprombank OAO** and **VEB**. Gazprombank is the financial arm of Gazprom, the giant state-controlled natural gas producer. VEB is Russia's state economic development bank. The new sanctions limit access to U.S. capital markets by imposing measures prohibiting U.S. persons and persons within the United States from transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or new equity for Gazprombank OAO and VEB, their property, or their interests in property.

As a practical matter, this step restricts the medium- and long-term U.S. dollar lending window to these banks. Critically, the U.S. has not yet blocked the property or interests in property of these banks, nor has Treasury prohibited transactions with these entities beyond the specific restrictions. However, the U.S. government may expand the scope of the prohibited transaction types and the number of financial institutions under the authority of E.O. 13662.

### **RUSSIAN ENERGY SECTOR SANCTIONS**

Treasury also imposed measures prohibiting U.S. persons and persons within the United States from transacting in, providing financing for, or

otherwise dealing in new debt of longer than 90 days maturity for the Russian energy firms **AO Novatek** and **Rosneft**, their property, or their interests in property. AO Novatek is Russia's largest independent natural gas producer while Rosneft is Russia's largest petroleum company and third largest gas producer. Treasury previously designated Rosneft's President and Chairman of the Board, Mr. Igor Sechin, on April 28, 2014, pursuant to E.O. 13661.

As with the financial institutions sanctions, Treasury has not yet blocked the property or interests in property of these companies, nor prohibited transactions with them beyond these specific restrictions. However, the scope of the prohibited transaction types and the number of energy companies may be expanded under the authorities of E.O. 13662.

### **RUSSIAN MILITARY AND DEFENSE INSTITUTIONAL SANCTIONS**

Treasury further designated eight Russian arms firms, which are responsible for the production of a range of materiel including small arms, mortar shells, and tanks. Under E.O. 13661, any assets of the entities designated that are within U.S. jurisdiction must be frozen. In addition, transactions by U.S. persons or within the United States involving the entities designated under E.O. 13661 are generally prohibited. Treasury blocked the assets of the following entities:

- **Almaz-Antey** – surface-to-air missile systems manufacturer currently used by the Russian military;
- **Federal State Unitary Enterprise State Research and Production Enterprise Bazalt (Bazalt)** – Russian ammunition manufacturer;
- **JSC Concern Sozvezdie** – producer of high-tech control and communication systems, radio electronic warfare and special equipment for military forces;
- **JSC MIC NPO Mashinostroyenia** – leading Russian rocketry company;
- **Kalashnikov Concern** – Russia's largest firearms producer and subsidiary of Russia's State Corporation of Russian Technologies (Rostec);
- **KBP Instrument Design Bureau** – research and production center for the creation of precision-guided weapons;
- **Radio-Electronic Technologies** – producer of electronic warfare equipment; and
- **Uralvagonzavod** – Russian government-owned manufacturer of military equipment, including tanks.

### **CRIMEAN ENTITY SANCTIONS**

Treasury designated, pursuant to E.O. 13660, **Feodosiya Enterprise**, a key shipping facility in the Crimean peninsula for oil imports and exports. As a result of this designation, any assets of Feodosiya Enterprise within U.S. jurisdiction are frozen. Additionally, transactions by U.S. persons or persons within the United States involving Feodosiya Enterprise are

generally prohibited.

### UKRAINIAN ENTITY SANCTIONS

Treasury, pursuant to E.O. 13660, designated and blocked **Luhansk People's Republic** as well as the **Donetsk People's Republic** for threatening the peace, security, stability, sovereignty, or territorial integrity of Ukraine. These two entities asserted governmental authority over a part or region of Ukraine without authorization of the Government of Ukraine. Also designated is **Aleksandr Borodai**, the self-declared "prime minister" of the Donetsk People's Republic. Borodai was in Crimea as an advisor to Sergei Aksyonov, whom Treasury designated on March 17, 2014 pursuant to E.O. 13660.

As a result of these designations, any assets of the entities and individuals within U.S. jurisdiction must be frozen. Additionally, transactions by U.S. persons or within the United States involving the entities and individual are generally prohibited.

### RUSSIAN GOVERNMENT OFFICIAL SANCTIONS

Treasury designated four Russian government officials, including:

- **Sergey Besesda** – head of Russia's Federal Security Service's Fifth Service, also known as the Service for Operational Information and International Communications;
- **Oleg Savelyev** – Russia's Minister for Crimean Affairs;
- **Sergei Neverov** – Russia's Deputy Chairman of the State Duma of the Russian Federation;
- **Igor Shchegolev** - Aide to the President of the Russian Federation.

As a result these individuals' designation, their assets within U.S. jurisdiction are frozen. Additionally, transactions by U.S. persons or persons within the United States involving the individuals are generally prohibited.

### EUROPEAN SANCTIONS

The moves by the U.S. were coordinated with European leaders. While new EU sanctions have not been issued, the EU indicated that it will decline to go as far as the United States, with a plan focused on blocking loans for new projects in Russia by European investment and development banks. European officials were unwilling to take parallel actions, given their more extensive economic ties with Russia.

### IMPACT

While the latest moves do not cut off entire sectors of the Russian economy, as threatened in the past, the new actions go significantly further than the financial and travel limits imposed so far on several dozen individuals and their businesses. The new measures will materially restrict access to American debt markets for the targeted companies. The new

American actions will bar affected Russian companies from the American debt markets for loans over 90 days, meaning that they will still be able to conduct day-in, day-out business with overnight loans but will find it harder to finance medium- and long-term activity. By designating firms in the arms or related materiel sector, Treasury has cut these firms off from the U.S. financial system and the U.S. economy.

In addition to the general importance of a compliance system that enables confirmation of any newly listed sanctioned entities, it is important to review again business relationships, contracts, purchase orders, and upcoming business travel to ensure that a company does not inadvertently violate the March 6, March 17, or March 20 Executive Orders as well as existing EU sanctions. A review should be conducted of projects that might be implicated by these sanctions. U.S. companies need to determine how these sanctions might impact on-going and prospective projects. Non-U.S. companies need to do the same, with attention to U.S. inputs that might now be controlled to the point that a project destined for Russia will have to be materially altered.

The team at Holland & Hart is prepared to assist with any of these reviews and will continue to provide you updates regarding how to comply with this new, changing sanctions regime.

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