Related Practices

Regulatory & Government Affairs
International Trade & Investment Regulation

Related Regions

Europe

PDF

U.S. Treasury Department Imposes Additional Sanctions on Russian Banks, Energy, and Arms Firms

July 14, 2014

In response to the continuing crisis in Ukraine, the U.S. Department of the Treasury has imposed additional sanctions on certain Russian firms and individuals. These targeted sanctions build on sanctions imposed earlier this year as part of the Obama administration's response to the Ukraine crisis. O'Melveny News Alert, New Sanctions Arising from Ukrainian Crisis Are Limited to Certain Individuals, (March 18, 2014).

Perhaps of most significance, the new sanctions seek to deny access to U.S. capital markets to key entities in the Russian financial services and energy sectors. Specifically, the Treasury Department placed two Russian banks (Gazprombank OAO and VEB) and two of Russia's largest energy companies (OAO Novatek and Rosneft) on the newly created "Sectoral Sanctions Identifications List." Effective immediately, U.S. persons are prohibited from engaging in any transactions involving a listed person's new debt with a maturity of longer than 90 days, all financing in support of such new debt, and any dealing in support of such new debt. "Office of Foreign Assets Control, Sectoral Sanctions Identifications List" (July 16, 2014). For the banks identified on the list, U.S. persons are also now prohibited from engaging in any transactions related to new equity issued by or on behalf of such listed persons. In effect, the sanctions cut off the identified entities from all medium and long-term financing by U.S. persons.

The Sectoral Sanctions Identifications List (SSI) includes persons determined by OFAC to be operating in sectors of the Russian economy identified by the Secretary of the Treasury pursuant to Executive Order 13662, “Blocking Property of Additional Persons Contributing to the Situation in Ukraine,” which was issued on March 20, 2014. Importantly, the property and interests in property of persons identified on the SSI list are not blocked, unless they are also designated on OFAC’s Specially Designated Nationals List. U.S. persons may continue to transact with new debt with a maturity of less than 90 days, and U.S. financial institutions may continue to maintain correspondent accounts and process U.S. dollar-clearing transactions for the identified entities so long as the prohibited transactions are not involved. “Questions Related to Sectoral Sanctions under Executive Order 13662” (July 16, 2014).

In addition to the sanctions against the financial services and energy sectors, the Treasury Department designated and blocked the assets of eight Russian companies responsible for production of a range of armaments, including small arms, mortars, and tanks. Sanctions were also imposed on three separatists in Eastern Ukraine, an entity complicit in the misappropriation of Ukrainian state assets, and four Russian government officials.

The Implications

The new sanctions further implement what the administration previously has characterized as “scalpel” sanctions, intended to deny Russia access to western capital markets and technology in a way carefully calibrated to respond to escalation by Russian authorities while maintaining general alignment with measures taken by the European Union. With the new sanctions, the United States has begun to stake out a more aggressive line than the EU, and to move toward a sanctions regime that with any further escalation will impose significant limitations on current and future U.S. business in Russia and with Russian partners, at least in the energy sector.

Meanwhile, U.S. companies may continue to pursue their business interests in Russia and Ukraine. The new sanctions restrict the access of the designated financial services and energy firms to U.S. capital markets but do not bar U.S. persons from doing business with them or freeze their property. The arms firms and other designated entities are blocked, and thus U.S. persons are prohibited from engaging in any dealings with them. Failure to comply with the prohibitions implemented by the sanctions may lead to the imposition of significant civil and criminal penalties.

---

newsletter. The views expressed in this newsletter are the views of the authors except as otherwise noted.