CLIENT UPDATE

EU EXPANDS UKRAINE-RELATED SANCTIONS; US TARGETS RUSSIAN BANK FOR AIDING SYRIAN GOVERNMENT; US UPDATES SANCTIONS RULES

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In our recent Client Updates, we outlined the European Union and United States asset freezes and visa bans on certain Russian, Crimean and Ukrainian individuals, and the United States asset freezes on certain entities, in connection with the crisis in Ukraine. On May 12, 2014, the European Union expanded the underlying criteria of its sanctions regime and designated 13 additional individuals and two entities.

Although the United States has not imposed any new Ukraine-related asset freezes since our April 29 Client Update, the United States has frozen the assets of a Russian bank and its chairman under the Syria sanctions program. In addition, the United States has issued new regulations clarifying and updating its Syria and Ukraine-related sanctions programs

EU SANCTIONS

The two sets of EU sanctions issued in March stated that sanctions were imposed against two types of person: (i) those responsible for "undermining or threatening the territorial integrity, sovereignty and independence of Ukraine"[1] and (ii) those responsible for the "misappropriation of Ukrainian state funds [or] for human rights violations in Ukraine".[2]

On May 12, pursuant to Council Regulation (EU) No. 476/2014 and Council Decision 2014/265/CFSP, the EU expanded its criteria for designation to the following categories of persons:

- natural persons (and natural or legal persons, entities or bodies associated with them) (i) responsible for actively supporting or implementing actions or policies which undermine the territorial integrity, sovereignty and independence of Ukraine or the stability or security in Ukraine or (ii) who obstruct the work of international organisations in Ukraine; and
- legal persons, entities or bodies in Crimea or Sevastopol whose ownership has been transferred contrary to Ukrainian law, as well as legal persons, entities or bodies which have benefited from such a transfer.

Thirteen individuals[3] and two entities have been designated under the new criteria. This expansion of the list of designated individuals brings the total number of individuals designated by the EU to 61.

The two designated entities, both based in the Crimea, are PJSC Chernomorneftegaz, a gas company, and Feodosia, an oil supplier. According to Regulation 476, both were appropriated by the Government of Crimea. These are the first entities sanctioned by the EU pursuant to the Russia/Ukraine sanctions. PJSC Chernomorneftegaz was designated by the US on 11 April under Executive Order 13660 and by Canada on 12 April pursuant to the Special Economic Measures (Ukraine) Regulations.

The sanctions prohibit EU persons, which includes persons within the EU as well as EU nationals anywhere in the world, from dealing in funds or economic resources that belong to or are controlled or held by listed individuals. EU persons are also prohibited from making funds or economic resources available to listed individuals, whether directly or indirectly.

In addition to announcing the expanded sanctions, the Council of the EU stated on May 12 that "preparatory work by the Commission and Member States is underway on possible

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[1] Council Regulation (EU) No. 269/2014 of 17 March 2014 O.J. L78/6.

[2] Council Regulation (EU) No. 208/2014 of 5 March 2014 O.J. L66/1.

[3] The designated individuals are: Vyacheslav Viktorovich Volodin, Vladimir Shamanov, Vladimir Nikolaevich Pligin, Petr Grigorievich Jarosh, Oleg Grigorievich Kozyura, Viacheslav Ponomariov, Igor Mykolaiovych Bezler, Igor Kakidzyanov, Oleg Tsariov, Roman Lyagin, Aleksandr Malykhin, Natalia Vladimirovna Pokloskaya and Igor Sergeievich Shevchenko.

targeted measures, as requested by the European Council in March, so that further steps can be taken should events require".

US SANCTIONS

On May 8 the Treasury Department issued its first set of regulations implementing the Ukraine-related sanctions program.[4] These regulations incorporate by reference the three Executive Orders imposing Ukraine-related sanctions[5] and provide details for implementation of those Executive Orders. These details include, among other things, definitions of key terms, requirements and authorizations for US financial institutions and others holding blocked property, and provisions governing the effect of attempted prohibited transfers. The regulations also authorize US persons to provide emergency medical treatment and certain legal services to blocked persons, subject to certain limitations.

The new Ukraine-related sanctions regulations adopt the so-called "50% Rule."[6] Under the 50% Rule, if a person whose assets are blocked (that is, frozen) owns a 50% or greater interest in an entity, then the entity's assets are also treated as blocked, even if the entity does not appear on the list of blocked persons itself. Although the Treasury Department's Office of Foreign Assets Control has long applied this rule as a matter of interpretive guidance, the new regulations now explicitly adopt this interpretation.

With all the recent news focused on the Ukraine-related sanctions, US persons dealing with Russia and Russian companies should keep in mind that other US sanctions programs continue to apply. This is illustrated by the imposition of an asset freeze on May 8 by the US Department of the Treasury against a Russian bank and the Chairman of its Management Committee under the sanctions targeting the Government of Syria.[7] According to the US Treasury Department, the Russian bank Tempbank, based in Moscow, has provided cash to the Syrian Government and facilitated transactions on behalf of the Central Bank of Syria and the Syrian state oil company SYTROL. The Treasury Department also designated Mikhail Gagloev, the Chairman of Tempbank's Management Committee, for acting on behalf of Tempbank in these transactions. Accordingly, the United States blocked (froze) the assets of both Tempbank and Gagloev on the ground that

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4 Ukraine-Related Sanctions Regulations, 79 Fed. Reg. 26365 (May 8, 2014) (adopting 31 C.F.R. Part 589).

5 Executive Order 13660, 79 Fed. Reg. 13493 (March 6, 2014); Executive Order 13661, 79 Fed. Reg. 15535 (March 16, 2014); Executive Order 13662, 79 Fed. Reg. 16169 (March 20, 2014).

6 31 C.F.R. § 589.406.

7 U.S. Department of the Treasury, Press Release, *Treasury Sanctions Syrian Regime Officials and Supporters* (May 8, 2014).

they provided material aid to the Government of Syria. At the same time, the United States blocked the assets of six senior officials of the Government of Syria.

This action comes just a few days after the Treasury Department undertook the first update since 2005 of its Syrian Sanctions Regulations.[8] While this recent action does not make any major substantive changes to the scope of the Syria sanctions program, it updates the regulations to reflect several executive orders and general licenses that were issued from 2006 through the present. This brings the regulations into line with the current scope of the Syria sanctions program.

We will continue to provide updates as the situation develops. For updates on Ukraine-related sanctions and other sanctions developments, please subscribe to the Debevoise & Plimpton LLP Sanctions Alert. The Sanctions Alert is a free, semi-monthly e-mail summary of developments in the area of economic and trade sanctions in the United States, the European Union and around the world. If you would like to subscribe, please e-mail sanctions@debevoise.com with a request to be added to the Sanctions Alert mailing list or sign up here. The Firm's sanctions-related publications can also be found at The Sanctions Resource page of our website.

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Please do not hesitate to contact us with any questions.

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8 Syrian Sanctions Regulations, 79 Fed. Reg. 25414 (May 2, 2014) (amending and reissuing 31 C.F.R. Part 542).