

DEBEVOISE & PLIMPTON LLP

SANCTIONS ALERT

A bi-monthly summary of sanctions news and developments

ISSUE 25

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DEBEVOISE EVENTS

Forthcoming Russia Sanctions Events Hosted by Debevoise

On Friday 12 September, in New York, and on Wednesday 17 September, in London, Debevoise & Plimpton LLP will host two breakfast seminars entitled "US and EU Sanctions Against Russia: Analysis and Business Implications". In these programmes, we will examine the US and EU economic and trade sanctions against Russia, as well as Russian countermeasures. We will assess the implications of the various restrictions for internationally active firms, including financial institutions and other companies. In addition, we will review how the various measures apply to existing and planned cross-border agreements, investments and subsidiaries.

Invitations will be sent out shortly but, if you or a colleague are interested in attending either event, please email events@debevoise.com.

We look forward to your participation.

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RUSSIA NEWS

Russia Restricts Agricultural Imports from US, EU, Canada, Australia and Norway

On 6 August, Russia declared a one-year ban on certain imports of agricultural products, raw materials and foods from countries that have adopted economic sanctions against Russian persons, or adhered to such sanctions. These measures have been officially referred to as a form of "counter-sanctions".

Presidential Edict No. 560 "On Certain Special Economic Measures to Ensure Security of the Russian Federation" directs the Government of the Russian Federation to prepare a list of categories of banned products and to decide upon specific measures to implement the ban. This edict was

implemented through the Russian Government's Decree of 7 August 2014 No. 778 "On the Measures to Implement the Russian Presidential Edict No. 560", which imposes restrictions on meat, poultry, fish and seafood, milk and milk products, vegetables, fruit and nuts, and other food and ready-made meals originating from the US, the EU, Canada, Australia and Norway.

Russia's Customs Service has already started to enforce the ban. The new measures do not provide for any grace period or "grandfather clause" in respect of supplies under pre-existing contracts. However, Russia's Prime Minister Dmitry Medvedev announced, "If our partners display a constructive approach towards cooperation issues, then the Government would be willing to revise the specific implementation deadlines for these measures."

Following the announcement of the new measures, Medvedev also warned of potential sanctions in the air transport industry, including a ban against European and US flights over Russian airspace. Restrictive measures in the shipbuilding and automobile industries may also be introduced.

On 11 August, senior EU officials reported that the EU might enter into political negotiations with Latin American nations to dissuade them from supplying agricultural produce to Russia in substitution. The Brazilian government has already authorised 90 meat plants to export chicken, beef and pork to Russia.

For more information, and for an analysis of contractual and non-contractual legal issues that may arise as a result of Russia's counter-sanctions, please see our Client Update of 8 August.

[Guardian Article](#)

[Client Update - 8 August](#)

[Prime Minister Dmitry Medvedev's Announcement](#)

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US Restricts Exports to Russia's Energy Sector, Adds United Shipbuilding Corporation to Entity List

On 1 August, the US Commerce Department's Bureau of Industry and Security ("BIS") amended the Export Administration Regulations to impose controls on certain items that are for use in Russia's energy sector and may be used for exploration in or production from deepwater, Arctic offshore or shale projects that have the potential to produce oil or gas. The amendments add two new Export Control Classifications to the Commerce Control List, including many items used in oil and gas exploration, and add a requirement that all exports, reexports or transfers to Russia of items in the new categories and certain existing categories require a licence from BIS if the exporter knows or has reason to know that they will be used in such deepwater, Arctic offshore or shale projects. BIS also has instituted a policy denying the export, reexport or foreign transfer of items for use in such projects.

Also on 1 August, BIS announced that United Shipbuilding Corporation, also known as OSK OAO, a Russian state-owned company that constructs ships for Russia's navy, was added to the Entity List. As a result, virtually all exports and reexports of US-origin goods and transfers of US-origin technology to United Shipbuilding Corporation require a licence from BIS, and applications for such licences are subject to a general policy of denial. In a separate action, United Shipbuilding Corporation was previously added to the Specially Designated Nationals list by the US Treasury's Office of Foreign Assets Control ("OFAC") on 29 July 2014, with the result that its property in the US or in the possession of US persons is blocked.

Please see our Client Update of 8 August for further information.

[US Commerce Department Press Release](#)

[Client Update – 8 August](#)

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Canada Expands Russian and Ukrainian Sanctions

On 6 August, Canada amended the Special Economic Measures (Russia) Regulations in order to add 19 individuals and 22 entities to its Russian and Ukrainian sanctions lists.

Russian Sanctions List

The following 14 individuals are now subject to an asset freeze and travel ban, including Ramzan Akhmadovich Kadyrov, president of the Republic of Chechnya, and Nikolay Terentievich Shamalov, CEO and majority shareholder of Bank Rossiya:

(1) Sergei Orestovoch Beseda; (2) Aleksandr Vasilievich Bortnikov; (3) Mikhail Vladimirovich Degtyarev; (4) Mikhail Efimovich Fradkov; (5) Boris Vyacheslavovich Gryzlov; (6) Ramzan Akhmadovitch Kadyrov; (7) Vladimir Georgyevich Kulishov; (8) Rashid Gumarovich Nurgaliev; (9) Nikolai Platonovich Patrushev; (10) Igor Shchegolev; (11) Alexander Nikolayevich Tkachyov; (12) Valerii Yuriovich Travkin; (13) Nikolay Terentievich Shamalov; and (14) Konstantin Valerevich Malofeev.

The following six entities are now subject to an asset freeze: (1) United Shipbuilding Corporation; (2) Dobrolet (also known as Dobrolyot); (3) Russian National Commercial Bank; (4); VTB Bank OAO; (5) Bank of Moscow; and (6) Russian Agricultural Bank (Rosselkhozbank).

The latter three entities were designated as part of the prohibition on providing new debt and equity financing. Debt financing is defined as a loan, bond or debenture, of longer than 90 days' maturity. Equity financing is defined as capital funding through the transaction of shares in exchange for an ownership interest. Gazprombank OAO, VEB and OAO Novatek have already been designated under these prohibitions.

Ukrainian Sanctions List

The following five individuals are now subject to an asset freeze and travel ban, including Sergey Abisov, "Minister of the Interior of the Republic of Crimea": (1) Pavel Yurevich Gubarev; (2) Ekaterina Yurevna Gubareva; (3) Oksana Tchigrina; (4) Boris Litvinov; and (5) Sergey Abisov.

The following 16 entities are now subject to an asset freeze:

(1) Federal State of Novorossiya; (2) International Union of Public Associations "Great Don Army"; (3) Sobol; (4) Luhansk Guard; (5) Army of the Southeast; (6) Donbass People's Militia; (7) Vostok battalion; (8) Kerch ferry; (9) Sevastopol commercial seaport; (10) Kerch commercial seaport; (11) Universal-Avia; (12) Resort "Nizhnyaya Oreanda"; (13) Azov distillery plant; (14) National Association of producers "Massandra"; (15) Magarach of the national institute of wine; and (16) Factory of sparkling wine Novy Svet.

[Statement of the Prime Minister of Canada](#)

[Regulations Amending the Special Economic Measures \(Russia\) Regulations](#)

[Regulations Amending the Special Economic Measures \(Ukraine\) Regulations](#)

[Special Economic Measures \(Russia\) Regulations](#)

[Special Economic Measures \(Ukraine\) Regulations](#)

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Ukrainian Parliament Enacts Sanctions Legislation

On 14 August, the Ukrainian parliament adopted legislation creating a legal framework for the imposition of sanctions on countries, foreign individuals and foreign entities. According to the text of the legislation, the criteria for designation include involvement in acts committed by countries and legal persons that constitute a threat to the sovereignty, territorial integrity and economic development of Ukraine. Ukraine intends to mirror the new sector-wide restrictive measures adopted by the EU on 31 July.

More than 20 different types of restrictive measures are included in the legislation, including asset freezes, a prohibition on conducting business in Ukraine, restrictions on financial transactions and travel bans. To be adopted, the sanctions must be approved by Ukraine's National Security Council and implemented by Presidential Decree.

A list of 172 Russian citizens and 65 entities, the majority of which are also Russian, has reportedly been drawn up as potential targets for the new sanctions. Ukraine's Prime Minister Arseniy Yatsenyuk announced that these persons had been involved in "sponsoring terrorism, supporting the annexation of Crimea, and violating the territorial integrity of Ukraine".

For further information on the EU's sector-wide restrictive measures, please see our Client Update of 31 July.

[RT Article – 14 August](#)

[RT Article – 8 August](#)

[Client Update - 31 July](#)

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Switzerland Expands Russian "Watchlist"

On 5 August, the Swiss Federal Department of Economic affairs announced that 26 individuals and 18 entities had been added to its "watchlist" of persons connected to the on-going Ukrainian crisis. The list mirrors the EU's sanctions regime and is designed to prevent designated individuals and entities in Russia from circumventing international sanctions by using Swiss financial structures.

Listed persons are prohibited from entering into new business relationships with Swiss financial institutions, which would therefore prevent assets held by, or on behalf of, those persons outside of the EU from being transferred to Switzerland. Financial institutions with pre-existing relationships with listed persons are subject to reporting obligations and are required to notify the Swiss authorities of any requests by listed persons to conduct transactions.

The list now comprises 87 individuals and 20 entities and includes senior officials of the People's Republic of Donetsk and Luhansk, separatist leaders and Russian officials, including members of the Security Council Mikhail Fradkov and Nikolai Patrushev. The Donetsk People's Republic, the Federal State of Novorussia and armed separatist groups are also listed.

Swiss Economy Minister Johann Schneider-Ammann stated in an interview with Swiss newspaper Schweiz am Sonntag that, while Switzerland would not adopt its own sanctions regime, it would

"make sure – and this is the key point – that Switzerland can't be used to circumvent the sanctions. And that has to remain our policy for the foreseeable future."

[Reuters Article](#)

[RT Article](#)

[Financial Times Article \(subscription required\)](#)

[Swiss Measures to Prevent the Circumvention of International Sanctions \(French, German or Italian\)](#)

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Norway Announces Further Russian Sanctions

On 11 August, Norway announced that it would implement sanctions against Russia in connection with the ongoing crisis in Ukraine. The sanctions would mirror the new sector-wide restrictive measures adopted by the EU on 31 July.

Norway's Minister of Foreign Affairs, Børge Brende, said, "The Government will align itself with the EU's new restrictive measures against Russia...The Ministry has recently held a number of meetings with representatives from the Norwegian business sector about the restrictive measures now being adopted."

For further information on the EU's sector-wide restrictive measures, please see our Client Update of 31 July.

[Norwegian Ministry of Foreign Affairs Press Release](#)

[Client Update - 31 July](#)

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UK NEWS

UK Government Decides not to Proceed with "Contract Sanctions"

As reported in Issue 14 of Sanctions Alert, the Foreign and Commonwealth Office (the "FCO") launched an informal consultation in February 2014 into the feasibility, benefits and risks of introducing and implementing a potential new type of sanctions: "contract sanctions".

Under these sanctions, contracts entered into by targeted regimes would be rendered unenforceable in the courts of participating states.

Debevoise & Plimpton LLP participated in the consultation on behalf of some of our clients and contacts.

On 4 August, we were informed by the FCO that, in view of the responses it received, the policy idea of contract sanctions would not be pursued any further. For further information on the consultation process, please email sanctions@debevoise.com.

[Consultation Document](#)

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BIS Releases Detailed FAQs on Russian Sanctions

On 14 August, the UK's Department for Business, Innovation & Skills ("BIS") published a detailed set of FAQs to assist exporters to understand the practical implications of the new EU sector-wide sanctions imposed on Russia as of 1 August.

The FAQs include an explanation of the key features of the new restrictive measures and trade embargo, as well as the application procedure for exporters to obtain licences required for listed technologies.

[FAQs on Russian Sanctions](#)

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US NEWS

OFAC Revises and Clarifies "50% Rule", Combines Ownership Interests of Different Blocked Persons

On 13 August, OFAC issued revised guidance on the so-called "50% Rule," which describes the circumstances under which an entity that is not itself designated for sanctions is nonetheless subject to blocking sanctions because it is owned 50 percent or more by a blocked person. OFAC also offers new clarifications to the 50% Rule through the issuance of new Frequently Asked Questions ("FAQs").

The most significant change under the new guidance is that, for purposes of calculating the 50 percent threshold, all ownership interests of blocked persons are aggregated. OFAC provides the following example: "[I]f Blocked Person X owns 25 percent of Entity A, and Blocked Person Y owns another 25 percent of Entity A, Entity A is considered to be blocked."

The new guidance also applies to entities on the Sectoral Sanctions Identification List ("SSI List"). Thus, entities owned 50 percent or more in the aggregate by SSI entities are subject to the same restrictions as the SSI entities themselves.

In addition, the FAQs offer several important clarifications on the application of the 50% rule:

First, the FAQs confirm that the 50% Rule "speaks only to ownership and not to control," meaning that an entity that is controlled, but not owned 50 percent or more, by one or more blocked persons is not itself automatically blocked. OFAC cautions, however, that such an entity would be a potential candidate for future designation.

Second, OFAC makes clear in the FAQs that US persons may not negotiate, contract or otherwise transact with a blocked person even if that blocked person is acting on behalf of a non-blocked

entity. This would mean, for example, that if an officer or director of a company is a blocked person, a US person cannot deal with that person acting on behalf of the company.

Third, the FAQs provide additional guidance on how to apply the 50% Rule in situations of complex ownership structures involving multiple entities that may be owned by one or more blocked persons. Essentially, the effective ownership stake of the blocked person is computed by looking through any intermediate holding company, as illustrated by the examples in the relevant FAQ.

Finally, the FAQs clarify that if the blocked persons reduce their ownership in an entity to below 50%, then that entity is no longer a blocked person. However, any property of that entity that was previously blocked because it was in the US or in the possession or control of a US person must remain blocked until it is unblocked by OFAC or the relevant blocked person is removed from the SDN list.

[OFAC Announcement](#)

[Revised Guidance on Entities Owned by Persons Whose Property and Interests in Property are Blocked, 13 August 2014](#)

[OFAC Frequently Asked Questions #398-402 \(Regarding the 50% Rule\)](#)

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OFAC Expands Sudan General Licence for Academic Institutions

On 11 August, OFAC amended Sudan General License No. 1, originally issued on 15 April 2013 to authorise certain transactions related to academic and professional exchange activities between the United States and Sudan. The amended licence, No. 1A, expands the definition of "US academic institutions" to include third-country branch campuses and to clarify that the authorisation extends to the institutions' third-party contractors. It also authorises US academic institutions to process applications and accept fees from Sudanese nationals who have not yet received a US visa.

[US Treasury Department Press Release](#)

[Sudan General License No. 1A](#)

[OFAC Frequently Asked Question #397 \(Regarding Sudan General License No. 1A\)](#)

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US Makes New Terrorism Designations Targeting Al-Nusrah and ISIL

On 6 August, US Treasury Department designated three individuals as Specially Designated Global Terrorists under Executive Order 13224. According to the Treasury Department, Shafi Sultan Mohammed al-Ajmi and Hajjaj Fahd Hajjaj Muhammad Shabib al-Ajmi, both based in Kuwait, provide financial support to Al Nusrah Front, a designated terrorist organisation active in Syria and linked to al-Qaida. Abd al-Rahman Khalaf Ubayd Juday al-Anizi is allegedly a senior financial official of and facilitator for the designated terrorist organisation Islamic State of Iraq and the Levant, paying for the travel of foreign fighters from Syria to Iraq as well as from Kuwait to Afghanistan.

[US Treasury Department Press Release](#)

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UN NEWS

UN Adds Three Individuals to Afghanistan-Related Taliban Sanctions List

On 30 July, the UN Security Council Committee approved the addition of three individuals to its list of individuals and entities associated with the Taliban and constituting a threat to the peace, stability and security of Afghanistan.

The listed individuals are: (1) Yahya Haqqani; (2) Saidullah Jan; and (3) Muhammad Omar Zadran. All are subject to an asset freeze, travel ban and arms embargo, established pursuant to Security Council Resolution 2160 (2014).

The individuals were designated for allegedly participating in the financing, planning, facilitating, preparing or perpetrating of acts or activities by, in conjunction with, under the name of, on behalf of, or in support of, designated persons, or otherwise supporting acts or activities of such persons.

[UN Press Release](#)

[Security Council Resolution 2160 \(2014\)](#)

[Updated List of Designated Persons](#)

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OTHER NEWS

FinCEN Issues Proposed Rules Enhancing Customer Due Diligence Requirements

On 30 July, the US Treasury Department's Financial Crimes Enforcement Network ("FinCEN") issued proposed rules to codify and strengthen existing customer due diligence requirements for banks, securities broker-dealers, mutual funds and futures commission merchants and introducing brokers in commodities ("covered financial institutions"). The most significant new requirement in the proposed rule would be the obligation for covered financial institutions to "look-through" certain legal entity customers to identify (and verify the identity of) natural persons who are beneficial owners of such customers. The proposal is open for comment until 3 October.

For further information on FinCEN's proposed rules, please see our Client Update of 5 August.

[Client Update – 5 August](#)

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For further information in relation to any of the above, please email sanctions@debevoise.com or call:

Satish Kini (Partner, Washington) +1 202 383 8190

Carl Micarelli (Counsel, New York) +1 212 909 6813

Jessica Gladstone (International Counsel, London) +44 20 7786 9166

Matthew Getz (International Counsel, London) +44 20 7786 5518

Jane Rahman (Associate, London) +44 20 7786 5463