

DEBEVOISE & PLIMPTON LLP

# SANCTIONS ALERT

A bi-monthly summary of sanctions news and developments

## ISSUE 27

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## DEBEVOISE EVENTS

### Debevoise Hosts Russia Sanctions Events in New York, Moscow and London

Debevoise & Plimpton LLP is hosting three breakfast seminars for clients and friends on "US and EU Sanctions Against Russia: Analysis and Business Implications". The first of the three events took place on Friday, 12 September, in New York. The remaining two programmes will be held on:

- Tuesday, 16 September, in Moscow; and
- Wednesday, 17 September, in London.

In these programmes, we 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.

If you or a colleague are interested in attending either upcoming event, please email [londonevents@debevoise.com](mailto:londonevents@debevoise.com).

We look forward to your participation.

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## RUSSIA NEWS

### EU Expands Russian Sanctions

On 12 September, the EU expanded its regime of sector-wide sanctions imposed on Russia in response to the ongoing crisis in Eastern Ukraine. Council Regulation (EU) 960/2014 imposes additional restrictions on accessing European capital markets, supplying dual-use goods and technology, providing financial assistance for military goods and engaging in activities related to oil exploration and production.

The further restrictions on access to EU capital markets for listed entities include a prohibition on dealing in transferable securities and money-market instruments with a maturity exceeding 30 days issued after 12 September 2014, and a prohibition on any direct or indirect involvement in the provision of loans or credit with a maturity exceeding 30 days after 12 September 2014. The following new entities are included in the expanded list: (1) OPK Oboronprom, (2) United Aircraft Corporation, (3) Uralvagonzavod, (4) Rosneft, (5) Transneft, and (6) Gazprom Neft.

In addition, the existing prohibition on dual use goods and technology has been extended to the following entities: (1) JSC Sirius, (2) OJSC Stankoinstrument, (3) OAO JSC Chemcomposite, (4) JSC Kalashnikov, (5) JSC Tula Arms Plant, (6) NPK Technologii Maschinostrojenija, (7) OAO Wysokototschnye Kompleksi, (8) OAO Almaz Antey, and (9) OAO NPO Bazalt.

The following 24 individuals will become subject to an asset freeze and a travel ban: (1) Alexander Zakharchenko, (2) Vladimir Kononov/Aka "Tsar", (3) Miroslav Vladimirovich Rudenko, (4) Gennadiy Nikolaiovych Tsypkalov, (5) Andrey Yurevich Pinchuk, (6) Oleg Bereza, (7) Andrei Nikolaevich Rodkin, (8) Aleksandr Karaman, (9) Georgiy L'vovich Muradov, (10) Mikhail Sergeyevich Sheremet, (11) Yuri Leonidovich Vorobiov, (12) Vladimir Volfovich Zhirinovskiy, (13) Vladimir Abdualiyevech Vasilyev, (14) Viktor Petrovich Vodolatsky, (15) Leonid Ivanovich Kalashnikov, (16) Vladimir Stepanovich Nikitin, (17) Oleg Vladimirovich Lebedev, (18) Ivan Ivanovich Melnikov, (19) Igor Vladimirovich Lebedev, (20) Nikolai Vladimirovich Levichev, (21) Svetlana Sergeevna Zhurova, (22) Aleksey Vasilevich Naumets, (23) Sergey Viktorovich Chemezov, and (24) Alexander Mikhailovich Babakov.

We will continue to monitor the situation and report on any new developments. For further information on the EU's sector-wide restrictive measures, please see our Client Update of 15 September 2014 and 31 July 2014.

[Client Update \(15 September 2014\)](#)

[Statement by EU Council President \(11 September 2014\)](#)

[Background on the Additional Sanctions to Enter into Force on 12 September 2014 \(11 September 2014\)](#)

[Council Regulation \(EU\) No 959/2014 of 8 September 2014 amending Regulation \(EU\) No 269/2014](#)

[Council Regulation \(EU\) No 960/2014 of 8 September 2014 amending Regulation \(EU\) No 833/2014](#)

[Council Implementing Regulation \(EU\) No 961/2014 of 8 September 2014 implementing Regulation \(EU\) No 269/2014](#)

[EU Council Press Release \(8 September 2014\)](#)

[Outline of proposals for a second round of restrictive measures on Russia – Leaked Commission Paper from \*FT\* \(Registration required\)](#)

[Special Meeting of the European Council \(30 August 2014\) – Conclusions](#)

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## **US Expands Sectoral Sanctions Program, Blocks New Defence Companies**

On 12 September, a few hours after the new EU sanctions were announced, the US Treasury Department announced an expansion of the sectoral sanctions program targeting Russian companies. In addition to adding new entities to existing Directives 1 and 2, which bar US persons from transacting in equity or long-term debt of listed financial services and energy companies, the US also has expanded the definition of long-term debt for financial services companies covered by Directive 1, has added a new Directive 3 targeting the defence and related materials sector, and has added a new Directive 4 supplementing US export controls on the Russian oil and gas sector. In addition to these changes to the Sectoral Sanctions Identifications ("SSI") List, the US has imposed blocking sanctions against a number of Russian defence companies.

Sberbank, Russia's largest bank, is now designated under Directive 1 of the SSI List. Directive 1 also has been amended to tighten the restrictions on debt financing transactions by reducing from 90 days to 30 days the maturity period of new debt. As a result, US persons are now prohibited from transacting or otherwise dealing in new equity or debt of greater than 30 days maturity of the financial institutions designated under Directive 1 of the SSI List, including both Sberbank and the banks that were previously designated.

Gazprom Neft and Transneft have been added to Directive 2 of the SSI List, which prohibits US persons from transacting or dealing in new debt of greater than 90 days maturity of these two companies and other listed companies in the Russian energy sector. The debt maturity period for Directive 2 remains at 90 days (and has not been shortened to 30 days, as with Directive 1).

The new Directive 3 of the SSI List currently includes just one entity, Rostec, a major Russian defence conglomerate. Directive 3 prohibits transactions by US persons involving new debt of greater than 30 days maturity issued by designated entities. With the introduction of Directive 3, the US has also made a conforming amendment to General License 1. The amended license, now designated as General License 1a, authorises derivatives transactions linked to instruments restricted under the SSI List Directives 1, 2 and 3.

The Treasury Department also announced new Directive 4 of the SSI List, which supports existing export restrictions administered by the Commerce Department's Bureau of Industry and Security ("BIS") that target Russia's oil industry. Specifically, US persons are now prohibited from exporting goods, services (not including financial services) or technology in support of exploration or production for Russian deepwater, Arctic offshore or shale projects that have the potential to produce oil. The targeted companies are Gazprom, Gazprom Neft, Lukoil, Surgutneftegas and Rosneft. OFAC also has adopted a new General License 2, which grants a limited grace period ending on 26 September 2014 for winding down pre-existing contracts. Directive 4 represents an expansion of existing export controls because it applies to services as well as goods, software and technology, and because it applies to US persons anywhere in the world, even if they are not exporting goods from the US or reexporting US-origin goods from a third country.

Finally, the Treasury Department has blocked five additional state-owned defence technology companies pursuant to Executive Order ("EO") 13661. The five entities, which have been added to the Specially Designated Nationals ("SDN") List, are OAO 'Dolgoprudny Research Production Enterprise,' Mytishchinski Mashinostroitelny Zavod OAO, Kalinin Machine Plant JSC, Almaz Antey GSKB, and JSC NIIP. All transactions by US persons with these five companies are now prohibited, and any assets of the companies in the US or in the possession or control of a US person must be frozen.

[Treasury Department Press Release](#)

[Ukraine General License 1a \(PDF\)](#)

[Ukraine General License 2 \(PDF\)](#)

[Updated FAQs on SSI List](#)

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## **Australia Announces Intention to Expand Russian Sanctions**

On 1 September, Australia announced its intention to adopt new restrictive measures against Russia in response to the ongoing crisis in Eastern Ukraine. Australia's Prime Minister Tony Abbott was "deeply concerned by escalating events" and announced measures to "build on Australia's existing financial sanctions and travel bans".

The new measures, planned in coordination with the US, Canada and the EU, will include restrictions on the access of Russian state-owned banks to Australian capital markets and restrictions on trade and investment in Eastern Ukraine. In addition, Australia's list of individuals and entities subject to asset-freeze measures and travel restrictions was expanded to include a further 63 Russian and Ukrainian individuals and 21 entities to mirror EU sanctions. This takes the total number of designated persons to 113 individuals and 32 entities.

[Prime Minister's Announcement](#)

[Explanation from Department of Foreign Affairs and Trade](#)

[Reuters Article](#)

[Autonomous Sanctions Amendment List 2014 \(Current Version\)](#)

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## US NEWS

### US Expands Iran Sanctions

On 29 August, the U.S. Treasury and State Departments added a number of individuals and entities to the SDN List under Iran-related sanctions programs, including companies based in the United Arab Emirates and Italy that were subjected to so-called "secondary sanctions" programs based on their dealings with blocked Iranian parties. In an announcement accompanying the new designations, the State Department emphasised that it was continuing to enforce existing sanctions while negotiations continue between Iran and the P5+1 nations (also known as the E3+3) over Iran's nuclear program. Iran's Oil Minister Bijan Zanganeh was quoted in a Reuters article as saying that Iran would continue its efforts to circumvent sanctions imposed by the West.

The parties added to the SDN List are blocked, meaning that US persons cannot engage in any transactions with them, and that their assets in the US or in the possession or control of a US person must be frozen. This is in addition to the general prohibitions under the Iranian Transactions and Sanctions Regulations on trade with Iran by US persons and entities owned or controlled by them.

The first set of new SDN designations was based on EO 13382, which targets proliferators of weapons of mass destruction ("WMD") and their supporters. Under that authority, the Treasury Department newly designated four individuals and two entities and listed new aliases for a previously sanctioned key Iranian missile proliferator. Mohammad Javad Imanirad and Arman Imanirad were designated for acting on behalf of a sanctioned entity, Aluminat, which, according to the Treasury Department, has provided centrifuge components to support Iran's nuclear program. Nefertiti Shipping was designated for being the Egyptian agent for Islamic Republic of Iran Shipping Lines ("IRISL"). Ali Gholami and Marzieh Bozorg, the Managing Director and Commercial Director, respectively, of Sazeh Morakab, as well as Sazeh Morakab itself, were designated for procuring

materials on behalf of various sanctioned Iranian defence industry companies, including Shahid Hemat Industrial Group, which the Treasury Department also identified as operating under two aliases, Sahand Aluminum Parts Industrial Company ("SAPICO") and Ardalan Machineries Company ("ARMACO").

Simultaneously, the US State Department announced the listing of four additional entities for WMD activities pursuant to EO 13382. According to the State Department, the Organisation of Defensive Innovation and Research, based in Tehran, was established by Mohsen Fakhrizadeh, who is sanctioned by the United Nations, and was designated by the State Department for alleged involvement in Iran's WMD activities. Iran's Nuclear Science and Technology Research Institute works with Iranian entities involved in the operation and development of Iran's heavy water research reactor at Arak, which is capable of producing nuclear material capable of use in nuclear weapons. Jahan Tech Rooyan Pars (Jahan Tech) and Mandegar Baspar Kimiya Company (Mandegar Baspar), both based in Iran, were designated by the State Department for alleged involvement in the procurement of proliferation-sensitive material for proscribed elements of Iran's nuclear program.

The second set of designations was directed against Iran's energy industry. Pursuant to EO 13645, Treasury designated Faylaca Petroleum and related individuals, stating that the company, together with the already-designated Sima General Trading, markets Iranian crude oil and petroleum products, obscures the origin of Iranian gas condensate and makes payments on behalf of the Iranian government's National Iranian Oil Company ("NIOC"). Additionally, the individuals Abdelhak Kaddouri, Muzzafer Polat and Seyedeh Hanieh Seyed Nasser Mohammad Seyyedi were also designated. Mr. Kaddouri is the financial chief of the Naftiran Intertrade Company Sarl ("NICO"), a subsidiary of NIOC, and associated with Swiss Management Services Sarl, both of which are sanctioned entities. Mr. Polat is the founder, director general and manager of Petrol Royale FZE, and designated for alleged involvement with Faylaca Petroleum for marketing Iranian crude oil and petroleum products as well as obscuring the origin of Iranian gas condensate. Ms. Seyyedi is Faylaca Petroleum's Managing Director. Finally, the Treasury Department also designated Lissome Marine Services LLC for using its vessels to support the National Iranian Tanker Company ("NITC").

Another set of designations targeted Iranian banks and Iranian-owned foreign banks. Asia Bank, formerly Chemeximbank, an Iranian-owned bank based in Moscow, Russia, was designated under EO 13662 for coordinating the delivery of U.S. dollar bank notes to the Iranian government as well as providing support to two designated Iranian banks, Export Development Bank of Iran and Bank Tejarat, by assisting in setting up correspondent accounts. The Treasury Department also identified as Iranian financial institutions pursuant to EO 13559 four additional banks in Iran as well as Kafolatbank, an Iranian-owned bank based in Tajikistan. This subjects these banks to blocking sanctions.

The Treasury Department also expanded Counter-Terrorism-Related Designations under 13224. Meraj Air, Caspian Air and Pouya Air were designated for providing support to Iran's Islamic Revolutionary Guard Corps ("IRGC"), including the transportation of weapons to Syria, and Sayyed Jabar Hosseini was also designated for allegedly coordinating shipments on behalf of the IRGC to Sudan and Syria. Additionally, Pioneer Logistics, based in Turkey, and Asian Aviation Logistics, based in Thailand, were designated for supporting Mahan Air, which was itself designated in 2011 for providing support to the IRGC.

In addition, the US imposed sanctions on two non-Iranian companies under the so-called "secondary sanctions" laws. In particular, the State Department announced sanctions on Goldentex FZE, a UAE-based entity, pursuant to authority granted under the Iran Freedom and Counter-Proliferation Act of 2012, for providing support to Iran's shipping sector. Dettin SpA, an Italy-based entity, was also sanctioned for knowingly providing Iran's petrochemical with goods and support

exceeding \$250,000 in value, which actions were made sanctionable by the Iran Threat Reduction and Syria Human Rights Act of 2012. While these laws allow the State Department to choose from a menu of possible sanctions, it appears that Goldentex and Dettin were subject to the most severe available sanction, that is, being placed on the SDN list and therefore blocked.

[US Treasury Department Press Release](#)

[State Department Press Release](#)

[Reuters Article](#)

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## **OFAC Targets Mexican Attorneys and Related Company for Assisting Sinaloa Cartel**

On 11 September, OFAC announced the designations of Jose Avina Bribiesca, Ignacio Gonzalez Hernandez and Janette Iliana Gonzalez Linares, all attorneys based in Guadalajara, Mexico, and a real estate entity, Bona-Habitat, pursuant to the Foreign Narcotics Kingpin Designation Act ("Kingpin Act"). OFAC asserts that the attorneys work on behalf of Juvencio Ignacio Gonzalez Parada, another Guadalajara-based attorney already designated for allegedly advising leaders of the Sinaloa Cartel. Bona-Habitat is controlled by Mr. Parada and employs the newly designated attorneys. Among other activities, the attorneys allegedly manage the Sinaloa Cartel's illicitly obtained real estate properties.

[Treasury Department Press Release](#)

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## **Online Foreign Exchange Platform Settles Potential Liability for Maintaining Accounts with Customers in Iran, Sudan and Syria**

On 9 September, OFAC announced that Zulutrade, Inc., a US entity that operates an online foreign exchange trading platform, agreed to pay \$200,000 to settle potential civil liability for apparent violations of the Iranian Transactions and Sanctions Regulations, the Sudanese Sanctions Regulations and EO 13582, which prohibits certain transactions with respect to Syria. The Commodities Futures Trading Commission is taking additional enforcement action, including ensuring that Zulutrade enhances its sanctions compliance capabilities.

Zulutrade operates an introducing broker platform that allows customers to place currency foreign exchange trades through broker-dealers registered on Zulutrade's platform. OFAC asserts that Zulutrade maintained accounts for over 400 persons in Iran, Sudan and Syria and consequently exported services to these customers, as well as originated eight funds transfers totalling \$10,264.36 destined for two individuals located in Iran. According to OFAC, Zulutrade failed to screen or otherwise monitor its customer base for OFAC compliance purposes as a result of a lack of awareness regarding US sanctions regulations.

In determining the size of the settlement, OFAC considered as aggravating factors that Zulutrade acted recklessly in maintaining accounts for, and placing foreign exchange trades on behalf of, persons subject to US sanctions; Zulutrade and its management had reason to know of the conduct leading to the apparent violations; Zulutrade's actions caused harm to US sanctions program objectives; and Zulutrade did not have an OFAC compliance program. Mitigating these concerns, OFAC considered that Zulutrade is a small entity with limited business operations; Zulutrade has taken remedial action; Zulutrade had not received an OFAC penalty notice in the five years preceding the earliest apparent violation; and Zulutrade cooperated with OFAC's investigation.

[OFAC Enforcement Announcement \(PDF\)](#)

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## **Citigroup Settles Potential Liability for Iran-Related and Kingpin-Related Transactions Resulting from Screening Failures**

On 3 September, OFAC announced that Citigroup Inc., based in New York, agreed to pay \$217,841 to settle potential civil liability for eight apparent violations of the Iranian Transactions and Sanctions Regulations, the Weapons of Mass Destruction Proliferators Sanctions Regulations, the Global Terrorism Sanctions Regulations and the Kingpin Act.

The apparent violations comprise two separate sets of transactions. Between 2 April 2009 and 16 November 2009, Citigroup Trade Services Malaysia processed four export bill collection applications totalling \$638,074.15 on behalf of Citibank N.A., Hong Kong involving shipment of goods to Iran. Two of these transactions involved IRISL, which was sanctioned in 2008 under the Global Terrorism Sanctions Regulations. According to OFAC, employees of the Malaysian entity failed to review or screen the bills of lading, certificates of origin and shipment advice. OFAC determined that Citigroup voluntarily disclosed these apparent violations.

Separately, on four occasions between February 2010 and October 2012, Citibank N.A. processed funds transfers totalling \$133,786.73 in the US involving entities appearing on OFAC's SDN List. According to OFAC, Citibank's interdiction software failed to identify the references to the sanctioned parties because of minor differences in spelling, and the transactions were processed straight through without manual intervention. OFAC determined that Citigroup did not voluntarily disclose these apparent violations.

In determining the settlement amount, OFAC considered as aggravating factors that Citigroup employees, in reviewing the self-disclosed transactions, did not review underlying documentation that included sanctions references; the apparent violations resulted in harm to US sanctions programs; and Citigroup is a large and commercially sophisticated financial institution. Mitigating these considerations, OFAC noted that no Citigroup managers or supervisors were aware of the transactions; harm to US sanctions programs was mitigated by the fact that several of the transactions were blocked by third-party financial institutions; Citigroup took remedial action to ensure that specific name variations were added to its interdiction filter; Citigroup has not received a penalty notice or Finding of Violation from OFAC in the five years preceding the earliest of these transactions; and Citigroup cooperated with OFAC, including prompt and thorough responses to inquiries and entering into a statute of limitations tolling agreement.

[OFAC Enforcement Announcement \(PDF\)](#)



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## UN NEWS

### UN Security Council Expands Libyan Sanctions

On 27 August, the UN Security Council adopted UNSC Resolution 2174 (2014) expanding its restrictive measures against militia groups and their supporters in response to the escalating conflict in Libya. The Security Council expressed its resolve to “use targeted sanctions in pursuit of stability in Libya, and against those individuals and entities who threaten its stability and obstruct or undermine the successful completion of the political transition”.

[UNSC Resolution 2174 \(2014\)](#)

[UNSC Resolution 1970 \(2011\) on Libya](#)

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