

Client Update

U.S. Senate Seeks to Expand Sanctions on Iran, Russia

On June 15, 2017, the U.S. Senate voted 98-2 to adopt proposed legislation aimed at strengthening sanctions against Iran and Russia. The bill (S. 722, An Act to Provide Congressional Review and to Counter Iranian and Russian Governments' Aggression, or "Countering Iran's Destabilizing Activities Act of 2017") now moves to the U.S. House of Representatives.

For both Russia and Iran, the bill generally would expand the scope of activities targeted by U.S. sanctions, tighten certain restrictions under existing sanctions and limit the Executive Branch's ability to dismantle aspects of the sanctions programs quickly and without Congress' participation.

If the bill becomes law, we expect immediate changes to the existing U.S. sanctions programs against Iran and Russia would be incremental, rather than a major expansion. However, certain provisions, particularly the tightening of the sectoral sanctions program against Russia, may result in new, significant restrictions on affected Russian companies.

Over a longer term, the bill may make these sanctions a feature of U.S. policy by requiring prior Congressional approval of any action by the President to lift Russia-related sanctions or delist Russian persons. The imposition of secondary sanctions likely would place an even greater emphasis on sanctions compliance policies and procedures for all companies dealing with or operating in Russia, including those registered in Russia.

The U.S. House of Representatives has not yet scheduled discussion of the Senate's bill. Press reports indicate the Trump administration may seek to use its influence in the House to dial back certain provisions of the bill, including those restricting the President's authority to dismantle unilaterally existing sanctions on Russia.

PROPOSED AMENDMENTS TO IRAN SANCTIONS

The bill's Iran-related provisions expand the scope of potentially sanctionable activities, particularly as they relate to Iran's development of ballistic missiles and support of Iran's human rights abuses. The bill also would sanction Iran's Islamic Revolutionary Guard Corps under a terrorism-related sanctions program (it is already subject to a number of other sanctions programs). In addition, it would limit the President's authority to remove certain newly designated persons from the Iran sanctions lists.

PROPOSED AMENDMENTS TO RUSSIA SANCTIONS

The Russia-related sections of the bill would:

- Codify, amend and clarify existing sanctions, many of which are based on authorities granted by executive order, and limit the President's ability to alter meaningfully the existing sanctions, including delisting currently sanctioned persons, without Congressional input;
- Amend the sectoral sanctions program, which imposes limited restrictions, known as directives, on U.S. persons' activities with designated Russian companies, by
 - Directing that state-owned entities operating in the railway, shipping or metals and mining sectors are potential targets of U.S. sectoral sanctions,
 - Revising *Directive 1* (restricting equity and debt financing) and *Directive 2* (restricting debt financing) to limit permissible transactions in new debt of designated entities to a maximum maturity of 14 days and 30 days, respectively (current restrictions apply to debt with a maturity of longer than 30 and 90 days, respectively), and
 - Revising *Directive 4* (restricting oil production services and related activities) to apply to any deep water, Arctic offshore or shale project for the exploration or production of oil, whether in Russia or elsewhere (current restrictions apply only to such projects in Russian territory);
- Authorize sanctions on persons determined to undermine cybersecurity on behalf of Russia;
- Authorize new "secondary" sanctions, which allow sanctions on any non-U.S. person engaging in certain targeted activities that
 - Facilitate significant deceptive or structured transactions for a sanctioned Russian person, or his or her close relatives,
 - Undermine cybersecurity,
 - Amount to "significant transactions" with Russia's intelligence and defense sectors,
 - Deal with large investments in Russian energy export pipelines, and

- Relate to corrupt privatizations of Russian state-owned assets.

PROSPECTS OF THE LEGISLATION

Consideration of the bill is pending in the House of Representatives. Press records indicate that the Trump administration may lobby against the bill, citing, in part, Secretary of State Rex Tillerson's recent request to the House Foreign Affairs Committee for "flexibility" to set the U.S. sanctions policy. However, the House Foreign Affairs Committee Chairman, Edward Royce (R-CA), has said his "goal is to pass this measure as soon as possible" and he expects strong support.

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We will continue to monitor the situation and provide updates. Please do not hesitate to contact us with any questions.

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