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## *High Stakes in Ukraine: U.S. and EU Ratchet Up Sanctions Against Russia as Fragile Peace Process Gets Underway*

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As the cease fire in Eastern Ukraine struggles to take hold, the United States and the European Union have imposed new and expanded economic sanctions on Russia. By ratcheting up sanctions at this time, the West is adopting a “carrot and stick” strategy of increasing pressure on Russia while indicating that the sanctions might be eased if additional progress is made toward a lasting resolution of the situation in Ukraine.<sup>1</sup>

The latest actions deliberately target high-profile Russian financial services and energy companies—including Sberbank, Russia’s largest bank, and energy giants Gazprom Neft, Transneft, and Rosneft—in an effort to choke off new sources of revenue and financing at a time when significant amounts of Russian foreign corporate debt will soon be coming due. The message to Vladimir Putin is clear: move quickly and permanently to defuse the crisis in Eastern Ukraine or risk derailing the Russian economy. Especially in the case of the U.S. sanctions, the sanctioning governments are willing to accept some collateral damage to their own economies to achieve that result.

### **New U.S. Sanctions**

Four Sectors, Not Two. The United States has broadened its program of “sectoral sanctions” to extend restrictions to more companies and industries, to tighten access to U.S. financial markets, and to bar U.S. persons from supporting targeted Russian energy companies on oil exploration and production projects, including deepwater, Arctic offshore, territorial maritime, and shale projects in Russia. To accomplish this, the U.S. Department of the Treasury, Office of Foreign Assets Control (“OFAC”), has expanded from two to four the “Directives” issued under [Executive Order 13662](#), the primary order authorizing sanctions against key sectors of the Russian economy. Existing Directives 1 and 2, which cover targeted financial services and energy sector companies, respectively, have been amended. New Directive 3 is addressed to a leading entity in Russia’s defense sector, and Directive 4 targets energy companies operating in Russia’s lucrative offshore oil industry.

- [Amended Directive 1](#), which previously had prohibited U.S. persons from dealing in new equity or new debt of maturity longer than 90 days issued by the targeted financial institutions on or after July 16, 2014, now also prohibits dealings in any debt with a maturity of longer than 30 days issued on or after September 12, 2014. The financial institutions

currently targeted include **Bank of Moscow, Gazprombank OAO, Russian Agricultural Bank, Sberbank, VEB,** and **VTB Bank**.

- [Amended Directive 2](#) prohibits U.S. persons from dealing in any new debt of greater than 90 days' maturity, issued on or after September 12, 2014 for newly-targeted entities (including **Transneft** and **Gazprom Neft**), and on or after July 16, 2014 for those who were named under the original Directive 2.
- [New Directive 3](#) extends financing restrictions to the **Rostec** concern, a state-owned entity that includes military technology and arms export businesses, prohibiting U.S. persons from dealing in new debt issued by Rostec-owned entities with a maturity of longer than 30 days.
- [New Directive 4](#) imposes a sweeping new prohibition barring U.S. persons from exporting, re-exporting, or otherwise providing goods, services (except financial services), and technology for projects in support of exploration or production for deepwater, Arctic offshore, or shale oil projects, or such activities in Russian territorial waters, involving targeted Russian oil sector companies, including **Gazprom Neft, Lukoil, Surgutneftegas,** and **Rosneft**.

OFAC also issued [General License 1a](#), extending an existing authorization permitting transactions in derivative products whose value is linked to an underlying asset (new equity or new debt) that would otherwise be subject to Directives 1, 2, and 3; and [General License 2](#), providing U.S. persons with a two-week grace period to wind down activities in support of Russian offshore and shale oil exploration and production operations now prohibited by Directive 4.

New Blocked Parties. Finally, the United States added new Russian entities to its List of Specially Designated Nationals and Blocked Parties, effectively freezing any assets subject to U.S. jurisdiction and barring all U.S. dealings with these entities:

- **Almaz-Antey GSKB;**
- **JSC NIIP;**
- **Kalinin Machine Plant;**
- **Mytishchinski Machine-Building Plant;** and
- **OAO Dolgoprudny Research Production Enterprise.**

## New EU Sanctions

The [new EU measures](#), which were published and made effective September 12, 2014, track the overall approach of the U.S. sanctions, with some important exceptions.

Additional Financial Market Access Restrictions. The previous sanctions barred EU persons from engaging certain transactions in transferable securities and money-market instruments with a maturity exceeding 90 days, issued after August 1, 2014, by five Russian financial institutions: **Sberbank, VTB Bank, Gazprombank, VEB,** and **Rosselkhozbank**. The new sanctions bar a broader course of financial dealings with these institutions, including dealing in any such instruments with a maturity exceeding 30 days, if issued after September 12, 2014, or making any new loans or providing credit with a maturity exceeding 30 days after that date. The EU sanctions permit dealing in

new loans or credit “that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the Union and Russia” or “to provide emergency funding to meet solvency and liquidity criteria” for EU-incorporated subsidiaries of the targeted financial institutions.

These same restrictions against dealings in newly-issued transferable securities and money-market instruments with a maturity exceeding 30 days, as well as any new loans or credit exceeding 30 days, are now extended beyond the five financial institutions to three entities operating in the Russian defense industry—**OPK Oboronprom**, **United Aircraft Corporation**, and **Uralvagonzavod**—and three of the energy sector entities also targeted by the United States—**Rosneft**, **Transneft**, and **Gazprom Neft**.

Export Restrictions: Dual-Use Goods and Technology. The EU has barred exports, and all financing, brokering or other facilitation of such activities, of so-called “dual use” goods and technology to a number of Russian defense concerns that have been linked to military aid to separatists operating in Eastern Ukraine. (Dual-use items are subject to heightened export controls because they have potential military, as well as recognized civilian, applications.) Again, this export restriction is subject to a substantial exception: it does not apply to the transfer of such goods and technology “intended for the aeronautics and space industry;” to the provision of technical and financial assistance for non-military use for a non-military end user; or to the provision of technical and financial assistance “for maintenance and safety of existing civil nuclear capabilities within the EU, for non-military use and for a non-military end user.” The targeted Russian defense companies are:

- **JSC Sirius;**
- **OJSC Sankoinstrument;**
- **AO JSC Chemcomposite;**
- **JSC Kalashnikov;**
- **JSC Tula Arms Plant;**
- **NPK Technologii Maschinostrojenija;**
- **AO Wysokototschnye Kompleksi;**
- **AO Almaz Antey;** and
- **AO NPO Bazalt.**

Insurance on Military Export Sales. To the existing ban on providing financing or financial assistance for exports of military goods to Russia, the EU has added a ban on providing insurance or reinsurance for such transactions.

Additional Restrictions on Support for Oil Exploration and Production. EU persons will be barred from providing drilling, logging, or completion services, or services for the supply of specialized floating vessels, for use in any Russian deep water, Arctic offshore, or shale oil exploration or production project where the services are provided based on a contract negotiated on or after September 12, 2014. Such services will be permitted, however, where “necessary for the urgent prevention or

mitigation of an event likely to have a serious and significant impact on human health and safety or the environment.”

Expanded List of Blocked Persons. The new sanctions also add 24 individuals to the EU’s list of blocked parties, bringing to over 120 the number of individuals and entities affected by the restrictions, which include asset freezes and, in the case of individuals, a bar on travel to or within the European Union.



*As the U.S. and EU sanctions programs expand and become increasingly complex, companies doing business in or with persons from Russia and Ukraine must continually re-evaluate the risks and exposures to these programs.*

*For more information on global economic sanctions and other trade restrictions, please contact one of these members of our Global Trade Controls team:*

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<sup>1</sup> We have previously described the escalating program of U.S. and EU sanctions against Russia [here](#), [here](#), and [here](#).

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