
Western Sanctions Expand as Tension in Ukraine Continues

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The United States, Canada and the European Union have designated a number of additional officials and companies as the unrest continues in eastern Ukraine. The United States also imposed sanctions on the head of Russian energy giant Rosneft and announced new export controls on shipments to Russia. Although sector-wide sanctions or broader measures against the Russian banking or energy industries have not yet been imposed, such measures remain under active consideration and further destabilization or Russian military action could trigger additional steps in the near future.

The United States (April 28, 2014), Canada (April 28, May 4, and May 12, 2014) and European Union (“EU”) (April 29 and May 12, 2014) have imposed additional sanctions designations, continuing to target selected individuals and entities. As yet, no country has implemented broader embargoes against Russia or its industry sectors. Normal business, banking and travel continue to be permitted, except for transactions involving the designated individuals and entities.

The U.S., Canada and EU have made the following new designations:

U.S. Sanctions

- Six additional Russian government officials.
- Igor Sechin – President and Chairman of the Management Board for Rosneft, Russia’s leading petroleum company. Rosneft, however, is not subject to sanctions since Sechin does not own more than 50 percent of Rosneft.
- Seventeen other entities owned or controlled by Bank Rossiya, Gennady Timchenko or the Rotenberg brothers who have been previously targeted by U.S. sanctions. The entities are in the financial/banking, construction, transportation/logistics and consumer products sectors.
- OFAC added a new Russian bank, Tempbank, to its Specially Designated Nationals List on May 8. This action was taken under the Syrian Sanctions Regulations.

Canada Sanctions

- Twenty-one individuals – All but two of the individuals were previously named by other jurisdictions; the two new individuals are both Russian political figures.
- Eighteen entities – Two Russian banks (RosEnergoBank and ExpoBank) that have not been named by any other jurisdiction and sixteen additional entities that had already been designated by the United States.

EU Sanctions

Fifteen individuals, consisting of nine Russian political figures, including the Chief of the General Staff of the Armed Forces of the Russian Federation and six persons involved in the Crimean separatist movement or new Crimean government.

Thirteen additional individuals, including Russian government and military officials and Ukrainian separatist leaders, and two companies (PSJC Chernomorneftegaz and Feodosia) whose assets were appropriated by the Crimean authorities.

Additional U.S. Actions

The U.S. Commerce Department's Bureau of Industry and Security ("BIS") had announced in March that it was suspending processing of new licenses for exports to Russia. On April 28, 2014, BIS updated the policy, stating that it will deny pending license applications for exports or re-exports of high technology items that could be used to support Russia's military capabilities and will revoke any existing licenses meeting those criteria. BIS, however, announced that it would consider license applications not meeting those criteria on a case-by-case basis, allowing the processing of some applications to resume. The State Department has posted a similar notice regarding licenses under the International Traffic in Arms Regulations ("ITAR") for export or retransfer of military equipment, software, technology and services.

BIS also added 13 Russian companies to its Entity List. Any export or re-export to these companies of goods, software or technology subject to U.S. jurisdiction under the Export Administration Regulations are now prohibited without a license, with a presumption that any such license request will be denied.

On May 8, 2014 the Department of Treasury's Office of Foreign Assets Control ("OFAC") published the Ukraine-Related Sanctions Regulations at 31 C.F.R. Part 589 implementing Executive Orders 13660, 13661 and 13662. These regulations codify the prohibitions outlined in the Executive Orders, as well as certain interpretations such as guidance on the prohibitions applicable to entities owned 50 percent or more by a designated individual or entity.

Next Steps

Although the most recent steps are incremental, the U.S. Administration has indicated that additional sanctions against the Russian energy, banking and other sectors remain on the table and the United States is negotiating with the EU on the scope of these broader sanctions. At a Senate Foreign Relations Committee hearing on May 8, 2014, a number of senators voiced frustration with the Administration's approach, and 21 Republican senators have introduced legislation requiring the imposition of broad sanctions on economic sectors, while Administration representatives advocated a surgical approach using a "scalpel" to cut across parts of sectors. Events surrounding the planned separatist vote in eastern Ukraine that took place on May 11, 2014 and the planned Ukraine-wide elections on May 25 could trigger the imposition of broader sanctions, which would likely have a more significant impact than the sanctions designations that have been made to date.

If you have any questions about the content of this client alert, please contact the Pillsbury attorney with whom you regularly work, or the authors below.

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