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July 2014

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New Coordinated U.S. and EU Sanctions Target Russian Banks, Oil Industry

BY THE PAUL HASTINGS GLOBAL TRADE CONTROLS GROUP

On Tuesday, July 29, the United States and the EU announced additional, coordinated steps to intensify economic sanctions against several major Russian-owned banks, as well as on exports of technology to Russia's oil industry. These latest moves respond to what the West sees as Russian responsibility for, and continued intransigence in addressing, the conditions that led to the downing of Malaysian Air Flight 17 by Russian-backed rebel forces in Eastern Ukraine.

U.S. Sectoral Sanctions / Additional Designations

The main body of the additional U.S. sanctions consists of updates to the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") Sectoral Sanctions Identification List ("SSI List"), which we first discussed in this previous Client Alert. The sectoral sanctions prohibit U.S. persons from "transacting in, providing financing for, or otherwise dealing in" any new equity or long-maturity debt issued by sanctioned companies. All other transactions with these entities are permitted, unless barred by another sanctions program.

The new U.S. sectoral sanctions target three prominent banks in which Russia owns a major stake:

- Bank of Moscow;
- VTB Bank; and
- Russian Agricultural Bank.

These targets join a growing list of financial institutions, including Vnesheconombank (VEB) and Gazprombank, both of which were sanctioned on July 16, one day before the Flight 17 incident.

The United States also placed United Shipbuilding Corporation, a state-owned military contractor, on the Specially Designated Nationals ("SDN") List, effectively embargoing all dealings by U.S. persons with that entity.

Finally, although the specifics have not yet been made clear, the United States announced that it will expand export restrictions on oilfield technology transfers to Russia and Russian firms.

New EU Sanctions

Hours before the U.S. announcement, the Council of the European Union released a statement that it has agreed to a package of sanctions that, mirroring the U.S. sectoral sanctions, will bar EU entities from dealing in new bonds, equity or other financial instruments with a maturity exceeding 90 days, issued by as-yet unnamed major Russian banks. The EU also announced an embargo on new arms sales to Russia, as well as restrictions on the sale of so-called "dual use" items to Russian military end-users. Finally, the EU sanctioned three individuals, presumed to be close associates of Vladmir Putin. The full details of the EU sanctions, including the names of affected entities and individuals, are expected to be published by July 31.

These coordinated actions of the United States and the EU represent the furthest steps taken to date to pressure Putin by isolating key sectors of the Russian economy. As the scope of sectoral sanctions continues to expand, the potential for disrupting transactions involving U.S. and EU companies grows as well. More than ever, companies doing business with Russian counterparties must closely monitor, and take steps to ensure compliance with, these programs.

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