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Ukraine Crisis: US Expands Sanctions to Target Certain Russian Business Interests, Broadens Framework For Future Sanctions

US blocks the property of one Russian bank and 20 individuals, and a new US Executive Order authorizes future sanctions against various Russian industries.

In the latest round of US sanctions responding to the political crisis in Ukraine, the White House broadened the scope of individuals targeted and added the first business entity to the list of designated persons. While the first and second rounds of US sanctions targeted government and military figures, the latest measures also designate four private individuals and one bank, each with extensive business interests and close ties to the Russian political leadership. Concurrent with these new designations, US President Barack Obama issued a new Executive Order (EO) establishing an extremely broad framework for possible future sanctions on important sectors of the Russian economy.

These new US sanctions accompany similar measures that have been imposed by the European Union, the Government of Canada and other governments. These other sanctions, along with countermeasures implemented by the Government of Russia, continue to evolve and expand, principally through additional designations of targeted persons.

New US Designations

On March 20, 2014, the US added a bank and 20 individuals to the list of persons whose property is blocked under the authority of Executive Order 13661. The individuals include 16 Russian government officials and four Russian businesspersons, whom the US Department of the Treasury fact sheet describes as “members of the Russian leadership’s inner circle.”

The US also blocked the property of Bank Rossiya. According to Treasury, Bank Rossiya is “the personal bank for senior officials of the Russian Federation,” which counts “members of Putin’s inner circle” as shareholders.

This marks the first time that the US has targeted Russian business interests under the Ukraine-related sanctions.

New US Executive Order

Also on March 20, the US President issued an Executive Order (EO) expanding upon the authority granted by Executive Order 13660 of March 6 and Executive Order 13661 of March 16, 2014. The new EO authorizes Treasury, in consultation with the US Department of State, to designate persons operating in sectors of the Russian economy, as well as persons materially assisting, or that are owned or controlled by or acting on behalf of, designated persons.

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While no parties have been designated under this new EO, it confers broad authority on Treasury to designate virtually any person that operates in any sector of the Russian economy that Treasury decides to target. The EO provides a non-exhaustive list of economic sectors that Treasury could target, including "financial services, energy, metals and mining, engineering, and defense and related materiel." Unless and until persons are actually designated under the new EO, however, it does not restrict dealings with persons operating in any Russian economic sector.

Legal and Business Considerations

As the list of sanctioned parties grows to encompass entities with business interests in Russia and beyond, US persons and firms should carefully scrutinize all operations and business relationships that could involve designated persons. Firms that deal with entities operating in the Russian economy or that are closely aligned with Russian economic interests should closely monitor future designations and consider contingency plans in the event business partners are blocked by the US government.

In particular, potentially impacted firms should identify and manage risks arising from any dealings with entities that may be owned, in whole or in part, by designated persons. Treasury's Office of Foreign Assets Control (OFAC) takes the position that entities that are 50 percent or more owned by designated persons are automatically subject to blocking, even if those entities are not listed. This interpretation can impose a compliance burden on US firms to examine the ownership chains of their Russian business partners, and the potential reach of these sanctions to certain well known Russian-owned companies has already generated confusion and doubt. While OFAC guidance or additional designations may soon clarify the status of certain entities, these new sanctions will continue to present compliance challenges and risks for US firms.

While we expect the US and other governments will continue to revise and expand their sanctions and countermeasures, we will aim to issue future Client Alerts only where we see significant scope or policy changes.

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