SHEARMAN & STERLING

Sanctions Roundup

October 29, 2020

Shearman

THIRD QUARTER 2020

- Hong Kong crackdowns and reported human rights abuses continue to prompt new U.S. sanctions on China, as Trump Administration signs legislative act and a new executive order.
- Faced with lack of international support for "snapback" of U.N. sanctions, President Trump issues new executive order to curb Iran's acquisition of conventional weapons.
- OFAC addresses election interference at home and abroad, targeting Russian cyber-actors and Venezuelan lawmakers.
- Third quarter saw broad range of medium-sized enforcement actions, highlighting need for companies to ensure sanctions and export-controls compliance by U.S. and non-U.S. subsidiaries, as well as acquisition targets.

CONTENTS

CHINA

During the third quarter, the U.S. continued applying targeted pressure on the People's Republic of China, sanctioning a host of PRC officials and entities in response to perceived democratic encroachments in Hong Kong and the reported mistreatment of religious and ethnic minorities in China. Meanwhile, U.S. regulators collectively urged businesses to conduct human rights due diligence.

PRC Officials Designated for Undermining Hong Kong's Autonomy

On August 7, OFAC imposed sanctions on eleven (11) individuals for their alleged role in undermining the autonomy of Hong Kong and limiting the free expression and assembly rights of Hong Kong residents. The targeted individuals include senior PRC officials responsible for oversight of Hong Kong, including **Carrie Lam**, the Chief Executive of the Hong Kong Special Administrative Region, and **Chris Tang**, the Commissioner of the Hong Kong Police Force. OFAC also targeted the following individuals pursuant to E.O. 13936:

- **Eric Chan**, Secretary General, Committee for Safeguarding National Security of the HKSAR
- **John Lee Ka-chiu**, HKSAR Secretary for Security
- **Teresa Cheng**, HKSAR Secretary for Justice
- **Erick Tsang**, HKSAR Secretary for Constitutional and Mainland Affairs
- **Stephen Lo,** Former Commissioner of HKPF
- **Xia Baolong,** Director of the Hong Kong and Macao Affairs Office of the State Council
- **Zhang Xiaoming,** Deputy Director of the Hong Kong and Macao Affairs Office of the State Council
- **Luo Huining**, Director of the Hong Kong Liaison Office
- **Zheng Yanxiong**, Director, Office for Safeguarding National Security in Hong Kong

This quarter, OFAC built upon previous efforts to deter the Chinese government from taking actions believed to undermine Hong Kong's autonomy and democratic norms. The Trump Administration issued a new executive order that declared a national emergency with respect to Hong Kong and eliminated the preferential treatment enjoyed by Hong Kong. In addition, President Trump signed into law the Hong Kong Autonomy Act of 2020, new legislation that will impose mandatory sanctions on non-U.S. persons that are determined to have assisted in undermining Hong Kong's autonomy, and foreign financial institutions who do business with such persons. Specifically, Section 5(a) of the HKAA requires the Secretary of State to submit a report to Congress identifying foreign persons who have (or who have attempted) to materially contribute to the failure of the Government of China to meet its obligations under the Sino-British Joint Declaration and Hong Kong's Basic Law. Section 5(b), in turn, requires the Treasury Secretary to submit a report identifying foreign financial institutions that knowingly conduct "significant" transactions with a person identified in the Section 5(a) report. As with other secondary sanctions programs, the statute provides for a menu of restrictions that may be imposed on sanctions targets.

On October 14, the State Department submitted to Congress its first report under section 5(a) of the HKAA, naming ten (10) prominent PRC officials. The officials named in the State Department report are the same individuals designated by OFAC in August. Pursuant to Section 5(b) of the HKAA, the Treasury Department is now required, by December 13, 2020, to provide its own report identifying foreign financial institutions engaged in "significant transactions" with the named individuals. OFAC clarified that FFIs will not be subject to sanctions for transactions conducted within thirty-days of a person's identification on the 5(a) report, and that it would engage with FFIs before naming them on its 5(b) report. In addition, OFAC issued FAQs addressing what it considers "significant transaction" and the ways a financial institution could off the list or perhaps prevent it from being listed. In addition to reputational harm, those institutions named in Treasury's report could face secondary sanctions restricting or prohibiting their access to the U.S. financial system.

US Continues to Address Xinjiang Human Rights Abuses

Throughout 2020, the U.S. has accused the PRC of carrying out a campaign of repression in Xinjiang that targets for mistreatment Uyghur Muslims, ethnic Kazakhs, ethnic Kyrgyz, and members of other Muslim minority groups. In July, the U.S. Departments of State, Commerce, Homeland Security, and Treasury jointly issued guidance to businesses with supply chain links to entities in the Xinjiang Uyghur Autonomous Region, which may be engaged in forced labor and other human rights abuses (**Xinjiang Supply Chain Business Advisory**), highlighting the reputational, economic, and legal risks associated with such commercial ties. The Advisory also singled out companies whose businesses involve cameras, surveillance, tracking technologies, and biometric devices, as well as companies in joint-venture arrangements with the PRC, as those that face the greatest exposure. To reduce such exposure, the Advisory urges all at-risk companies to conduct human rights due diligence and instructs financial institutions to adopt a risk-based approach to prevent violations of sanctions, anti-money laundering, and terrorist financing.

In addition, OFAC acted pursuant to the Global Magnitsky Human Rights Accountability Act to punish a number of entities and individuals responsible for ongoing human rights abuses. First, on July 9, OFAC sanctioned the **Xinjiang Public Security Bureau**, a Chinese government entity, as well as four (4) PRC officials, two (2) of whom are: **Chen Quanguo**, the Party Secretary of the Xinjiang Uyghur Autonomous Region, as well as his former deputy, **Zhu Hailun**. According to OFAC, Chen and Zhu are responsible for maintaining internal security and law enforcement in Xinjiang, including the construction and administration of mass detention facilities. OFAC also targeted current and former leaders of the Xinjiang Public Security Bureau, including **Wang Mingshan** and **Huo Liujun**. The Xinjiang Public Security Bureau reportedly deploys artificial intelligence programs and digital surveillance to track the Uyghurs' movements.

On July 31, OFAC again targeted one PRC government entity and two current or former officials for alleged human rights abuses: the **Xinjiang Production and Construction Corps**, **Sun Jinlong**, a former Political Commissar of the XPCC, and **Peng Jiarui**, the Deputy Party Secretary and Commander of the XPCC.

President Trump Targets WeChat and ByteDance

Citing his authority to address national emergencies under the International Emergency Economic Powers Act, on August 6 President Trump issued two (2) Executive Orders prohibiting U.S. persons from transacting with

ByteDance Ltd. and Tencent Holdings, Inc., the respective Chinese parent companies of the popular smartphone apps TikTok and WeChat. Specifically, the E.O.s set forth the following restrictions:

- The E.O. directed at TikTok prohibits "any transaction by any person, or with respect to any property, subject to the jurisdiction of the United States," with ByteDance "or its subsidiaries, in which any such company has any interest, as identified by the Secretary of Commerce."

- The E.O. directed at WeChat, meanwhile, prohibits "any transaction that is related to WeChat by any person, or with respect to any property, subject to the jurisdiction of the United States," with Tencent "or any subsidiary of that entity, as identified by the Secretary of Commerce."

The Secretary of Commerce later defined "transactions" to mean the provision of an array of technology services, including internet hosting services, information exchanges, and app downloads. While that definition seemingly permits U.S. persons to continue using the apps, it operates as a *de facto* ban by prohibiting U.S. internet service providers and app stores from making the apps available to users in the U.S. As a result, the government announced the WeChat and TikTok would effectively be shut down. Almost immediately, private companies and app users filed lawsuits challenging the two orders. As of the date of publication, both orders are temporarily enjoined from taking effect. A subsequent E.O. directed at TikTok called for ByteDance to sell or spin off its TikTok business by November 12. ByteDance is reportedly negotiating a potential sale of TikTok with several interested U.S. buyers, including Oracle and Walmart.

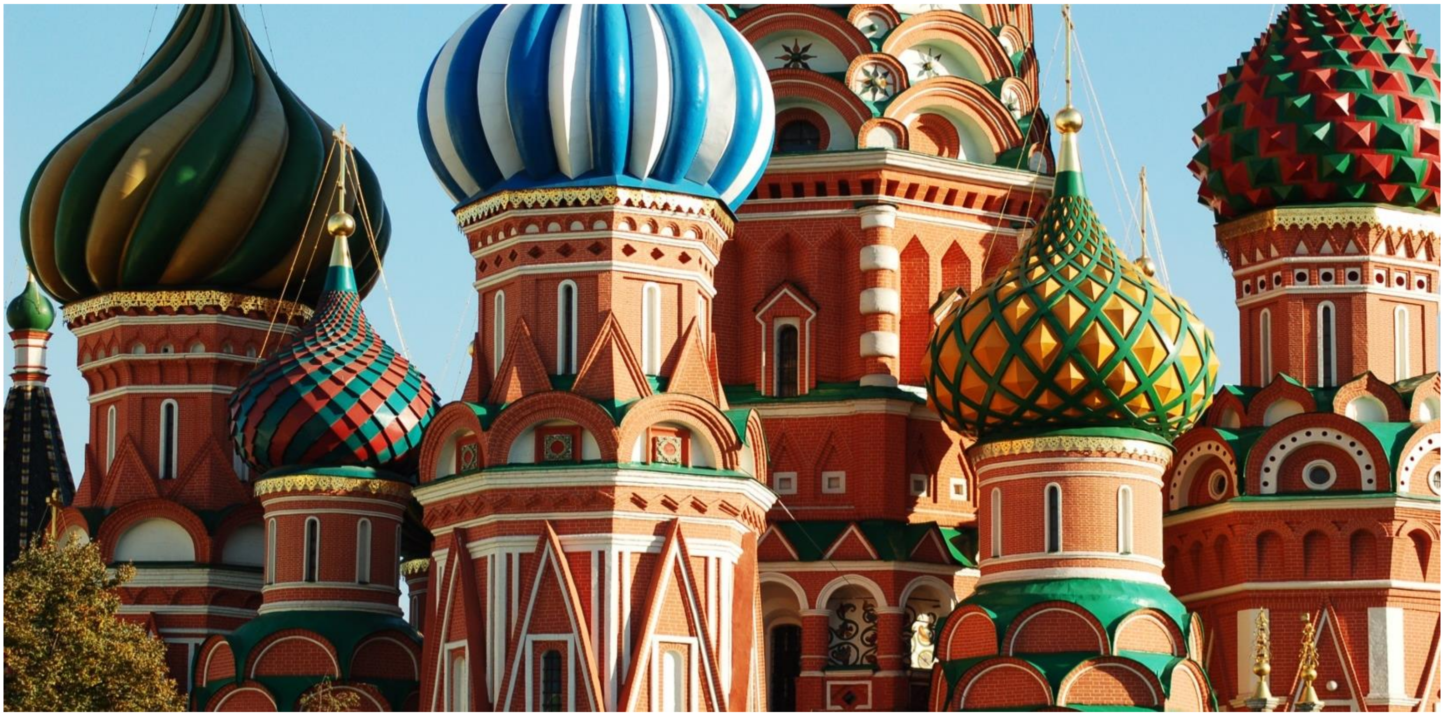
Commerce Department Tightens Restrictions on Huawei

In August, the Bureau of Industry and Security at the Department of Commerce escalated pressure on Huawei's supply chain. First, BIS announced that the Temporary General License authorizing U.S. companies to continue sales to Huawei for certain categories of activity would not be extended, meaning that export restrictions on Huawei are now fully applicable as to U.S. and foreign companies. BIS also added thirty-eight (38) Huawei entities to its Entity List. More significantly, BIS amended the Export Administration Regulations to revise the so-called "foreign direct product" rule to further restrict Huawei's ability to obtain U.S.-origin goods and services related to semiconductor chips. The rule change is designed to close perceived loopholes that permitted Huawei to circumvent controls, such as by procuring foreign-produced items that are the "direct product" of U.S. technology through indirect supply chains or outsourced designs. The most recent rule makes at least two principal changes:

First, the new rule expands the universe of "foreign produced items" to include: (1) items that are a direct product of U.S. technology or software subject to the EAR or are specified as a controlled item under the EAR; and (2) a direct product of a plant or major component of a plant located outside the United States, when the plant or major component of a plant (whether made in the United States or a foreign country) itself is a direct product of U.S.-origin technology or software subject to the EAR. The prior FDP rule captured foreign-produced items that were the product of Huawei's design specifications. The most recent changes are intended to capture any foreign-produced item, developed by any party, using U.S. technology or design processes.

Second, the new rule expands the range of circumstances that would trigger a license from BIS to capture a wider range of transactions involving Huawei. Specifically, the FDP rule now applies to "foreign-produced items" (defined above) when there is *knowledge* that the item will be incorporated into, or will be used in the production or development of, any part, component, or equipment produced, purchased, or ordered by a Huawei entity, or any when any Huawei entity is a party to the transaction of a foreign-produced item, either as a purchaser, intermediate consignee, ultimate consignee, or end-user. While the prior rule only required knowledge that the foreign-produced item was destined for Huawei, the new Rule captures any foreign-produced item developed by any party if there is knowledge of Huawei's involvement at any stage of the transaction.

RUSSIA



European leaders decided not to halt construction of Nord Stream 2, despite alleged involvement by the Russian Federation in the high-profile poisoning of Russian dissident Aleksei Navalny. Meanwhile, OFAC targeted a host of actors connected to billionaire oligarch Yevgeniy Prigozhin and others engaged in a cryptocurrency phishing scheme. Finally, OFAC designated a suspected Russian agent, highlighting efforts to curb interference in the upcoming U.S. elections.

Ties to Russian Financier Prigozhin Prompt Cyber-Related Sanctions

On July 15, OFAC designated individuals and entities located in Sudan, Hong Kong, and Thailand connected to sanctioned Russian financier Yevgeniy Prigozhin and his efforts to evade U.S. sanctions. This action specifically addressed Prigozhin's operations and attempts to suppress and discredit protestors seeking democratic reforms in Sudan, and included the following entities: **M Invest**, **Meroe Gold**, **Andrei Mandel**, **Mikhail Potepkin**, **Igor Lavrenkov**, **Shine Dragon Group Limited**, **Shen Yang Jing Cheng Machinery Imp&Exp. Co**., and **Zhe Jiang Jiayi Small Commodities Trade Company Limited**. OFAC alleges that the businesses under Prigozhin's control spread disinformation and helped ousted Sudanese President Omar al-Bashir quell protests and suppress calls for democratic reforms. In return, Prigozhin allegedly reaped financial benefits from lucrative government contracts in Sudan's gold, oil, and natural gas sectors, then employed a network of financial entities in Hong Kong and Thailand under his control to launder the proceeds.

Two (2) months later OFAC targeted individuals and entities associated with a variety of Prigozhin's malign operations, including his activities in Central African Republic ("CAR"), his role as a leader and financier of the sanctioned Russian troll farm Internet Research Agency, as well as a financial supporter and leader of various Russian defense proxy forces. In total, OFAC targeted eight (8) individuals and seven entities (7), including two (2) companies owned by Prigozhin that conduct mining operations in CAR: Russia-based **M Finans** and CAR-based **Lobaye Invest**. OFAC also took action against numerous individuals and entities connected to Russia's Federal Security Service, an entity subject to sanctions for engaging in malicious cyber activities. A full list of those designated in this action are included on OFAC's website announcing the action.

OFAC Targets Malicious Cyber-Actors and Warns of Election Interference

As the 2020 U.S. election draws near, OFAC sanctioned numerous Russian individuals in actions that highlighted the Russian Federation's alleged attempts to influence the U.S. electoral process via malicious cyber activity. Chief among those designated on September 10 was **Andrii Derkach**, an alleged active Russian agent whose covert interference campaign included the release of edited audio tapes, unsubstantiated allegations, and dissemination of other misinformation to discredit U.S. political figures. News reports suggested that the interference was designed to harm Democratic presidential nominee Joe Biden. In addition, OFAC targeted three (3) individuals associated with the Internet Research Agency, a Russian internet troll farm previously sanctioned for malign cyber activity. According to OFAC, IRA employees **Artem Lifshits, Anton Andreyev,** and **Darya Aslanova** provided support to the IRA's cryptocurrency accounts, which the IRA uses to fund its activities around the world.

On September 16, OFAC targeted two (2) Russian-nationals, **Danil Potekhin** and **Dmitrii Karasavidi**, for their alleged involvement in a sophisticated phishing campaign in 2017 and 2018 that resulted in losses of at least $16.8 million. The scheme targeted customers of two (2) U.S.-based and one (1) foreign-based virtual asset service providers, including U.S. citizens and businesses. According to OFAC, Potekhin's scheme involved creating numerous web domains identical to those of legitimate virtual currency exchanges and fraudulently obtaining users' personal information. Potekhin and his accomplices stole the personal identification of users as they logged into the illegitimate websites, and then gained access to those customers' real accounts to steal their assets. Proceeds from the attacks were then laundered by Karasavidi, who layered the money transfers through multiple accounts and virtual currency blockchains.

New Guidance Broadens Sanctions on NordStream Pipeline Actors

On October 21, the State Department issued interpretive guidance expanding the scope of activities that could trigger sanctions against non-U.S. companies involved in completion of the Nordstream 2 or Turkstream pipelines. Pursuant to the Protecting Europe's Energy Security Act of 2019, the Secretaries of State and Treasury are required to submit to Congress a report that identifies (i) vessels that engaged in pipelaying for the construction of the Nordstream 2 or Turkstream pipelines, and (ii) foreign persons that knowingly sold, leased, or provided those vessels for the construction of such a project; or facilitated deceptive or structured transactions to provide those vessels for the construction of such a project. In the October guidance, the State Department expanded the reach of these categories by announcing that the phrase "provid[ing] . . . vessels" encompasses an array of activities, including the provision of services or facilities for upgrades or installation of equipment for those vessels, or funding for upgrades or installation of equipment for those vessels. The guidance reaffirms that the department of State and the Treasury are prepared to use the full range of sanctions authorities to halt construction of these pipelines.

IRAN

After the Trump Administration's unilateral effort to reimpose U.N. secondary sanctions on Iran was met with rejection by the international community, President Trump issued a new Executive Order authorizing secondary sanctions against those who support Iran's acquisition of conventional military weapons and arms. OFAC targeted a network of front companies for facilitating trade in Iranian petroleum resources, and the U.S. State Department took separate action to disrupt Iran's ties to Venezuela. Finally, the U.S. acted pursuant to CAATSA to impose sanctions for human rights abuses against anti-regime protesters.

President Trump Issues New Executive Order on Conventional Weapons in Lieu of U.N. Sanctions Snapback

Citing to the JCPOA framework, the State Department issued a press release on September 19, 2020 stating that it was unilaterally imposing virtually all previously terminated U.N. sanctions on Iran in response to Iran's purported breach of its JCPOA-commitments. The previously suspended U.N. sanctions included extending the U.N. conventional arms embargo and would require Iran to halt any ballistic missile testing and nuclear weapons development.

The move follows a series of actions by the United States in previous months seeking to force an international consensus to reimpose the U.N. sanctions as a result of purported breaches of the JCPOA (from which the US had withdrawn two (2) years earlier). In August, the U.N. Security Council rejected a U.S. proposal to indefinitely extend an arms embargo on Iran. The U.S. then warned that it had the right under the JCPOA to initiate a snapback of sanctions against Iran and, thereafter, on August 20, submitted a formal notification to the UN Security Council of Iran's failure to perform under the JCPOA. The State Department insisted that this notification triggered a thirty (30)-day process leading to a mandatory return to the pre-JCPOA era of sanctions, including the continuation of the arms embargo.

The unilateral U.S. effort met with a resounding lack of international support. Notably, the snapback provisions are set out explicitly in operative paragraph 11 and the Dispute Resolution section of the JCPOA, the implementation of which the Trump Administration has disavowed for the last several years. As a result of this perceived inconsistency, Britain, France, and Germany, in a joint statement sent to the president of the UNSC, affirmed their shared commitment to the JCPOA and explained that the snapback had no legal effect because the U.S. is no longer a participant to the JCPOA.

Although the move may have little effect re-imposing *international* sanctions, it formed the basis for expanding unilateral U.S. measures: just two (2) days after the State Department's press release, it issued a comprehensive statement describing a set of new actions the Administration would take against Iran.

Most notably, on September 21, President Trump issued a new Executive Order titled "Blocking Property of Certain Persons with Respect to the Conventional Arms Activities of Iran." The new order seeks to curb the sale and acquisition of conventional weapons, arms, and military-related material by Iran. Specifically, the Order blocks the property and interests of property of:

- any person determined to engage in any activity that materially contributes to the supply, sale, or transfer, directly or indirectly, to or from Iran, or for the use in or benefit of Iran, of arms or related material, including spare parts;
- any person determined to provide to Iran any technical training, financial resources or services, advice, other services, or assistance related to the supply, sale, transfer, manufacture, maintenance, or use of arms and related material; and
- any person deemed to contribute to the proliferation of arms, related material, or military end-use items by the Government of Iran.

The new Order also authorizes sanctions on any person determined to have materially assisted those designated for the foregoing activities. Importantly, the new order authorizes sanctions on "any person," meaning that non-U.S. persons face exposure for engaging in activities prohibited by the Order. In addition, OFAC issued a host of designations targeting individuals and entities connected to Iran's nuclear and ballistic missile programs. OFAC noted that the designations were made in support of its effort to implement and enforce U.N. sanctions on Iran. A full listing of those designated in this action can be found on OFAC's website announcing the action.

US Confiscates Iranian Oil from Alleged Export Facilitators; Continues Effort to Disrupt Venezuela Trade Channels

On September 3, OFAC and the State Department collectively designated three (3) individuals and eleven (11) entities with ties to Triliance Petrochemical Co. Ltd., an entity designated in January 2020 for allegedly transferring hundreds of millions of dollars' worth of Iranian oil on behalf of the National Iranian Oil Company. The six (6) entities designated in this action—based in Iran, the United Arab Emirates, or China—allegedly support Triliance's continued trade in Iranian oil. OFAC alleges, for example, that Triliance concealed its involvement in the purchase, shipment, and resale of Iranian petrochemicals by using these entities as front companies to act on its behalf. Pursuant to E.O. 13846, the following six (6) entities were designated: **Zagros Petrochemical Company**, **Petrotech FZE**, **Jingho Technology Co. Limited**, **Dynapex Energy Limited**, **Trio Energy DMCC,** and **Dinrin Limited**. The State Department designated an additional five (5) entities and three (3) individuals for knowingly engaging in a significant transaction of petroleum or petroleum products from Iran. The entities sanctioned were Iran-based **Abadan Refining Company**; China-based **Zhihang Ship Management Co Ltd.**, **New Far International Logistics LLC** and **Sino Energy Shipping Ltd**.; and USA-based **Chemtrans Petrochemicals Trading LLC**. The individuals sanctioned were: **Min Shi**, employee of New Far; **Zuoyou Lin**, employee of Sino Energy; and **Alireza Amin**, employee of Abadan.

In a first-of-its-kind operation, U.S. authorities confiscated nearly $40 million worth of Iranian petrol allegedly destined for Venezuela by disrupting a series of planned ship-to-ship transfers. According to reports, the State Department contacted a Greek shipping company suspected of owning vessels that had transported Iran-origin petrol to Venezuela. The company agreed to give up the cargo and cooperated with U.S. authorities to arrange the seizure and confiscation operation. The U.S. State Department's Iran Action Group applied for and was granted a seizure warrant from a U.S. judge after identifying the names of the ships (with the assistance of the

Greek shipping company) and linking their cargo to an Iranian official connected to the IRGC-QF. Following the Iran-to-Venezuela ship-to-ship transfer, officials were able to execute seizure orders against the ships known to have received the Iranian petrol.

However, despite the U.S.'s increasingly aggressive enforcement efforts, Iran and Venezuela persisted in their oil and gas trade. As the third quarter closed reports surfaced that Iran shipped a cargo of oil condensate to Venezuela in late September, and later used the same ship to lift Venezuelan crude oil for export. News outlets reported that the Iranian tanker delivering the oil condensate turned off its satellite signal to evade detection and interception by the United States. Since the onset of aggressive enforcement of U.S. sanctions on vessels transporting oil, Venezuela has struggled to find tankers willing to risk sanctions.

State Department Announces CAATSA Sanctions in Response to Athlete's Execution

On September 24, the U.S. State Department imposed sanctions on several Iranian officials and entities for alleged gross violations of human rights pursuant to Section 106 of the Countering America's Adversaries Through Sanctions Act of 2017. The sanctions follow a high-profile criminal case in which a young athlete, Navid Afkari, was imprisoned and executed on September 12, 2020 by Iranian authorities. According to the State Department, Afkari was arrested in 2018 after participating in protests. He was accused of murder and subjected to unfair trials in front of Judge Sadati of Branch 1 of the Shiraz Revolutionary Court. The State Department noted that, prior to his execution, Afkari reported that he was tortured by Iranian officials at Adelabad Prison to extract a confession that was later played on Iran's state television. The following persons were designated in connection with the case: **Judge Seyyed Mahmoud Sadati**, **Branch 1 of the Revolutionary Court**, **Judge Mohammad Soltani**, **Adelabad**, **Orumiyeh**, and **Vakilabad Prisons.**

US Targets Iran's Financial Sector

On October 8, OFAC and the State Department acted pursuant to Executive Order 13902 to identify the financial sector of the Iranian economy. E.O. 13902 permits the Secretary of the Treasury, in consultation with the Secretary of State, to determine and identify sectors of the Iranian economy subject to sanctions. The same executive order currently authorizes sanctions on those operating in Iran's construction, mining, manufacturing, or textiles sectors. After identifying the financial sector as subject to sanctions, OFAC designated eighteen (18) Iranian financial institutions, including: **Amin Investment Bank**, **Bank Keshavarzi Iran**, **Bank Maskan**, **Bank Refah Kargaran**, **Bank-E Shahr, Eghtesad Novin Bank**, **Gharzolhasaneh Resalat Bank**, **Hekmat Iranian Bank**, **Iran Zamin Bank**, **Islamic Regional Cooperation Bank**, **Karafarin Bank, Khavarmianeh Bank**, **Mehr Iran Credit Union Bank**, **Pasargad Bank**, **Saman Bank, Sarmayeh Bank**, **Tosee Taavon Bank**, and **Tourism Bank. M** The sanctions will go into effect following a forty-five (45)-day wind-down period.

VENEZUELA

This quarter, OFAC targeted close associates of Venezuelan President Nicolás Maduro who engaged in activities designed to sustain the Maduro family's personal finances. At the third quarter's close, meanwhile, OFAC focused its attention on Maduro-designed schemes to maintain power by rigging the upcoming parliamentary elections.

Individuals Targeted for Close Ties to Maduro and Corruption of Gold Resources

On July 23, OFAC designated **Santiago Jose Moron Hernandez** and **Ricardo Jose Moron Hernandez** (**Ricardo**) for providing material support to Venezuelan government officials, including Nicolas Ernesto Maduro Guerra and his father, President Nicolás Maduro. According to OFAC, Santiago and Ricardo are members of the influential Moron Hernandez family, a trusted partner of Maduro and his children. As partners to the Maduro regime, Santiago and Ricardo allegedly help distribute Maduro assets around the world, including by conducting business transactions. Additionally, they are allegedly central figures in Venezuela's gold industry, and the two oversee the financial mechanisms of illicit sales of Venezuela's gold resources conducted by Maduro Guerra.

OFAC Targets Actions to Rig Parliamentary Elections

OFAC acted twice in September to punish individuals allegedly involved with Maduro-led schemes to undermine democracy in Venezuela by corrupting Venezuela's upcoming parliamentary elections. In announcing the designations, the U.S. Treasury Department stated that the designated individuals south to manipulate elections by "placing control of Venezuela's opposition parties in the hands of politicians affiliated with Nicolas Maduro's regime, undermining any credible opposition challenge to that regime." First, on September 4, OFAC targeted four (4) individuals for their alleged involvement: **David Eugenio De Lima Salas, Reinaldo Enrique Muñoz Pedroza**, **Indira Maira Alfonzo Izaguirre**, and **Jose Luis Gutierrez Parra.** Second, on September 22, OFAC targeted an additional five (5) Venezuelan lawmakers—**Miguel Antonio Jose Ponente Parra**, **Guillermo Antonio Luces Osorio, Jose Bernabe Gutierrez Parra**, **Chaim Jose Bucaran Paraguan**, and **Williams José Benavides Rondón**—for their alleged role in the scheme.

COUNTERTERRORISM DESIGNATIONS

On July 28, 2020, pursuant to E.O. 13224, OFAC designated **Faruq Hamud** and **'Adnan Muhammad Amin al-Rawi** as specially designated global terrorists. According to OFAC, Hamud and al-Rawi assisted and supported ISIS activities in the Middle East. Hamud allegedly worked inside an internally displaced persons camp in Syria and transferred international payments to ISIS members in the camp. Additionally, according to OFAC, Al-Rawi allegedly provided critical financial and logistical support to ISIS operations in Turkey.

On August 19, 2020, OFAC acted pursuant to E.O. 13224 to curtail the activities of **Parthia Cargo LLC** and **Delta Parts Supply FZC** for their support of the Iranian airline Mahan Air, which had previously been designated for its connection to Iran's Islamic Revolutionary Guard Corps. OFAC further designated **Amin Mahdavi** as the CEO and owner of Parthia Cargo, which allegedly offered freight forwarding services to Mahan Air. Additionally, according to OFAC, Parthia Cargo regularly forwarded aircraft parts and other goods to the airline in violation of U.S. sanctions. Similarly, according to OFAC, Delta Parts sold key aviation goods, including U.S.-origin parts, to Mahan Air.

On September 8, 2020, OFAC designated former Lebanese government ministers **Yusuf Finyanus** and **Ali Hassan Khalil** for their alleged connections to Hizballah's activities in Lebanon. Finyanus is the former Lebanese Minister of Transportation and Public Works, and according to OFAC, used his position to siphon funds from the Lebanese government to ensure companies related to Hizballah won government contracts worth millions of dollars. Khalil, on the other hand, served as the Lebanese Minister of Public Health and then as the Minister of Finance. He allegedly used his political position to send money directly from government ministries to Hizballah institutions.

On September 17, 2020, OFAC designated two (2) Lebanese companies, **Arch Consulting** and **Meamar SARL** for alleged connections to Hizballah. According to OFAC, Arch Consulting and Meamar SARL are owned or controlled by Hizballah's Executive Council and have been used to conceal monetary transfers for the designated terrorist group. Notably, according to OFAC, senior officials of both companies have direct ties to Hizballah and both companies remain important sources of funding for the terrorist group. Separately, OFAC designated **Sultan Khalifah As'ad**, alleging he serves as a senior member of the Hizballah Executive Council.

OFAC TARGETS HUMAN RIGHTS ABUSERS AND CORRUPT ACTORS IN AFRICA AND CHINA

On August 17, OFAC sanctioned four (4) Ugandan individuals pursuant to E.O. 13818, which builds upon and implements the Global Magnitsky Human Rights Accountability Act, for their alleged involvement in an adoption scam that allegedly victimized Ugandan children. Those designated include Ugandan judges and lawyers who together orchestrated an adoption scheme to remove children from their homes and resettle them in the United States. Specifically, OFAC alleges that Ugandan judges **Moses Mukiibi** and **Wilson Musalu Musene**, Ugandan lawyer **Dorah Mirembe**, and Mirembe's husband, **Patrick Ecobu**, participated in a scheme whereby, for example, children were removed from Ugandan families under false promises for "special education" programs and study in the United States but were subsequently offered to U.S. families for adoption. The scheme was organized by an adoption agency which used Mirembe's law firm to handle the legal aspects of the adoptions, which included manipulation and falsification of court documents. In addition, OFAC alleges that Mirembe and Ecobu paid bribes to the judges and other government officials to process the adoptions. A parallel action was brought by the U.S. Department of Justice related to the bribery scheme. On August 17, prosecutors filed a thirteen (13)-count indictment against Margaret Cole, Debra Parris, and Dorah Mirembe, alleging, among other offenses, violations of the Foreign Corrupt Practices Act and money laundering.

On September 15, OFAC acted pursuant to E.O. 13818, which builds upon and implements the Global Magnitsky Human Rights Accountability Act and targets perpetrators of serious human rights abuse and corruption, in two (2) separate actions. First, OFAC targeted **Zineb Souma Yahya Jammeh** and **Nabah LTD** for their alleged roles in providing support to persons previously designated for their own corrupt behavior. Zineb is the former First Lady of The Gambia and wife of Yahya Jammeh, the country's designated former president. Zineb, his wife, is alleged to be in control of Jammeh's wealth around the world and is accused of aiding and abetting her husband's corrupt schemes. OFAC also designated Nabah LTD, a U.K.-registered entity controlled by Ashraf Seed Ahmed Al-Cardinal, a South Sudanese official designated n 2019 upon allegations of bribery, kickbacks, and procurement fraud.

Also, on September 15, OFAC imposed sanctions on one (1) Chinese state-owned entity, **Union Development Group Co., Ltd.**, for the alleged seizure and demolition of local Cambodians' land for the construction of the $3.8 billion tourism development called Dara Sakor. According to OFAC, UDG registered itself as a Cambodian-owned entity to secure land for the Data Sakor development project, but only three (3) years later reverted to its true Chinese ownership. UDG was assisted by Kun Kim, a former Cambodian general previously sanctioned by OFAC for corruption. According to OFAC, UDG, through Kim, used Cambodian military forces to intimidate local villagers and to clear out land necessary to build the Dara Sakor project.

OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS

Pursuant to the Kingpin Act, on July 17, 2020, OFAC designated four (4) Chinese individuals, **Songyan Ji**, **Longbao Zhang**, **Guifeng Cheng**, and **Guangfu Zheng**, for their alleged involvement in a synthetic opioid trafficking organization known as the Zheng Drug Trafficking Organization. In connection with these individual designations, OFAC also designated **Global United Biotechnology Inc.** as being owned or controlled by the drug trafficking organization. OFAC announced that it designated the four (4) individuals as part of a concerted effort to crack down on the trafficking of fentanyl into the United States.

Relatedly, on August 25, 2020, OFAC designated Chinese national **Taotao Zhang** and his company, **Allyrise Technology Group Co., Limited** for allegedly shipping fentanyl to the United States. According to OFAC, using Allyrise Technology, which allegedly serves as a front company for his drug operations, Zhang has shipped synthetic opioids into the country from China via multiple individuals and freight-forwarders to disguise the origin and content of the packages.

ENFORCEMENT ACTIONS

On August 11, OFAC announced that an unnamed U.S. individual agreed to pay $5,000 to settle potential civil liability arising from twenty-four (24) apparent violations of the Foreign Narcotics Kingpin Sanctions Regulations. At the time of the violations, the individual was a civilian employee of the U.S. Army stationed in Colombia who allegedly began a personal relationship with a Specially Designated Narcotics Trafficker (SDNT) after meeting at the U.S. embassy in Bogotá. Although the individual knew that the SDNT was a target of U.S. sanctions, he or she nonetheless bought the SDNT jewelry and gifts, and paid for meals and hotels rooms, and did not seek guidance on whether it was legal to do so. In determining the penalty, OFAC noted that the individual cooperated with OFAC during the investigation and that the transactions to the benefit of the SDNT were personal in nature and amounted to a total of only $3,450.

On July 8, **Amazon.com, Inc.** entered into an agreement with OFAC to settle potential civil liability arising from apparent violations of multiple sanctions programs. Specifically, Amazon agreed to pay $134,523 for providing goods and services to persons on OFAC's SDN List; persons located in sanctioned jurisdictions such as Crimea, Iran, and Syria; and to individuals located in or employed by the foreign missions of countries sanctioned by OFAC. The settlement agreement alleges that Amazon also failed to report several hundred transactions conducted pursuant to a general license, as required. Between November 2011 and October 2018, Amazon's automated sanctions screening tool failed fully to analyze all transactions and customer data with respect to OFAC's sanctions regulations. For example, the screening tool failed to account for slight variations in the spelling of sanctioned jurisdictions, such as Crimea, and did not flag for review customer orders destined for the Iranian Embassy in non-sanctioned third countries. OFAC determined that the apparent violations were a non-egregious case, that Amazon self-disclosed the violations, and that Amazon implemented remedial action upon discovery of the apparent violations.

On July 16, **Essentra FZE Company Limited** entered into a settlement agreement with OFAC to settle potential civil liability for three (3) apparent violations of the North Korea sanctions. Between September 2018 and December 2018, the UAE-based cigarette filter and tear tape manufacturer allegedly used deceptive practices to export cigarette filters to North Korea through a network of front companies in China and other countries. OFAC alleges that Essentra FZE personnel met with a DPRK national to discuss exporting cigarette filter rods to North Korea, and later exchanged messages in which the DPRK national instructed Essentra FZE not to list North Korea as the destination and that the contract would be signed by another foreign company. Thereafter, Essentra FZE executed contracts that listed various customers in China when it knew that the filter rods were destined for North Korea. Payment for the exports transited through foreign branch accounts of a U.S. bank. In total, Essentra FZE agreed to pay $665,112 to OFAC, which considered the violations an egregious case.

On July 28, OFAC announced a $824,314 settlement with **Whitford Worldwide Company, LLC**, a Pennsylvania-headquartered cookware coating manufacturer, for 74 apparent violations of the Iranian Transactions and

Sanctions Regulations. According to OFAC, between about November 2012 and December 2015, Whitford and its subsidiaries in Italy and Turkey sold coatings intended for customers in Iran and engaged in other trade-related transactions with Iran, some of which were facilitated by U.S. persons employed by Whitford. According to the settlement agreement, some of Whitford's subsidiaries in Europe historically sold to customers in Iran. When the U.S. acted to prohibit foreign subsidiaries of U.S. companies from transacting with Iran in 2012, Whitford's subsidiaries nonetheless continued to sell coatings to customers in Iran and did so pursuant to incorrect advice of Whitford's compliance department. Specifically, Whitford management developed a plan that would route all sales to Iran through a third-party distributor, under the incorrect belief that doing so would not run afoul of revised U.S. sanctions. In setting the penalty amount, OFAC determined that Whitford voluntarily disclosed the apparent violations and that they constituted a non-egregious case.

On September 9, OFAC announced two (2) settlements totaling $583,100 with **Deutsche Bank Trust Company Americas** to resolve its potential civil liability arising from apparent violations of Ukraine sanctions. Specifically, DBTCA agreed to pay $157,500 for processing, through the U.S. financial system, a large payment related to a series of fuel oil purchases that involved a designated oil company in Cyprus. According to OFAC, DBTCA had reason to know of the involvement of the sanctioned Cyprian entity but did not conduct due diligence sufficient to determine whether the designated oil company's interest in the payment had been extinguished. Separately, DBTCA agreed to remit $425,600 for processing payments destined for accounts at a sanctioned financial institution. OFAC alleges that DBTCA failed to stop the 61 payments because its sanctions screening tool only screened for exact matches of a designated entity's name and did not screen for other identifiers such as a SWIFT Business Identifier Code. DBTCA's screening tool was instead programmed so that only an exact match to a designated entity would trigger a manual review. OFAC determined that neither case was voluntarily self-disclosed to OFAC and that the apparent violations constitute non-egregious cases.

On September 17, New York-based **Comtech Telecommunications Corp**. and its wholly-owned subsidiary, **Comtech EF Data Corp**., agreed to pay $894,111 to settle potential civil liability arising from four (4) apparent violations of the Sudanese Sanctions Regulations. Between June 2014 and October 2015, Comtech, through EF Data, indirectly exported satellite equipment and facilitated services and training to a government-owned entity in Sudan. EF Data became aware that the ultimate-end user of the telecommunications services was in Sudan, both from an electronic screening software that flagged export restrictions against Sudan and in notices from the intermediary company located in Canada. Despite these warnings, EF Data still shipped the satellite equipment to its customer in Canada. Twice over the next year, EF Data performed services for the setup, support, and operation of the satellite equipment, without first obtaining a specific license from OFAC. In determining the penalty, OFAC determined that Comtech voluntarily disclosed the apparent violations and that the apparent violations constituted an egregious case.

On September 24, California-based **Keysight Technologies Inc**., as successor entity to Anite Finland OY, based in Finland, agreed to pay $437,157 to settle its potential civil liability arising from six (6) apparent violations of the Export Administration Regulations through the reexport of goods to Iran. From January 2016 to June 2016, Anite completed six (6) orders, without OFAC authorization, totaling $300,000 worth of U.S.-origin goods to a joint venture between South African telecommunications company MTN and the Iranian government in 2016. Anite designed and sold test and measurement instruments, as well as related software products to the wireless industry. After Keysight's acquisition of Anite in August 2015, and after Keysight implemented a policy to restrict sales to Iran, Anite employees deliberately continued sales to Iran and intentionally obfuscated such sales from Keysight. OFAC determined that Keysight voluntarily disclosed the apparent violations and that the apparent violations constitute an egregious case.

On October 1, New York-incorporated **Generali Global Assistance, Inc.** agreed to remit $5,864,860 to settle its potential civil liability for 2,593 apparent violations of the Cuban Assets Control Regulations. According to OFAC, GGA, a travel services company offering medical expense and travel insurance policies, engaged in a deliberate scheme to indirectly pay for Cuba-related claims through a Canadian affiliate. Between June 2006 and January 2015, GGA provided travel services on behalf of two (2) Canadian insurers for non-U.S. Canadian subscribers who traveled to Cuba. By processing and paying claims on behalf of these travelers, GGA dealt in blocked property in which Cuba or Cuban nationals had an interest. Under the scheme, GGA intentionally referred requests for payments intended for Cuban service providers to a Canadian affiliate. Then, GGA would reimburse the affiliate in Canada. This referral process was codified in GGA's procedures manual. OFAC determined that the case was voluntarily self-disclosed to OFAC and that the apparent violations constituted an egregious case.

ABU DHABI
AUSTIN
BEIJING
BRUSSELS
DALLAS
DUBAI
FRANKFURT
HONG KONG
HOUSTON
LONDON
MENLO PARK
MILAN
NEW YORK
PARIS
RIYADH*
ROME
SAN FRANCISCO
SÃO PAULO
SHANGHAI
SINGAPORE
TOKYO
TORONTO
WASHINGTON, DC

Shearman & Sterling has long advised financial institutions and commercial businesses on the most complex sanctions issues. If you have any questions, please feel free to contact one of our partners or counsel.

Authors & Contributors

Philip Urofsky
Danforth Newcomb
Stephen Fishbein
Brian G. Burke
Christopher L. LaVigne
Barnabas Reynolds
Mark D. Lanpher
Susanna Charlwood
Paula Howell Anderson
Adam B. Schwartz

Associate Contributors

Jacob Fields
Cole Pritchett
Jesse Van Genugten

Related Services

Sanctions, Litigation, Anti-Corruption & Foreign Corrupt Practices Act (FCPA)

*Dr. Sultan Almasoud & Partners in association with Shearman & Sterling LLP

SHEARMAN & STERLING