

SHEARMAN & STERLING

Sanctions Roundup

July 17, 2019

Shearman

SECOND QUARTER 2019

- US extends sanctions to encompass Iranian metals industries and other targets; Iran announces breach of nuclear accord after EU is unable to offset economic impact of renewed US sanctions.
- Turkey's imminent purchase of Russian defense system provides first test of Trump Administration's resolve to enforce CAATSA sanctions.
- Newly published "Framework for OFAC Compliance Commitments" reveals agency's expectations and best practices for corporate controls.
- OFAC updates reporting requirements and announces change in approach to penalty assessments.
- On pace for a record number of enforcement actions, OFAC announces a spate of actions against travel companies for Cuba violations.

CONTENTS

RUSSIA	4
OFAC Continues to Target Entities Outside of North Korea for Assistance in Sanctions Evasion	4
GAZ Group LLC Still Subject to US Sanctions	4
Turkey’s Arms Deal with Russia Could Prompt First Test of Mandatory CAATSA Sanctions	5
IRAN	6
President Trump Expands Industry-wide Sanctions to Include Iran’s Metals Industries	6
OFAC Sanctions Iran’s Largest Petrochemicals Firm for Alleged IRGC Ties	7
US Targets Iran’s Senior Officials in Response to Aggressive Acts	7
CUBA	8
OFAC Updates Cuban Assets Control Regulations	8
Litigation under Helms-Burton Act Title III	8
VENEZUELA	9
OFAC Seeks To Disrupt Oil-Revenues	9
Maduro’s Son and other Government Officials Targeted	9
OFAC TARGETS HUMAN RIGHTS ABUSERS IN RUSSIA & MEXICO	10
OFAC PUBLISHES COMPLIANCE FRAMEWORK, NEW BLOCKED-ASSET REQUIREMENTS	11
OFAC Provides Compliance Roadmap in New Guidance	11
OFAC Revises Reporting and Record-Keeping Requirements	12
New Approach to Fines and Penalties	13
COUNTER-TERRORISM DESIGNATIONS	14
OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS	15
ENFORCEMENT ACTIONS	17

RUSSIA



While this quarter saw no major developments in Russia sanctions programs, OFAC signaled its continued willingness to target Russian banks for assisting others evade US sanctions. Meanwhile, as most Deripaska-related sanctions have been lifted, GAZ Group remains listed. Finally, Turkey's purchase of a missile defense system from Russia may soon test the Trump Administration's willingness to enforce tough CAATSA sanctions against a NATO ally.

OFAC Continues to Target Entities Outside of North Korea for Assistance in Sanctions Evasion

On June 19, OFAC targeted a Russian foreign financial institution for assisting North Korea's pursuit of nuclear weapons. Pursuant to Executive Order ("E.O.") 13382, which aims to prevent nuclear proliferation, **Russian Financial Society ("RFS")** was targeted for its support of Dandong Zhongsheng Industry & Trade Co. Ltd., an entity owned by Foreign Trade Bank ("FTB"), North Korea's primary foreign exchange bank. Both FTB and Dandong Zhongsheng are designated entities. According to OFAC, RFS opened bank accounts for Dandong Zhongsheng and an executive from Korea Zinc Industrial Group (also a designated entity). Access to the RFS accounts allowed North Korea to evade US and U.N. sanctions, and provided a means by which North Korea could access the global financial system, generating revenue to finance its nuclear program. This is not the first time OFAC has designated a Russian bank for processing transactions for or on behalf of North Korea. Last August, OFAC designated Agrosoyuz Commercial Bank for opening bank accounts for a number of North Korean front companies.

GAZ Group LLC Still Subject to US Sanctions

Although the high-profile sanctions against EN+ Group PLC, United Company RUSAL PLC, and JSC EuroSibEnergO have been lifted, one company connected to Oleg Deripaska remains designated amid the apparent continuation of negotiations with OFAC. On June 26, OFAC issued two amended General Licenses,

extending the deadline by which investors must divest, and entities to wind-down operations, related to the automotive conglomerate, GAZ Group LLC. Specifically, OFAC issued General License 13L and General License 15F. GL 13L authorizes investors, until November 8, 2019, to engage in all transactions and activities ordinarily incident and necessary to divest or transfer their interests in GAZ Group, or to engage in activities that facilitate the divestment or transfer to non-US persons. GL 15F authorizes, through November 8, 2019, all transactions ordinarily incident and necessary to the maintenance or wind-down of operations involving GAZ Group or its related entities. Meanwhile, Deripaska continues to proceed with his US federal lawsuit against OFAC, claiming that last year's blocking sanctions against his companies was unlawful.

Turkey's Arms Deal with Russia Could Prompt First Test of Mandatory CAATSA Sanctions

Despite intense opposition from the US, Turkey reportedly will soon take its first delivery of the S-400 missile defense systems it purchased last year from Russia. According to the US, Turkey's use of the S-400 is incompatible with its desire to purchase and build American F-35 stealth fighters, as the defense systems would enable Russia to collect critical intelligence on the F-35 program. The confrontation comes amid deteriorations between the US-Turkey relationship prompted by the fallout from Iran sanctions, tariffs, and allegations by the US of human rights abuses by the Erdogan government. The US Congress has already begun to draft additional sanctions against Turkey in response to the purchase, including by blocking Turkey's participation in the F-35 and imposing other arms embargos. Trump Administration officials this quarter repeated the threat to end Turkey's participation in the F-35 program by July 31 if the deal is not scrapped.

In addition to these punitive measures, Turkey's purchase of the S-400s would almost certainly trigger separate sanctions by the US under the 2017 Countering America's Adversaries Through Sanctions Act ("CAATSA"). Specifically, the statute mandates sanctions on any country that "engages in a significant transaction" with the Russian defense and intelligence sector. Turkey's purchase of the S-400s would provide the first test of the law, which mandates the imposition of a menu of sanctions ranging in severity, from banning Turkey's access to US banks and capital markets, to export and procurement restrictions, to more targeted sanctions on Turkish government officials. Although CAATSA mandates sanctions, the statute provides President Trump with a degree of discretion in choosing which restrictive measures to apply. Following discussions with President Erdogan at the G-20 summit, President Trump appeared to contradict his own officials, walking back the threat of punitive sanctions and casting the blame of the proposed arms-deal on the Obama Administration. President Erdogan has maintained that Turkey will begin accepting delivery of the defense systems in days.

IRAN



Prospects for the continued viability of the JCPOA deteriorated sharply this quarter. After an alternative payment method proposed by EU members failed to provide anticipated economic relief, Iran announced to the world its intention to ramp up uranium enrichment in violation of the nuclear accord. Earlier this year, Germany, France, and the U.K. created the new payment mechanism to allow European companies to continue trading with Iran without the use of US dollars or banks. The payment system, known as INSTEX, fell short of Iran’s expectations when it became clear the system would not permit Iran to continue exporting oil.

At the same time, the US broadened sanctions to cover Iran’s industrial metals industry and targeted the country’s largest petrochemical company. After blaming Iran for a series of attacks against a US-piloted drone and oil tanker ships in the Persian Gulf, OFAC also targeted Iran’s Supreme Leader Ayatollah Ali Khamanei and other senior officials.

President Trump Expands Industry-wide Sanctions to Include Iran’s Metals Industries

The Trump Administration continues to utilize sector-wide sanctions in its maximum pressure campaign against Iran, and on May 8 issued a new executive order targeting the country’s industrial metals sector. Executive Order 13871 (“Imposing Sanctions With Respect to the Iron, Steel, Aluminum, and Copper Sectors of Iran”), authorizes sanctions on persons operating in the iron, steel, aluminum, and copper sectors. According to the US, the Iranian government allegedly uses export profits of these metals to “[fund] and support for the proliferation of weapons of mass destruction, terrorist groups and networks, campaigns of regional aggression, and military expansion.” E.O. 13871 authorizes sanctions not only against Iranian operators in these sectors, but also any persons that knowingly engage, on or after May 8, 2019, in any “significant transaction” in connection with the iron, steel, aluminum, or copper sectors of Iran, including both the purchase of Iranian metals and the provision of related goods and services.

Importantly, E.O. 13871 also authorizes secondary sanctions against foreign financial institutions (“FFIs”) upon a determination that an FFI knowingly conducted or facilitated such a transaction. OFAC provided a 90-day

wind-down period for persons to cease any existing business activities that might result in sanctions under the new order. Entering into new business transactions, however, is prohibited.

OFAC Sanctions Iran's Largest Petrochemicals Firm for Alleged IRGC Ties

On June 7, OFAC targeted Iran's largest petrochemical holding group, **Persian Gulf Petrochemical Industries Company** ("PGPIC") and 39 of its subsidiary companies and foreign-based sales agents. PGPIC was designated pursuant to E.O. 13382 for providing financial support to Khatam al-Anbiya Construction Headquarters ("Khatam al-Anbiya"), the engineering conglomerate of the Islamic Revolutionary Guard Corps ("IRGC"), both of which are designated entities. According to OFAC, the IRGC uses the significant profits generated by Khatam al-Anbiya's engineering and construction contracts to finance its malign activities, including the development of weapons of mass destruction, terrorism, and human rights abuses. The full list of entities designated pursuant to E.O. 13382, which authorizes sanctions against proliferators of weapons of mass destruction, can be found on [OFAC's website](#). PGPIC and its subsidiaries hold 40% of Iran's total petrochemical production capacity and are responsible for 50% of Iran's petrochemical exports, according to the US Treasury Department.

US Targets Iran's Senior Officials in Response to Aggressive Acts

A series of aggressive acts allegedly carried out by Iran resulted in a new round of sanctions against Iran's leadership ranks. On June 24, President Trump issued Executive Order 13876, which authorizes sanctions on senior leadership of the Iranian regime and blocks the property of Iran's Supreme Leader, Ayatollah Ali Khamanei, and other senior officials. The Executive Order comes in response to the destruction of a US-piloted drone by Iranian forces and Iran's alleged role in various attacks on oil tanker ships in the Persian Gulf. E.O. 13876 also authorizes the blocking of property of anyone determined to have provided assistance or support to those designated pursuant to the new order. Additionally, E.O. 13876 envisions sanctions on FFIs who knowingly conduct significant transactions for or on behalf of persons blocked under the new order.

On June 24, OFAC also designated eight senior commanders of the IRGC military forces, including its Navy, Aerospace, and Ground Forces. In announcing these sanctions, OFAC noted that the designated individuals sit atop a military structure allegedly responsible for the sabotage of ships in international waters. Pursuant to E.O. 13224, which targets those who commit or assist acts of terrorism, the following IRGC military commanders were designated:

- **Ali Reza Tangsiri**, commander of the IRGC Navy
- **Amirali Hajizadeh**, commander of the IRGC Aerospace Force
- **Mohammad Pakpour**, commander of the IRGC Ground Forces
- **Abbas Gholamshahi**, 1st Naval District Commander
- **Ramezan Zirahi**, 2nd Naval District Commander
- **Yadollah Badin**, 3rd Naval District Commander
- **Mansur Ravankar**, 4th Naval District Commander
- **Ali Ozma'i**, 5th Naval District Commander

CUBA



OFAC Updates Cuban Assets Control Regulations

On June 4, OFAC and the US Commerce Department announced the updates to the CACR to further restrict non-family travel to the country, pursuant to President Trump's previously announced commitment to re-imposing restrictions on Cuba. Specifically, OFAC amended the regulations to remove the previous authorization for group people-to-people educational travel to Cuba. The Commerce Department separately amended its regulations to make US-origin passenger and recreational vessels, as well as private and corporate aircrafts, ineligible for an export license.

Litigation under Helms-Burton Act Title III

Last quarter, the Trump Administration announced it would begin enforcing Title III of the Helms-Burton Act, which creates a private right of action for US citizens and companies whose property was appropriated by the Cuban government after 1959 to bring suit for monetary damages. The announcement was controversial, with experts predicting a wave of lawsuits against large, multinational corporations who have made use of confiscated property during the intervening decades. However, since the April announcement, there have only been a handful of cases brought under Title III. On May 2, Carnival Cruise Lines was sued for its use of several Cuban ports formerly owned by the plaintiffs. Soon after, Exxon Mobil announced its own suit against two Cuban entities for exploiting the use of previously seized refineries. On May 20, plaintiffs sued Meliá Hotels International, S.A., a Spanish hotel chain, alleging the use of hotel properties in Cuba formerly owned by plaintiffs. On June 20, the same plaintiffs sued Trivago N.V. (a German online travel website and subsidiary of the US-based Expedia Group) for benefitting from bookings connected to the confiscated properties. We will continue to monitor litigation developments.

VENEZUELA



After opposition leader Juan Guaidó's bid to oust President Nicolás Maduro unraveled in April, OFAC escalated its pressure on the Maduro regime. In particular, the US continued to restrict the country's oil-related revenues, including the disruption the Maduro regime's strategic relationship with Cuba. Additionally, OFAC continued to target senior government officials and President Maduro's family members.

OFAC Seeks To Disrupt Oil-Revenues

This quarter OFAC designated Venezuelan and Cuban entities for facilitating trade in oil between the two countries. First, on May 10, OFAC designated **Monsoon Navigation Corporation** and **Serenity Maritime Limited**, and their vessels, **Ocean Elegance** and **Leon Dias**, for operating in the oil sector of the Venezuelan economy. According to OFAC, the two vessels delivered oil from Venezuela to Cuba from late 2018 through March 2019. In imposing these sanctions, OFAC noted that those operating in Venezuela's oil sector are both critical to the survival of the Maduro regime, and play a key role in the repressive conduct of Venezuela's defense and intelligence sectors. Similarly, on July 3, OFAC designated the Cuban state-run oil import and export company **Cubametales** for importing oil from Venezuela.

Maduro's Son and other Government Officials Targeted

On June 27, OFAC designated two Venezuelan officials for their alleged role in contributing to widespread electricity outages afflicting Venezuela. The designation signals OFAC's continued willingness to target those whose official actions are seen to contribute to the suffering of the Venezuelan people. Specifically, pursuant to E.O. 13692, OFAC designated **Luis Alfredo Motta Dominguez** and **Eustiquio Jose Lugo Gomez**—two officials involved in the government agencies responsible for providing electricity in the country. OFAC alleges that the electricity crisis is in part due to government neglect and mismanagement. Motta is the former minister of Electric Power and the President of the National Electric Corporation (CORPOELEC), and Lugo serves as the Deputy Minister of Finance, Investments, and Strategic Alliances for the Ministry of Electric Power.

On June 28, OFAC designated President Nicolás Maduro's son, **Nicolás Erethro Maduro Guerra**. Maduro Guerra is a member of Venezuela's National Constituent Assembly ("NCA"), which OFAC alleges was fraudulently created to "commandeer the constitutional powers of the National Assembly and further entrench [the Maduro] regime" through rewriting the Venezuelan constitution and dissolving state institutions. In addition to his role in the NCA, Maduro Guerra is alleged to spread propaganda and encourage censorship, and to have personally profited from Venezuela's gold resources.

OFAC TARGETS HUMAN RIGHTS ABUSERS IN RUSSIA & MEXICO



On May 16, OFAC designated five individuals and one entity pursuant to the Sergei Magnitsky Rule of Law Accountability Act of 2012, which targets human rights abuses in Russia. First, OFAC sanctioned **Elena Anatolievna Trikulya** and **Gennady Vyacheslavovich Karlov**, who allegedly took steps to conceal the legal liability of those who participated in the detention, abuse, or death of Sergei Magnitsky in 2009. According to OFAC, Trikulya took steps as an official investigator to “prevent the pursuit of justice” for those involved in Magnitsky’s death, while Karlov oversaw certain aspects of Magnitsky’s detention. OFAC also took action against reported systemic abuses of LGBTI persons in Chechnya and other human rights abuses in the region, announcing several other sanctions targets:

- **Terek Special Rapid Response Team** (Chechen Republic) was designated for its alleged role in human rights abuses, including the detention and torture of individuals on the basis of their actual or perceived LGBTI status.
- **Abuzayed Vismuradov** was designated for allegedly committing human rights abuses, including an operation by the Terek Special Rapid Response Team, led by Vismuradov, which involved the detention and torture of perceived LGBTI persons.
- **Sergey Leonidovich Kossiev** was designated for allegedly committing human rights abuses, including the beating and abuse of prisoners at a penal colony in the Republic of Karelia.
- **Ruslan Geremeyev** was designated for acting as an agent of, or on the behalf of, the Head of Chechen Republic Ramzan Kadyrov, himself a designated individual.

On May 17, OFAC announced the designation **Roberto Sandoval Castaneda**, a current Mexican magistrate judge and former Mexican state governor. Castaneda was designated pursuant to Executive Order 13818, which implements the Global Magnitsky Human Rights Accountability Act. According to OFAC, Castaneda is well-connected to drug trafficking organizations throughout Mexico, and trades his access to power and information for bribes and protection. OFAC also designated Castaneda’s wife and adult children for acting on his behalf: **Ana Lilia Lopez Torres** (wife), **Lidy Alejandra Sandoval Lopez** (daughter), and **Pablo Roberto Sandoval Lopez** (son). In the same action, OFAC targeted four Mexican entities for being owned or controlled by Castaneda’s family: **Bodecarne, S.A. de C.V.**, **Iyari, L-Inmo, S.A. de C.V.**, and **Valor y Principio de Dar, A. C.**

OFAC PUBLISHES COMPLIANCE FRAMEWORK, NEW BLOCKED-ASSET REQUIREMENTS



OFAC Provides Compliance Roadmap in New Guidance

This quarter OFAC provided long-awaited guidance on effective sanctions compliance controls. On May 2, the agency published a “Framework for OFAC Compliance Commitments,” which describes five “essential components” that OFAC views as essential to an effective sanctions compliance program: (1) commitment from management, (2) risk assessment, (3) internal controls, (4) testing and auditing, and (5) training. OFAC described the central aspects of each component, along with specific criteria by which organizations can evaluate their efforts to achieve an effective compliance function:

- *Management Commitment:* as it has previously expressed, OFAC re-emphasized that senior management must ensure compliance personnel are delegated sufficient authority, autonomy, and resources to implement effective sanctions controls. Senior management should review and directly approve the compliance program, and should work to foster a “culture of compliance,” including by encouraging employees to report misconduct without fear of reprisal.
- *Risk Assessments:* OFAC repeated its previous advice that there is no “one size fits all” approach to sanctions compliance. In implementing risk-based controls, companies should take a holistic account of all touchpoints by which it could interact with OFAC-prohibited persons or regions. Such assessments should occur on a regular basis to ensure new threats are timely identified. In particular, the Framework stresses the importance of due diligence efforts at various points in on-boarding customers and entering corporate transactions.
- *Internal Controls:* an effective program should include risk-based written policies and procedures to “identify, interdict, escalate, report (as appropriate), and keep records of” potentially problematic activities. These controls should establish clear expectations and be strictly enforced. To the extent possible, compliance personnel should be empowered to integrate these controls into the daily operations of all relevant business units.

- *Testing and Auditing:* organizations should employ an independent and thorough auditing process to regularly identify any strengths and gaps in controls, as well as emerging threats.
- *Training:* training should be mandated by all relevant personnel on a regular (at least annual) basis, including the provision of more specialized training as needed for higher risk employees. The scope of training should be commensurate with the company's risk profile and regularly updated as needed.

Although OFAC regulations do not require a formal sanctions compliance program, the Framework describes at a high level how the presence of an effective program containing the above components will favorably influence OFAC's approach toward resolving apparent violations. Finally, the Framework provides an appendix of "root causes" for sanctions-related failures based on historical enforcement actions. OFAC described the guidance as part of its "commitment to engage with the private sector to further promote understanding of, and compliance with, sanctions requirements."

OFAC Revises Reporting and Record-Keeping Requirements

On June 20, OFAC announced that it would amend the Reporting, Procedures, and Penalties Regulations ("RPPR"), 31 C.F.R. Part 501 to establish new reporting and license application requirements for parties engaging with OFAC. The bulk of the amendments are intended to ease the burden on OFAC from having to make multiple requests of submitters that result from reports lacking a sufficient level of detail. Specifically, the interim final rule touches on, among other things: (a) the scope of information that must be included in reports on blocked property and rejected transactions; (b) revised procedures for submitting reports on rejected transactions; (c) new steps for submitting license requests to release blocked funds; and (d) clarified rules on the availability of information under the Freedom of Information Act (FOIA).

- (a) *Reports on blocked and unblocked property:* To reduce the need for follow-up requests of US persons (or those subject to US jurisdiction) holding blocked property, OFAC has expanded the level of detail to be included in initial and annual reports on blocked and unblocked property. Such reports must now include:
- a. the name and address of the person holding the blocked property and a contact person from whom additional information may be obtained;
 - b. a description of any transaction associated with the blocking, including certain identifying information;
 - c. the associated sanctions target(s) whose property is blocked or a reference to the relevant written communication from OFAC if there is no associated target or that target is unknown;
 - d. a description of the property that is the subject of the blocking and its location;
 - e. the date the property was blocked;
 - f. the actual, or if unknown, estimated value of the property in US Dollars;
 - g. the legal authority or authorities under which the property is blocked and the action taken with respect to the property (e.g., that the property has been deposited into a new or existing blocked, interest-bearing account); and
 - h. a copy of any payment or transfer instructions or other relevant documentation.
- (b) *Reports on rejected transactions:* OFAC noted a definitional change notifying that submitters must report all "rejected transactions" instead of the former requirement of "rejected blocked funds." To lessen the burden on OFAC of having to make multiple follow-up requests, OFAC also clarified the specific information that must be included in a submitter's report of rejected transactions.
- (c) *Licensing Procedures:* OFAC's amendments make a number of changes to the procedures for requesting a license to engage in otherwise prohibited transactions. Among other things, OFAC now requires applications for a specific license to be submitted through its Reporting and License Application Forms online application portal, or by mail to OFAC directly.
- (d) *Freedom of Information Act:* OFAC clarified the scope of OFAC records subject to FOIA. Among other things, reports on blocked property, unblocked property, rejected transactions, and all information

required to accompany those reports, are subject to FOIA, and will generally be released upon a valid request, assuming no exception applies.

New Approach to Fines and Penalties

On June 17, OFAC announced a change in how it would calculate fines related to sanctions violations, a move that could result in higher financial penalties. According to the new policy, OFAC will no longer credit all types of fines paid to other government agencies as part of joint settlements. Instead, OFAC will only credit fines paid to other government agencies when they relate to the same pattern of conduct during the same time period. The restricted approach could subject firms to the risk of larger penalties for sanctions violations.

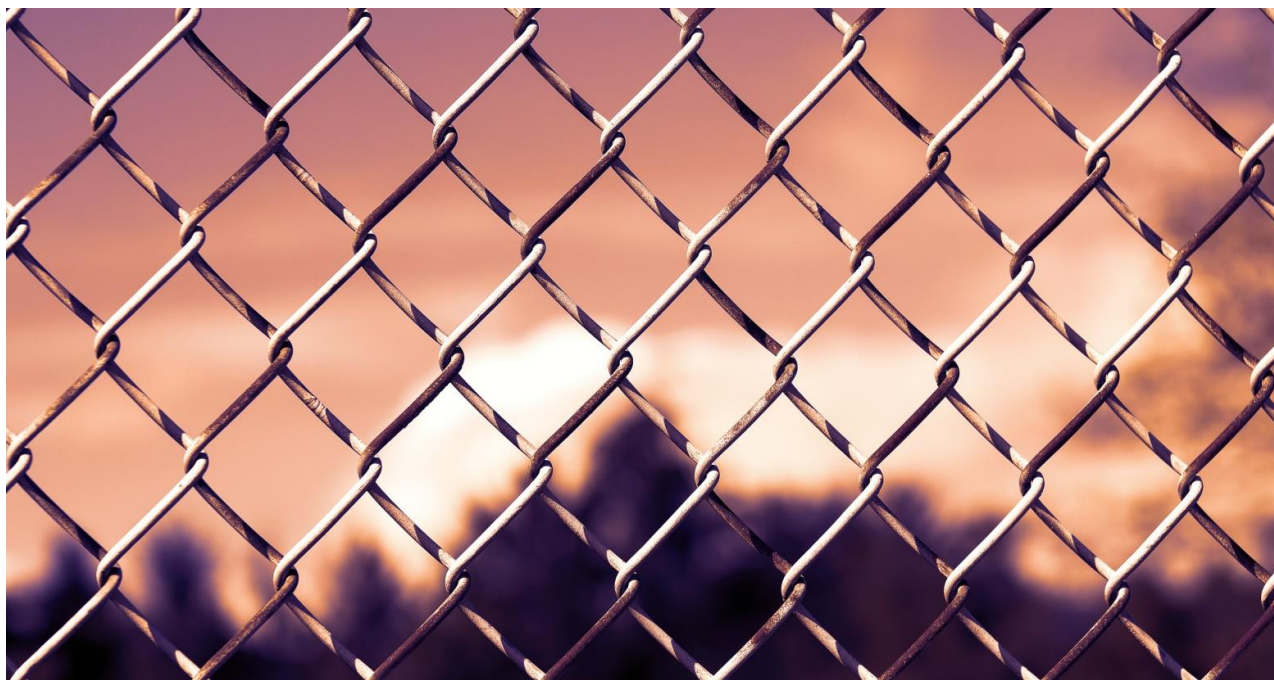
COUNTER-TERRORISM DESIGNATIONS



On July 2, the State Department designated the **Balochistan Liberation Army (“BLA”)** and Hizballah operative **Husain Ali Hazzima** as Specially Designated Global Terrorists (“SDGTs”) under E.O. 13224. Ali Hazzima is the Chief of Hizballah Unit 200, the Intelligence Unit of Hizballah that analyzes and assesses information collected by Hizballah military units. BLA is an armed separatist group that targets security forces and civilians, mainly in ethnic Baloch areas of Pakistan. According to OFAC, BLA is responsible for several terrorist attacks in the past year, including a suicide attack in August 2018 that targeted Chinese engineers in Balochistan, a November 2018 attack on the Chinese consulate in Karachi, and a May 2019 attack against a luxury hotel in Gwadar, Balochistan.

On June 12, OFAC acted against an Iraq-based financial conduit of the Islamic Revolutionary Guard Corps-Qods Force (“IRGC-QF”) for trafficking hundreds of millions of dollars’ worth of weapons to various militias in Iraq. Pursuant to E.O. 13324, OFAC’s counter-terrorism authority, OFAC designated **South Wealth Resources Company (“SWRC”)**, as well as two of its Iraqi associates, **Makki Kazim ‘Abd Al Hamid Al Asadi** and **Muhammed Husayn Salih al-Hasani**, for helping to facilitate the smuggling operation and for providing the IRGC-QF with access to the Iraqi financial system. According to OFAC, the IRGC-QF uses SWRC as a front to smuggle weapons to proxy militias in Iraq, the proceeds of which are used to enrich designated individuals close to the IRGC-QF. **Makki Kazim Al Asadi** and **al-Hasani**, who both facilitated the smuggling and financial operations of SWRC, also provided the IRGC-QF with access to the Iraqi financial system, permitting the IRGC-QF to evade US sanctions.

OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS



On May 17, OFAC announced the designation of Mexican national, **Isidro Avelar Gutierrez**, a magistrate judge in Mexico pursuant to the Kingpin Act. According to OFAC, Gutierrez received bribes in exchange for issuing favorable rulings to senior members of two previously designated drug trafficking organizations: Cartel de Jalisco Nueva Generacion (CJNG) and the Los Cuinis Drug Trafficking Organization (Los Cuinis).

In addition to Guterrez, OFAC designated a number of individuals and entities connected with the CJNG and Los Cuinis cartels. Specifically, OFAC designated six Mexican nationals, including **Erika Gonzalez Valencia**, **Ulises Jovani Gonzalez**, **Victor Francisco Beltran Garcia**, **Ana Paulina Barajas Sahd**, **Gonzalo Mendoza Gaytan** a/k/a “El Sapo,” and **Liliana Rosas Camba**. Additionally, OFAC designated six Guadalajara-based entities affiliated with the organizations: **A&A Estudio Arquitectonico, S. de R.L. de C.V.**, an architecture firm; **Arquitectura y Diseno en Balance, S.A. de C.V.** and **G Y R Arquitectos, S. de R.L. de C.V.**, architecture and real estate firms; **Granatura, S. de P.R. de R.L. de C.V.**, an organic products company; **Jafiela Boutique, S.A. de C.V.**, a clothing store; and **Operadora Restaurantera del Sol Naciente, S. de R.L. de C.V.**, a restaurant management company.

The designations are part of a long line of actions brought by OFAC against individuals and entities affiliated with CJNJ and Los Cuinis, and were intended to place additional pressure on the organizations. The DOJ considers CJNG to be one of the most dangerous criminal organizations in the world as it is responsible not only for trafficking cocaine, methamphetamine, and heroin into the US, but for committing acts of violence in Mexico. As a consequence of the designations, the assets of Gutierrez, Castaneda, and the above-mentioned individuals and entities, as well as any associated entities, subject to US jurisdiction will be blocked, and US persons will be prohibited from engaging in any transactions with them.

On May 23, in coordination with the IRS, FinCEN, DOJ, DEA, and the Argentinian government, OFAC announced the designation of the **Goldpharma Drug Trafficking and Money Laundering Organization** as well as eight individuals and nine entities affiliated with the organization under the Kingpin Act. The Buenos Aires-based organization allegedly sells opioids, namely Oxycodone, Hydrocodone, and Tramadol, online to customers using “pharmacy” websites. The majority of customers are based in the US, and on May 23, with assistance from law enforcement authorities in Argentina, prosecutors in the U.S. District Court for the Eastern District of Wisconsin indicted five of the designated Argentinian nationals for selling narcotics online: **Conrado**

Adolfo Frenzel, Jorge Alejandro Paura, Luciano Brunetti, Lucas Daniel Paura, and Santiago Videmato. Three of the designated entities—**B-Work S.A.S., Bajer S.R.L., and High Nutrition S.R.L.**—are based in Argentina and owned by Frenzel and Paura.

The other three designated individuals—all Argentinian nationals—were designated for money laundering: **Sergio David Ferrari, Gaston Tomaghelli, and Roberto Javier Perez Santoro.** Tomaghelli owns and controls the fourth entity, Buenos Aires-based **DTS Consulting S.A.** The remaining five designated entities are owned by Ferarri and Santoro and used to send proceeds from the opioid sales to the organization in Argentina: Argentina-based **Smile Technologies S.A.,** Colombia-based **SmileWallet S.A.S.,** UK-based **Smile Property & Travel Ltd.,** Canada-based **Smile Technologies Canada Ltd.,** and Netherlands-based **SmileWallet B.V.**

As a result of the designations, seven U.S. companies owned or controlled by Frenzel, Paura, Ferrari, Santoro, and Tomaghelli were also blocked: **SmilePayments LLC, Oyster Investments LLC** (including four affiliated properties in Miami, Florida), **Smilewallet, LLC, Smile Property & Travel Ltd., Smile Technologies S.A. LLC, La Florida Investments Group LLC** and **Water Hill Corp.**

ENFORCEMENT ACTIONS



On May 2, 2019, OFAC announced an \$871,837 settlement with **MID-SHIP Group LLC**, to settle potential civil liability arising from five apparent violations of the Weapons of Mass Destruction Proliferators Sanctions Regulations (WMDPSR). According to OFAC, MID-SHIP, a New York-headquartered company which provides cargo and logistics services, processed financial payments with entities listed on OFAC's List of Specially Designated Nationals and Blocked Persons ("SDN List"). Specifically, from February 2011 through November 2011, MID-SHIP processed five electronic funds transfers that related to blocked vessels on the SDN List. The apparent violations stem from negotiations in early 2010 by MID-SHIP's Chinese and Turkish subsidiaries, which negotiated charter agreements with various third parties to handle the shipment of goods to and from international ports. These subsidiaries nominated two vessels linked to Islamic Republic of Iran Shipping Lines (IRISL). IRISL had previously been designated by OFAC, and over 100 vessels linked to IRISL had been identified as blocked property. According to OFAC, MID-SHIP was in possession of documentation clearly linking the ships to Iran before processing the transactions. In determining the fine level, OFAC noted that MID-SHIP did not voluntarily disclose the apparent violations, and that they constituted an egregious case.

On May 28, OFAC issued a "Finding of Violation" to **State Street Bank and Trust Co.**, for apparent breaches of the Iranian Transactions and Sanctions Regulations. According to OFAC, from January 2012 through September 2015, State Street acted as a trustee for a customer's employee retirement plan. State Street's customer, who was a US citizen and held a US bank account, was a resident in Iran. As trustee, State Street processed at least 45 pension payments totaling \$11,365.44. State Street was alleged to be aware that it was processing payments at the request of, or to the benefit of, a person in Iran, and the bank's sanctions screening software produced an alert on each of the pension payments due to the customer's address in Iran. State Street voluntarily disclosed the conduct to OFAC, and there was no monetary penalty associated with the Finding of Violation.

On June 4, US federal prosecutors indicted an Iranian citizen for conspiracy to violate US sanctions and export laws. The indictments allege that **Peyman Amiri Larijani** conspired to obtain US-origin aircraft parts and other goods and supply them end-users in Iran, including Iran's Mahan Airlines, an entity on OFAC's SDN List. Prosecutors state that from December 2010 through July 2012, Larijani purchased US-origin aircraft parts and accessories, via transfers made through US banks, while concealing that the end users were based Iran. Larijani first exported the parts to Istanbul, Turkey, before shipping them to airlines in Iran. A second indictment contained similar allegations in connection with violations of US export control laws. The case is pending in the US District Court for the District of Columbia. If convicted, Larijani faces up to 20 years in prison.

On June 7, Colorado-based **Western Union Financial Services, Inc.** agreed to settle its potential civil liability arising from 4,977 apparent violations of the Global Terrorism Sanctions Regulations. The apparent violations stem from conduct from December 2010 through March 2015, involving nearly 5,000 transactions worth \$1.25 million. According to OFAC, Western Union distributed payments to customers who chose to collect their money at the Kairaba Shopping Center, a Western Union sub-agent in The Gambia, which was designated by OFAC in 2010. During the relevant period, Western Union allegedly recorded the sub-agent as one of its Master Agent's location, instead of a discrete legal entity acting a sub-agent. Because Western Union's controls did not screen location data for sanctions-related issues as part of its review process, the continued use of the SDN sub-agent was undetected until 2015. In determining the penalty, OFAC noted that Western Union voluntarily self-disclosed the conduct, and considered the conduct to be a non-egregious case.

On June 13, OFAC entered into settlements with three travel companies: **Expedia Group, Inc., Hotelbeds USA, Inc.,** and **Cubosphere, Inc.** for apparent violations of the Cuban Assets Control Regulations. According to OFAC, these three entities violated US sanctions by providing booking services relating to Cuba travel, or arranging trips for Cuban nationals, between 2011 through 2014.

- US-based Expedia agreed to pay \$325,406 settle its potential civil liability for allegedly providing Cuba-related travel booking services to over 2,221 persons between April 2011 and October 2014. According to OFAC, some of these services were booked by Expedia's foreign subsidiaries, who were unaware that they were subject to the same restrictions as its US-parent. In calculating the penalty, OFAC noted that Expedia voluntarily disclosed the violations and took significant remedial action to strengthen its compliance program to avoid future violations.
- Hotelbeds USA, Inc., a US subsidiary of Spain-based Hotelbeds Groups, agreed to pay \$222,705 for allegedly assisting 703 non-US persons book unauthorized travel related to Cuba between December 2013 and February 2014. During the relevant time, Hotelbeds allegedly instructed its customers to remit their Cuba-related payments to an account in Spain, from which Hotelbeds USA was reimbursed. In addition, personnel were also aware that US financial institution had blocked a payment related to a Cuba-travel restriction, and that OFAC had denied a specific license seeking to unblock funds related to a Cuba-travel transaction. According to OFAC, these activities evinced knowledge that the conduct was in violation of US sanctions. OFAC noted that the apparent violations were not self-disclosed.
- US-based Cubosphere and an individual acting on its behalf agreed to pay \$40,320 for unauthorized Cuba travel-related transactions and services to 104 persons on four separate trips to Cuba from December 2013 through February 2014. According to OFAC, Cubosphere received direct payments related to booking services from groups and individuals traveling to Cuba, including airfare, hotel, and transportation arrangements. Cubosphere allegedly obtained Cuba visas for travelers from US religious organizations, citing a general license that permits US persons to travel to Cuba when such travel is directly related to religious activities. OFAC noted, however, that the itineraries for those on the trip were primarily for tourism. When providing these services, Cubosphere also allegedly urged clients to conceal their travel and activities in Cuba by instructing clients to minimize their conduct with US government officials, to refrain from collecting receipts from their trip, and to give false statements to authorities if questioned about the trip. In determining the penalty, OFAC noted that the apparent violations were not self-disclosed, and that the conduct occurred after agency notice.

ABU DHABI
AUSTIN
BEIJING
BRUSSELS
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
Barney Reynolds
Mark D. Lanpher
Susanna Charlwood
Paula Howell Anderson

Related Services

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

© 2018 Shearman & Sterling LLP. Shearman & Sterling LLP is a limited liability partnership organized under the laws of the State of Delaware, with an affiliated limited liability partnership organized for the practice of law in the United Kingdom and Italy and an affiliated partnership organized for the practice of law in Hong Kong.

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

Shearman
SHEARMAN & STERLING