

U.S. Piles on Array of New Sanctions Against Russian Military-Industrial and Financial Sectors

by Lawrence Ward, Justin T. Huff, Dave Townsend, and T. Augustine Lo

On February 23, building mainly upon the broad authority of Executive Order 14024 (“EO 14024”)[1] issued by President Joe Biden in 2021, the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”), the U.S. Department of State, and the U.S. Department of Commerce Bureau of Industry and Security (“BIS”) targeted several hundred Russian entities and individuals in their latest expansion of U.S. economic sanctions and export controls triggered by the Russian invasion of Ukraine.[2] The United States has now placed such sanctions and controls on more than 4,000 Russian firms, banks, and individuals as the result of Russia’s deadly and brutal war in Ukraine. One announced aim of this latest wave of U.S. sanctions is to curtail the ability of the Russian industrial base to sustain the war in Ukraine, which began in February 2022. Notably, however, the Administration only added more targets for existing forms of U.S. sanctions but did not amend or add to BIS or OFAC regulations relating to Russia.

OFAC added more than 300 persons and companies to its Specially Designated and Blocked Persons List (i.e., the “SDN List”). BIS added more than 90 Russian companies to its Entity List, making it illegal for companies to export goods subject to the U.S. Export Administration Regulations (“EAR”) to those companies unless licensed to do so by BIS.[3] The U.S. Department of State also sanctioned three Russian prison officials due to the suspicious death on February 16 of the outspoken Russian dissident Alexei Navalny in a remote Russian penal colony.

These latest sanctions have also been applied broadly to firms and individuals in multiple third countries as Russia has sought to blunt the effect of U.S. and other international sanctions by reliance on enablers and evaders in other nations. Among those, OFAC imposed economic sanctions against nearly 30 firms and individuals in countries across the Middle East, Asia, and Europe that have been deemed as U.S. sanctions evaders because they have continued to support the supply lines for Russia’s aggression in Ukraine. OFAC’s latest targets include third-country exporters and transshippers of technology, equipment, and parts to Russia, a freight forwarder shipping weapons to Russia, and an international money-laundering network involved in the illegal shipment of

Related People

- Lawrence Ward
- Justin T. Huff
- Dave Townsend
- T. Augustine Lo

Related Capabilities

- National Security Law

precious metals from Russia. OFAC's designations included third-country firms and individuals in China, Finland, Iran, Ireland, Liechtenstein, Serbia, and the United Arab Emirates.

The Treasury Department's February 23 announcement highlighted several specific segments of the Russian economy and certain entities and individuals in third countries that have been subjected to these latest U.S. economic sanctions:

Russia's Financial Infrastructure

We recently wrote about the Biden Administration's continued focus on the role of banks and other financial institutions in enabling Russia to continue its invasion of Ukraine.^[4] Among OFAC's latest sanctions targets under EO 14024 is the National Payment Card System Joint Stock Company ("NSPK"), which is a state-owned entity of the Russian Central Bank. NSPK operates the Mir National Payment System.

OFAC is also imposing EO 14024 sanctions against nine Russian regional banks, including a number of such financial institutions operating in Russia's major military-industrial base cities; five investment or venture capital funds that have supported Russian advanced and next-generation technology and industrial companies; and six financial technology ("fintech") companies that have supplied software and information technology solutions for Russian banks.

The nine newly named Russian banks for U.S. sanctions under EO 14024 are: Avangard Joint Stock Bank, Moscow; Bank RostFinance, Rostov-on-Don; Joint Stock Commercial Bank Chelindbank, Chelyabinsk; Joint Stock Commercial Bank International Financial Club, Moscow; Joint Stock Commercial Bank Modulbank, Kostroma; Joint Stock Company Databank, Izhevsk; Maritime Joint Stock Bank Joint Stock Company, Moscow; Public Joint Stock Company Bystrobank, Izhevsk; and Public Joint Stock Company SPB Bank, Moscow.

Non-Russian Financial Institutions

The Announcement also highlighted again the sanctions risks for non-Russian financial institutions that provide or facilitate significant transactions or supply any financial services to Russia's military-industrial base, particularly to any Russian enterprises that have already been targeted under EO 14024 within the defense and related materiel, construction, aerospace, technology, other manufacturing or transport, and logistics sectors of the Russian economy. Non-Russian financial institutions should be aware that OFAC's sanctions extend to financial services rendered to enterprises and individuals who sell or provide particular items useful to Russia's military-industrial base. For the international banking community, OFAC had released its December 22, 2023, Guidance for Foreign Financial Institutions on OFAC Sanctions Authorities Targeting Support to Russia's Military-Industrial Base ("OFAC FFI Guidance").^[5]

Iranian-Based Procurement Network

Both Russia and Ukraine have used armed and surveillance drones to an unprecedented extent in their combat operations during the past two years. The Iranian Ministry of Defense and Armed Forces Logistics (“MODAFL”) has enabled Russia to finance and produce Iranian-designed so-called “kamikaze” (one-way) drones at a new Russian factory. In response, OFAC and the State Department have both applied their latest sanctions against the Alabuga network originating in Iran by which Russia has been able to buy and assemble such lethal drones used by its forces against Ukraine.

OFAC also announced that the Iranian MODAFL has been using a United Arab Emirates-based front company, Generation Trading FZE, to facilitate the sale of sample drone models and parts and related ground stations into the Alabuga Special Economic Zone (“SEZ Alabuga”) to support Russian drone production. According to OFAC, the Republic of Tatarstan within the Russian Federation owns and controls SEZ Alabuga, which has, along with its subsidiaries, paid Generation Trading FZE many millions of dollars to facilitate MODAFL’s multi-million-dollar drone support contract. For that reason, OFAC has also targeted Generation Trading FZE under Executive Order 13224 (“EO 13224”), as amended, that was issued by President George W. Bush in September 2001.^[6] OFAC invoked EO 13224 against Generation Trading FZE because it had materially assisted, sponsored, or provided financial, material or technological support to MODAFL. In addition, OFAC has also designated as sanctions targets several officials of SEZ Alabuga and multiple manufacturing firms that have established operations within the SEZ Alabuga, either as SEZ Alabuga subsidiaries or otherwise.

Military-Industrial Base Enterprises

As U.S. and other international sanctions have been imposed on Russia, the Russian government has responded by repurposing much of its historically non-defense-related manufacturing capacity and other industrial infrastructure to support, either directly or indirectly, Russia’s war effort in Ukraine. To counter such moves, the latest U.S. sanctions have been extended to several hundred named enterprises across Russia’s broad industrial base, including firms involved in:

- machine tools, particularly computer numerically controlled (“CNC”) machines used for production of heavy machinery and arms manufacturing
- additive manufacturing (also more popularly known as 3D printing), particularly as applied to production of manned aircraft or drone parts or other munitions
- bearings, which are essential components for military vehicles and other munitions
- lasers and other advanced optics
- electronics and robotics
- navigation instruments
- aerospace and aviation (both fixed wing and rotary)
- industrial automation equipment and software
- energy storage and power supplies for industrial applications
- heavy vehicle parts and components
- specialized lubricants and industrial chemicals
- diamonds and precious metals
- heavy cargo air, sea, and land transport and logistics

Expanded U.S. Import Ban Against Diamonds from Russian Federation

On February 8, 2024, OFAC issued two determinations under Executive Order 14608, as amended by Executive Order 14114, to expand the U.S. import ban against Russian diamonds, both of which took effect on March 1, 2024. The first determination prohibits the importation of diamond jewelry and unsorted diamonds exported from the Russian Federation, regardless of origin. The second determination prohibits the importation of “diamonds that were mined, extracted, produced, or manufactured wholly or in part in the Russian Federation, notwithstanding whether such diamonds have been substantially transformed into other products outside of the Russian Federation.” This second determination took effect on March 1 with respect to non-industrial diamonds that weigh 1.0 carat or more, and the threshold will lower to 0.5 carats on September 1, 2024.

Legal Effects of U.S. Sanctions Designations

The basic effect of these latest U.S. SDN designations is that any property or interests in property of such designated persons within the United States or possessed or controlled by a U.S. person are blocked (legally frozen) and must be reported to OFAC. Moreover, if any undesignated entity is 50 percent or more owned, directly or indirectly, by one or more such sanctioned persons, then that entity, even though not separately included on the SDN List, is also considered under U.S. law to be blocked. No U.S. person may conduct any transaction involving any such blocked property or interest in property except as may be authorized by one or more of over 90 OFAC general licenses or an OFAC specific license or unless such transaction is expressly exempt under the applicable OFAC Russia-related regulations. Such OFAC prohibitions also preclude any U.S. person from making a contribution of funds, goods, or services by, to, or for the benefit of any such sanctioned person or from receiving any contribution of funds, goods, or services from any such sanctioned person.

Finally, OFAC – as an agency within the U.S. Department of the Treasury – continues to place great emphasis upon the conduct of foreign financial institutions. OFAC has thus again warned that even non-Russian banks or other financial institutions which engage in or facilitate significant transactions or provide financial services to the Russian military-industrial base risk their own designation under these OFAC sanctions. OFAC’s listed examples of such risky activities under EO 14024, as amended, include provision of bank accounts or other bank facilities, transfer of funds or provision of services such as trade finance, insurance, or payment processing to any designated persons on these various U.S. sanctions lists, whether operating within Russia or elsewhere in the world. Accordingly, non-Russian financial institutions should be very vigilant and rigorous in their screening of customers and counter parties through the use of automated screening software tools that will remain current with these ever-expanding lists of sanctioned persons. It is also prudent to keep in mind that, besides the United States, the European Union and many other individual countries have also implemented their own sanctions lists with respect to Russia, its financial and energy sectors and, most particularly, its military-industrial base. For U.S. law compliance purposes, OFAC recommends that foreign financial institutions take note of the additional compliance framework provided in

its December 2023 OFAC FFI Guidance and also in its Frequently Asked Questions (“FAQs”) posted to OFAC’s own website, particularly FAQs 1146-1157.^[7]

###

If you have any questions regarding this eUpdate, please contact the attorneys profiled below. Dorsey’s attorneys in its National Security Group regularly counsel clients to address and mitigate the impact of U.S. economic sanctions, trade embargoes, export controls, CFIUS reviews, or other national security measures that may affect cross-border transactions.

[1] “Blocking Property with Respect to Specified Harmful Foreign Activities of the Government of the Russian Federation”

[2] “On Second Anniversary of Russia’s Further Invasion of Ukraine and Following the Death of Aleksey Navalny, Treasury Sanctions Hundreds of Targets in Russia and Globally”

[3] Federal Register / Vol. 89, No. 39 / Tuesday, February 27, 2024 / Rules and Regulations

[4] “Biden Administration Adds Sanctions Against Foreign Financial Institutions Supporting Russia’s Military-Industrial Base”

[5] Guidance for Foreign Financial Institutions on OFAC Sanctions Authorities Targeting Support to Russia’s Military-Industrial Base

[6] “Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism”

[7] See Office of Foreign Assets Control Frequently Asked Questions