

# US Announces Sweeping Sanctions on Russian-Related Entities on Eve of Ukraine Invasion Anniversary

## In Summary

- After the death of opposition Leader Aleksy Navalny and the second anniversary of the start of the war, the U.S. government began a new crackdown on Russia and illicit actors involved in supporting it and our allies
- U.S. Departments of State and Treasury have imposed a new round of sanctions on over 500 entities and individuals, while the Department of Commerce has added 93 organizations to its Entity List
- 26 third country entities targeted in 11 countries
- Notable targets include Russia's National Payment Card System Joint Stock Company (state-owned operator of the country's Mir National Payment System), and Alabuga UAV Procurement Network, a cooperative effort between Russia and Iran to produce unmanned aerial vehicles used for attack by the Russian Armed Forces
- As Ukraine war continues, the scope and complexity of the U.S. sanctions regime grows. At this point, over 4,000 individuals and entities have been sanctioned, and over 815 comprise the Entity List
- Entities in tens of other countries have been subject to sanctions for their connections with Russia
- As sanctions expand, circumvention tactics have evolved, requiring heightened vigilance, including due diligence, not just for U.S. persons, but also for non-U.S. persons in third countries

## Background

Late last week on February 23, on the eve of the second anniversary of the Russian war on Ukraine and in the immediate aftermath of the death of Russian opposition leader and anticorruption advocate Aleksy Navalny, the U.S. Departments of State, Treasury and Commerce have come together to introduce a new swath of sanctions on individuals and entities tied to the country and its war effort. The Departments of the Treasury and State collectively designated over 500 individuals and entities, with 300 from the Department of the Treasury's Office of Foreign Assets Control (OFAC) alone. The Department of Commerce's Bureau of Industry and Security (BIS) has also imposed related restrictions, adding 93 more entities

in Russia and seven other countries involved in various illicit activities such as the diversion of restricted goods and the importation or procurement of such goods for Russia's industrial base without proper authorization onto its Entity List.<sup>1</sup>

Since the onset of Russia's invasion of Ukraine, the U.S. has designated over 4,000 individuals and entities onto the List of Specially Designated Nationals and Blocked Persons (the SDN List), while over 815 have been added to the Entity List. The goal of this new round of sanctions is to deny Russia access to resources for the war, and to keep it from fueling its wartime economy, which much of its industry being restructured to support the war efforts at the expense of Russia's own people.

<sup>1</sup> Additions of Entities to the Entity List, 15 C.F.R. § 744 (2024).

## OFAC Sanctions

Last week's action focuses on several key sectors of Russia's economy, namely the financial, shipping and the military-industrial base, at home and abroad. These designations have been made under the authority of Executive Order (EO) 14024 (April 15, 2021), which has served as the basis for scores of designations since the onset of the Ukraine invasion. These include the financial, shipping, and military-industrial sectors.

**Banking & Finance.** On the financial front, OFAC sanctioned nine financial institutions, along with the National Payment Card System Joint Stock Company (NSPK), the state-owned operator of Russia's Mir National Payment System. NSPK and Mir's ability to facilitate financial transactions within Russia as well as in other countries is a risk to the U.S. and its allies, as they have been useful to the Russian government in evading sanctions and finding ways to reconnect with the world financial system. OFAC also sanctioned a number of Russian banks under E.O. 14024 for operating in that country's financial sector.

**Shipping.** OFAC targeted Russia's state-owned Sovcomfleet shipping company and fleet operator, and is simultaneously "identifying 14 crude oil tankers as property in which Sovcomflot has an interest."<sup>2</sup> Sovcomflot's designation is pursuant to E.O. 14024, for "having operated in the marine sector of the Russian Federation economy" and for acting on behalf of the Russian government in various shadow operations to get around the G7's price-cap regime on Russian crude oil.<sup>3</sup> Sovcomflot has been designated by other U.S. allies as well, such as Australia, Canada, New Zealand, and the United Kingdom. In the U.S. however, OFAC has also issued a general license allowing the offloading of

products from these 14 designated crude oil tankers for 45 days as a wind-down measure. Another general license put forth by OFAC allows transactions with "all other Sovcomflot vessels at this time," outside of the 14 that have so far been specifically identified.<sup>4</sup>

**Military-Industrial Base.** OFAC has separately targeted the Russian military-industrial base, supported at home in Russia and abroad. This area has expanded as the country has reassigned many areas of industry production to contribute to their war effort. Notably, Alabuga UAV Procurement Network was a targeted – a cooperative effort between Russia and Iran's Ministry of Defense and Armed Forces Logistics (MODAFL) to produce one-way attack UAVs for use by the Russian military in Ukraine. Outside of Russia, OFAC has also targeted those who are involved in the support of Russia's military-industrial base in various capacities, as well as those who, like NSPK above, have worked to illegally connect Russia with the international financial system from afar. The current targets include third-country nationals located across 11 countries.

Last week's designations effectively block the targeted entities from virtually all dealings with U.S. persons, a term defined to include U.S. citizens and permanent residents wherever located, as well as other parties who are physically in the United States, and legal persons organized under the laws of a U.S. jurisdiction. However, to facilitate wind-down, OFAC has issued several general licenses, providing a prescribed period for U.S. persons to engage in certain necessary transactions.<sup>5</sup> Namely, these are:

- General License 88: "Authorizing the Wind Down of Transactions Involving Certain Entities Blocked on February 23, 2024"

<sup>2</sup> Press Release, U.S. Dep't of the Treasury, *U.S. Treasury Designates Russian State-Owned Sovcomflot, Russia's Largest Shipping Company* (Feb. 23, 2024), <https://home.treasury.gov/news/press-releases/jy2121>.

<sup>3</sup> Press Release, U.S. Dep't of the Treasury, *U.S. Treasury Designates Russian State-Owned Sovcomflot, Russia's Largest Shipping Company* (Feb. 23, 2024), <https://home.treasury.gov/news/press-releases/jy2121>.

<sup>4</sup> Press Release, U.S. Dep't of the Treasury, *U.S. Treasury Designates Russian State-Owned Sovcomflot, Russia's Largest Shipping Company* (Feb. 23, 2024), <https://home.treasury.gov/news/press-releases/jy2121>.

<sup>5</sup> *Russia-related Designations; Issuance of Russia-related General Licenses and new and amended Frequently Asked Questions*, OFFICE OF FOREIGN ASSETS CONTROL (Feb. 23, 2024), <https://ofac.treasury.gov/recent-actions/20240223#:~:text=The%20Department%20of%20the%20Treasury's,Down%20and%20Rejection%20of%20Transactions>

- General License 89: “Authorizing the Wind Down and Rejection of Transactions Involving Certain Financial Institutions Blocked on February 23, 2024”
- General License 90: “Authorizing Certain Transactions Related to Debt or Equity of, or Derivative Contracts Involving, Certain Entities Blocked on February 23, 2024”
- General License 91: “Authorizing Limited Safety and Environmental Transactions Involving Certain Blocked Persons or Vessels”
- General License 92: “Authorizing the Offloading of Cargo from Sovcomflot Vessels”
- General License 93: “Authorizing Transactions Involving Certain Sovcomflot Vessels”

These General Licenses authorize transactions through April 8, 2024, as long as they are “ordinarily incident and necessary to the wind-down” of any transaction with a blocked entity, or “to the divestment or transfer or the facilitation of the divestment or transfer, of debt or equity issued or guaranteed by” a blocked entity, and comply with stated guidelines.<sup>6</sup>

## BIS Actions

The U.S. Department of Commerce’s BIS has come alongside the Treasury and State Departments with this initiative to place 93 new entities on their list, 30 of which are located outside of Russia, and 50 of which will also “receive a ‘footnote 3’ designation” for being “Russian-Belarusian military end users.”<sup>7</sup> Footnote 3 places what the BIS considers “some of the most severe restrictions under the Export Administration Regulations” on these entities,<sup>8</sup> referring to the Export Administration Regulations, 15 CFR Parts 720-774 (the EAR). The limitations on these entities, detailed in a final rule to be published in the Federal Register on February 27, 2024,

include a policy of reviewing all licenses for this entity “under a policy for denial for all items subject to the EAR apart from food and medicine [ ] which shall be reviewed on a case-by-case basis.”<sup>9</sup> As such, this far exceeds only a bar on sending dual-use goods.

Importantly, the BIS has also worked with U.S. allies such as the European Union (EU) and Japan, to identify so-called “high priority items” – namely, those technologies whose access to which has already been curtailed under export controls on Russia and Belarus that are most likely to be objects of illegal diversion to Russia, based on their usefulness to Russia in its war efforts.

## Key Takeaways

Last week’s move, while significant in terms of its volume and scope, is not unique in nature as the agencies have previously targeted numerous entities on a single day in a similar fashion. However, following the February 23 designations, over 4,000 entities and individuals have now been added to the SDN List by the Departments of State and the Treasury since the onset of Russia’s invasion of Ukraine.

In practical terms, the reach of these designations extend far beyond the entities added to the SDN List, as pursuant to OFAC’s “50 Percent Rule”: entities owned in the aggregate 50% or more by blocked persons are themselves considered blocked, even if they are not specifically named on the SDN List. This has been complemented over the past two years with the Biden Administration, through the use of Executive Orders and subsequent determinations, effectively shutting off broad sectors of the Russian economy from access to the U.S. economy. Compounding these limitations are sectoral sanctions not wholly prohibiting but aggressively limiting the scope of authorized interaction between U.S. persons and certain Russian economic sectors.

<sup>6</sup> General License No. 88, Authorizing the Wind Down of Transactions Involving Certain Entities Blocked on February 23, 2024, 31 C.F.R. § 587.

<sup>7</sup> Press Release, U.S. DEPT OF COMMERCE, *Commerce Stands Strong with Ukraine, Takes Further Action Against Ongoing Russian Aggression* (Fe. 23, 2024), <https://www.bis.doc.gov/index.php/documents/about-bis/newsroom/press-releases/3452-2024-02-23-bis-press-release-russia-two-year-actions/file>.

<sup>8</sup> Press Release, U.S. DEPT OF COMMERCE, *Commerce Stands Strong with Ukraine, Takes Further Action Against Ongoing Russian Aggression* (Fe. 23, 2024), <https://www.bis.doc.gov/index.php/documents/about-bis/newsroom/press-releases/3452-2024-02-23-bis-press-release-russia-two-year-actions/file>.

<sup>9</sup> Additions of Entities to the Entity List, 15 C.F.R. § 744 (2024).

Last week's actions also further emphasize OFAC's willingness to target entities outside the Russian Federation, including entities that are not owned or operated by Russian persons, targeting third country entities that have allegedly engaged in certain activities involving Russia and Russian assets. The tightening of sanctions in recent years has resulted in efforts to circumvent and evade sanctions evolving to become more sophisticated in nature, often concealing identities and objectives.

The agencies' targeting of third country entities alleged to have assisted Russia and Russian parties underscores the necessity for U.S. persons to carefully scrutinize transactions for beneficial ownership, and in the case of goods and services, end-use, looking beyond immediate, declared counterparties, and beneficiaries. Indeed, OFAC's actions are evidence that non-Russians not subject to primary U.S. sanctions can also be targeted even if their activities are lawful under the laws of their own jurisdictions. As such, non-U.S. persons in third countries should also actively assess their activities to ensure they refrain from activities that could expose them to designation, be it direct or derivative.

As last week's actions are not comprehensive sanctions prohibiting all activities in the targeted sectors, the landscape is rapidly growing in scope and complexity as the war continues. Many sanctions are affecting third-country nationals spread around the globe. With this new action, OFAC alone designated 26 entities and 11 individuals in third countries, including China, Serbia, the UAE, and Liechtenstein. The reach of these new sanctions promulgated by a joint effort of three government agencies emphasizes the need for vigilance towards risks, as well as the importance of implementing practices to investigate your customers, no matter who they are or where they are located.



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*Special thanks to our Student Associate Samantha Hoover for her help on this Client Alert*