

CLIENT ALERT: Recent Developments in Russian Sanctions

March 7 2024

Introduction:

The United States has recently implemented a number of new sanctions against Russia in response to Russia's continued pursuit of the War in Ukraine. The full breadth of these new sanctions is significant and will not be discussed at length herein. However, the below summarizes many of these developments, with a focus on the new sanctions impacting the international shipping community.

On December 22, 2023, President Biden amended Executive Order 14068 to prohibit the import of Russian-origin diamonds into the United States as part of the G7's commitment to impose restrictions on the import of Russian diamonds processed in third countries.

On February 8, 2024, OFAC issued two determinations "Prohibitions Related to Imports of Certain Categories of Diamonds" and "Prohibitions Related to Imports of Diamond Jewelry and Unsorted Diamonds of Russian Federation Origin and Diamond Jewelry and Unsorted Diamonds Exported From the Russian Federation" pursuant to the Amended E.O. The February 8, 2024, Press Release also announced sanctions on four entities and one vessel for involvement in a "price cap violation scheme" in 2023. The imposition of these sanctions shows OFAC's commitment to enforcing violations of the price cap. The February 8, 2024 Press Release can be found here: <https://home.treasury.gov/news/press-releases/jy2085>.

On February 23, 2024, the Treasury Department, along with the Department of State, sanctioned nearly three hundred individuals and entities for their involvement in supporting Russia's military-industrial base and financial infrastructure. Notably, OFAC designated Joint Stock Company Sovcomflot ("Sovcomflot"), a Russian state-owned shipping company, and fourteen vessels identified as property in which Sovcomflot has an interest. The announcement of these sanctions shows OFAC's continuous dedication to targeting persons who facilitate or otherwise support Russia's "war machine." OFAC specifies in the press release that it will "continue to impose sanctions on persons, wherever located", again showing their commitment to targeting persons outside of U.S. covered persons.

As a result of the February 23 sanctions, all property, and interests in the property of those sanctioned, or any entities owned directly or indirectly 50% or more by those blocked persons, that are in the U.S. or in the custody or control of U.S. persons are blocked and must be reported to OFAC. The full press release announcing these sanctions can be found here: <https://home.treasury.gov/news/press-releases/jy2117>.

In addition to the above sanctions, on February 23, 2024, OFAC amended the SDN list, issued four new General Licenses related to the Russia sanctions program, issued three new Russia-related Frequently Asked Questions (“FAQs”) and amended eight Russia-related FAQs.

The recent action can be found here: <https://ofac.treasury.gov/recent-actions/20240223>.

February 8, 2024 Price Cap Sanctions and General License:

The February 8 Press Release announced sanctions against four entities and one vessel who engaged in a price cap violation scheme in November 2023.

- UAE-based **Zeenit Supply and Trading DMCC** was blocked for the sale of crude oil priced over \$80 per barrel
- The **NS Leader** (IMO: 9339301) was blocked for delivering the crude oil sold by Zeenit and used services provided by a covered U.S. person.
- UAE-based **Talassa Shipping DMCC** was blocked for working with Zeenit to ship cargos of crude oil together using vessels that loaded in Russian ports. Both entities share a business manager.
- **NS Leader Shipping Incorporated** is the registered owner of the *NS Leader*, however the Government of the Russian Federation is its ultimate owner.
- UAE-based **Oil Tankers SCF Mgmt FZCO** managed the *NS Leader* during the November 2023 voyage and also manages other U.S. sanctions vessels involved in transporting oil above the price cap.

As a result of the designations, all property and interests in property of the persons above in the U.S. or in the possession or control of U.S. persons are blocked and require a specific or general license issued by OFAC.

The full press release announcing the designations can be found here: <https://home.treasury.gov/news/press-releases/jy2085>.

In response to the specific February 8 sanctions discussed above, OFAC issued General License 87, “Authorizing Limited Safety and Environmental Transactions Involving Certain Persons or Vessels Blocked on February 8, 2024”, authorizing through May 8, 2024 the following activities involving certain blocked entities:

- (1) The safe docking and anchoring in port of any vessels in which any person or entity listed in paragraph (b) of this general license has a property interest (“blocked vessels”);
- (2) The preservation of the health or safety of the crew of any of the blocked vessels; or
- (3) Emergency repairs of any of the blocked vessels or environmental mitigation or protection activities relating to any of the blocked vessels.

The authorization applies to Oil Tankers SCF MGMT FZCO and NS Leader Shipping incorporated, and any entity in which the previous own, directly, or indirectly, a 50% or greater interest.

This G.L. does not authorize the entry into any new commercial contracts involving those blocked persons, the offloading of any cargo onboard any of the blocked vessels (unless necessary to address vessel emergencies), any transactions related to the sale of crude oil or petroleum products, or any transactions prohibited by Directives 2 and 4 under E.O. 14024. The full General License can be found here:

<https://ofac.treasury.gov/media/932601/download?inline>.

Amended Executive Order 14068:

On February 8, 2024, OFAC issued two determinations pursuant to President Biden's amendment to Executive Order 14068, which prohibit the importation and entry into the U.S. of diamond jewelry and unsorted diamonds of Russian-origin.

The "Diamonds Determination" prohibits the importation of non-industrial diamonds that were mined, extracted, produced, or manufactured wholly or in part in the Russian Federation, whether such diamonds were used to make products outside of Russia. Effective March 1, 2024, non-industrial diamonds with a weight of 1.0 carat or greater fall into the prohibition. Effective September 1, 2024, non-industrial diamonds with a weight of 0.5 carats or greater fall into the prohibition. For example, a non-industrial diamond that is mined in Russia but manufactured in a third country falls into the prohibition, depending on its carat on either March 1, 2024, or September 1, 2024. The Determination can be found here:

<https://ofac.treasury.gov/media/932611/download?inline>.

The "Diamond Jewelry Determination" prohibits the importation and entry into the U.S. of diamond jewelry and unsorted diamonds of Russian-origin and that were exported from the Russian Federation. For example, the Determination prohibits the importation of a diamond necklace using Russian diamonds and also a diamond necklace that was manufactured in Russia, regardless of where the diamonds originated. The determination is effective March 1, 2024 and can be found here: <https://ofac.treasury.gov/media/932606/download?inline>.

February 23, 2024 Russian-related Sanctions and General Licenses:

As part of the sanctions announced on February 23, 2024, OFAC designated Russian shipping giant **Sovcomflot** and fourteen crude oil tankers identified as property in which Sovcomflot has an interest pursuant to E.O. 14024 for operating in the marine sector of the Russian economy and acting on behalf of the Russian Government. The designated vessels are:

- **ANATOLY KOLODKIN** (IMO 9610808)
- **NS ANTARCTIC** (IMO 9413559)

- **NS LION** (IMO 9339313)
- **NS CONSUL** (IMO 9341093)
- **NS BURGAS** (IMO 9411020)
- **NS CAPTAIN** (IMO 9341067)
- **NS COLUMBUS** (IMO 9312884)
- **SAKHALIN ISLAND** (IMO 9249128)
- **NEVSKIY PROSPECT** (IMO 9256054)
- **GEORGY MASLOV** (IMO 9610793)
- **LITEYNY PROSPECT** (IMO 9256078)
- **KRYMSK** (IMO 9270529)
- **NS CREATION** (IMO 9312896)
- **NS BRAVO** (IMO 9412359)

These designations reflect OFAC's steps to target Russian entities found to be working in Russia's "shadow operations", in addition to the use of the price cap regime. The full press release announcing the designation can be found here: <https://home.treasury.gov/news/press-releases/jy2121>.

In response to the Sovcomflot designation, OFAC issued two General Licenses to authorize certain actions involving Sovcomflot vessels.

General License 92, "Authorizing the Offloading of Cargo from Sovcomflot Vessels", authorizes all transactions that are ordinarily incident and necessary to the offloading of cargo from any vessel identified on the SDN List that is blocked as a result of the Sovcomflot designation through April 8, 2024. This General License does not authorize any new commercial contracts involving blocked entities, any transactions prohibited by Directive 2 or 4 of E.O. 14024, or any transaction that would be otherwise prohibited by the RuHSR. The General License can be found here: <https://ofac.treasury.gov/media/932661/download?inline>.

General License 93, "Authorizing Transactions Involving Certain Sovcomflot Vessels", authorizes transactions prohibited by E.O. 14024 involving any vessel that is blocked solely as it is a property interest of Sovcomflot, or any subsidiary, provided that such vessel is not otherwise identified. It does not authorize any transactions prohibited by Directive 2 or 4 of E.O. 14024, or any transaction that would be otherwise prohibited by the RuHSR. To be clear, transactions involving the above listed fourteen vessels identified in the February 23 sanctions are not authorized under this General License. The General License can be found here: <https://ofac.treasury.gov/media/932666/download?inline>.

February 23, 2024, Other General Licenses:

OFAC issued four new General Licenses in response to the designated persons and entities on February 23, 2024.

General License 88, “Authorizing the Wind Down of Transactions Involving Certain Entities Blocked on February 23, 2024”, authorizes transactions prohibited by E.O. 14024 that are ordinarily incident and necessary to the wind down of transactions involving entities that appear on a list in the G.L. through April 8, 2024. It does not authorize any transactions prohibited by Directive 2 or 4 of E.O. 14024, or any transaction that would be otherwise prohibited by the RuHSR. The General License, including the list of authorized entities, can be found here: <https://ofac.treasury.gov/media/932641/download?inline>.

General License 89, “Authorizing the Wind Down and Rejection of Transactions Involving Certain Financial Institutions Blocked on February 23, 2024”, authorizes transactions with certain financial institutions prohibited by E.O. 14024 that are ordinarily incident and necessary to the wind down of those transactions through April 8, 2024. It does not authorize any transactions prohibited by Directive 2 or 4 of E.O. 14024, or any transaction that would be otherwise prohibited by the RuHSR. The General License, including the list of authorized financial institutions, can be found here: <https://ofac.treasury.gov/media/932646/download?inline>.

General License 90, “Authorizing Certain Transactions Related to Debt or Equity of, or Derivative Contracts Involving, Certain Entities Blocked on February 23, 2024” authorizes all transactions prohibited by E.O. 14024 that are ordinarily incident and necessary to the divestment or transfer (or facilitation thereof) or debt or equity issued or guaranteed by certain blocked entities to a non-U.S. person through April 8, 2024. The G.L. does not authorize U.S. persons to sell or facilitate the sale of covered debt or equity to any person who is blocked or to purchase or invest in covered debt or equity, other than necessary to the divestment or transfer of covered debt or equity. The General License and the certain blocked entities can be found here: <https://ofac.treasury.gov/media/932651/download?inline>.

General License 91, “Authorizing Limited Safety and Environmental Transactions Involving Certain Blocked Persons or Vessels”, authorizes transactions ordinarily incident and necessary to the following activities involving blocked persons through May 23, 2024, provided that any payment to a blocked person must be made into a blocked account in accordance with the Russian Harmful Activities Sanctions Regulations. The General License provides for the authorized activities as follows:

- (1) The safe docking and anchoring in port of any vessels in which any person listed in paragraph (b) of this general license has a property interest (“blocked vessels”);
- (2) The preservation of the health or safety of the crew of any of the blocked vessels; or
- (3) Emergency repairs of any of the blocked vessels or environmental mitigation or protection activities relating to any of the blocked vessels.

The authorization of the general licenses applies to the following blocked persons and any entity in which the following own, directly or indirectly, a 50% or greater interest:

- (1) Ladoga Shipping Company Limited Liability Company;
- (2) JSC Polar Marine Geosurvey Expedition;
- (3) Yuzhmorgeologiya AO;
- (4) Sevmorneftegeofizika AO; and
- (5) Amige AO.

This G.L. does not authorize the entry into any new commercial contracts involving those blocked persons, the offloading of any cargo onboard any of the blocked vessels (unless necessary to address vessel emergencies), any transactions related to the sale of crude oil or petroleum products, or any transactions prohibited by Directives 2 and 4 under E.O. 14024. The full General License can be found here: <https://ofac.treasury.gov/media/932656/download?inline/>.

If you have any questions about the contents of this alert or would like further information regarding U.S. sanctions, please feel free to contact the authors, Bill Pallas at pallas@freehill.com, or Mike Dehart at dehart@freehill.com.

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