

U.S. Economic Sanctions Overview

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Agenda

- Overview
- Country Sanctions
- Enforcement
- Best Practices



Sanctions

› What are economic sanctions?

- Department of Treasury – Office of Foreign Assets Control
- Department of State
- Prohibitions/sanctions on countries, persons, certain activities.

› What countries/regions are sanctioned?



Cuba

Syria

Iran

North Korea

Russia/Crimea

Sudan (North)



Congo

Myanmar (Burma)

Cote d'Ivoire

Libya

Lebanon

Yemen

Somalia

Iraq

Libya

Belarus

Balkans



What Do Sanctions Generally Prohibit?

- The following activities (direct or indirect) are generally prohibited:
 - Transactions involving embargoed country assets or property (asset freeze)
 - Transactions with “specially-designated” persons or entities (“SDNs”)
 - Exports, reexports, and imports of goods or services
 - Investment in embargoed country
 - Exports or reexports of services
 - Approval or facilitation of non-U.S. persons’ activities involving embargoed countries or SDNs
 - Structuring transactions purposely to avoid the embargoes

- Blocking order – prohibits dealing in any property in which a targeted entity has any interest
 - Prohibitions apply no matter how small or attenuated embargoed entity’s interest in transaction might be – could be a contingent future interest!
 - Effectively bars any approval, participation, support, facilitation by any U.S. person



List Based Sanctions

- ▶ Apply to parties specially designated individuals and entities (“SDNs”) for one or more reasons, including:
 - Terrorism
 - Nuclear and other weapons of mass destruction proliferation
 - Narcotics trafficking
 - Human rights

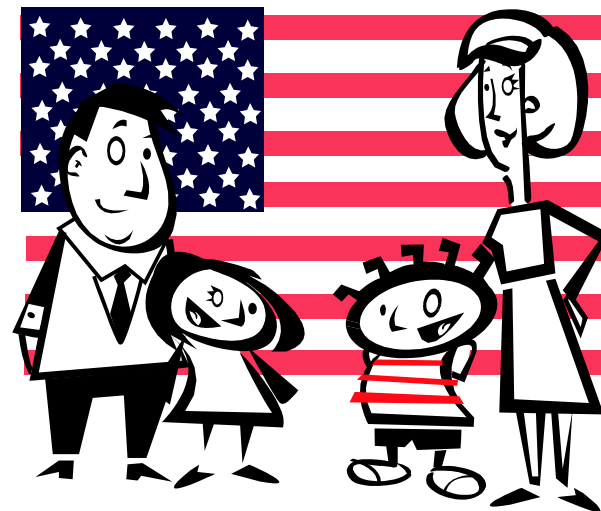
- ▶ Unlawful to conduct any transaction with an SDN; may require blocking assets

- ▶ SDNs are based in many countries, including U.S. allies such as the United Kingdom and France

- ▶ Lists to consider: Specially Designated Nationals List, Foreign Sanctions Evaders List, Sectoral Sanctions Identifications List, etc.

Who Needs To Follow US Sanctions Law?

- U.S. companies, divisions, and branches
- U.S. individuals (even if abroad)
- Activities in the United States (even by foreign persons)
- USD Denominated transactions
- Foreign persons dealing in U.S.-origin goods (10% U.S. content by value)
- Foreign entities “owned or controlled” by U.S. companies sometimes covered (Cuba, Iran)
- In certain sanction regimes, foreign entities may be subject to secondary sanctions (e.g. Iran, SDNs).



Prohibited Activities – US Facilitation

What is
facilitation?

- Acting in furtherance of transactions involving embargoed countries
- Virtually all direct or indirect participation or support by U.S. persons in a transaction involving an embargoed country, with only a few narrow exceptions

Exceptions:

- Providing legal advice on compliance with U.S. laws
- Passive receipt of information or reports of the results of foreign affiliate transactions involving embargoed countries (without any approval or support from the U.S. company)
- General, non-transaction-specific support (i.e., non-specific and non-predominant)

The Basic Factual Inquiry

➤ Three threshold jurisdictional questions:

Are U.S. goods (including foreign goods containing U.S. goods or based on U.S. technology), software, technology, or services involved?

Are U.S. individuals or entities involved?

Does any aspect of the transaction involve the United States?

➤ If yes, U.S. export controls and/or economic sanctions laws might apply to the transaction at issue

- In limited cases, the United States is targeting non-U.S. entities conducting business with embargoed countries

Iran



Sanctions Overview

PRIMARY

- Sanctions imposed on U.S. persons and corporations (including subsidiaries), US origin products and those in the US, and non-US products that contain 10% or more US controlled content or are based on certain US technology

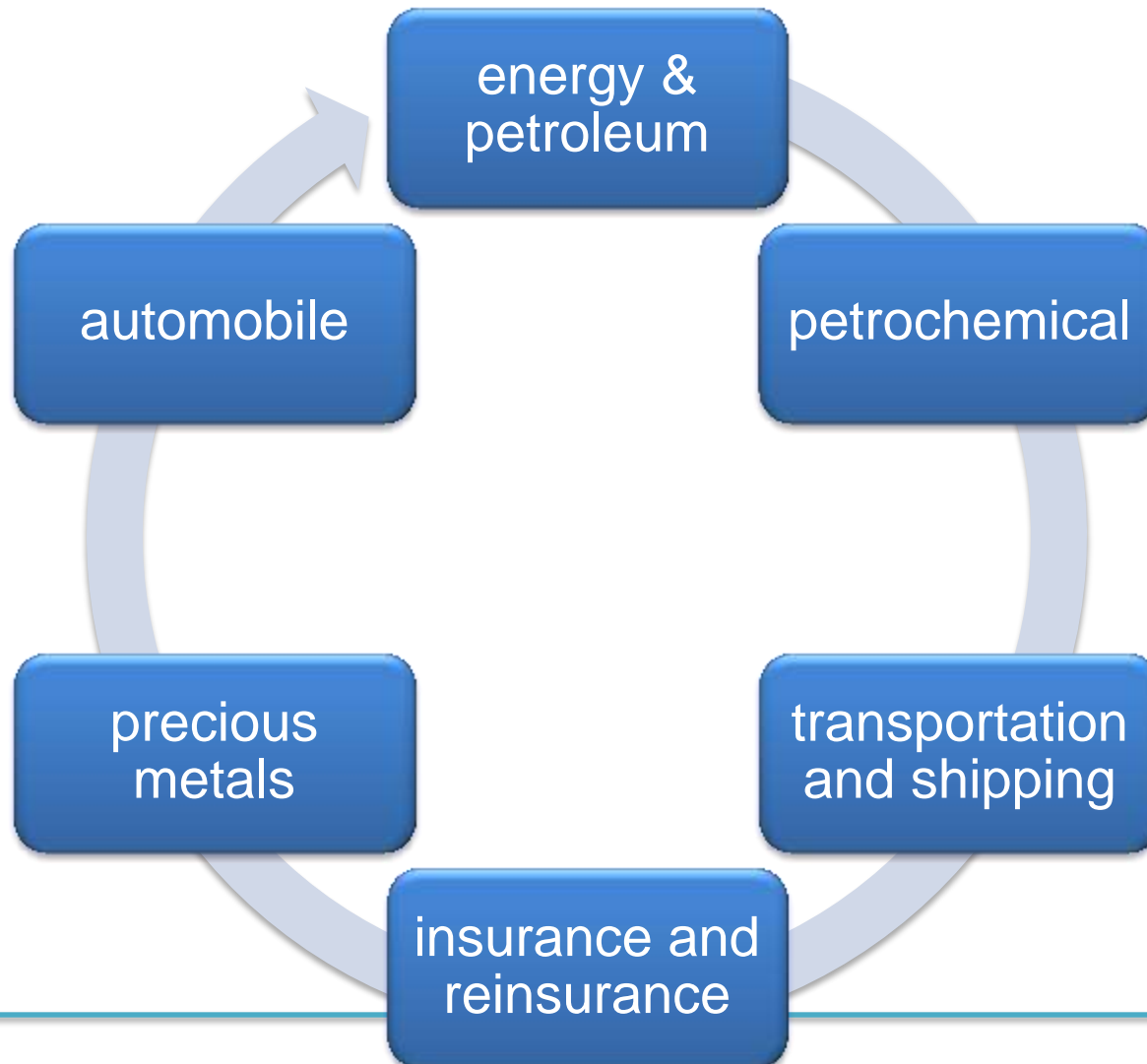
SECONDARY

- Sanctions that can be imposed on non-US companies who transact certain forms of business with Iran

SECONDARY

- **FINANCIAL:** Sanctions on foreign financial institutions that support certain business with Iran – sanctions consistent of denying access to US market – no correspondent accounts or payable-through accounts for sanctioned foreign institutions

Examples of Secondary Sanctions



SEC Regulations

- Issuers required to disclose certain transactions by their affiliates with Iran to the SEC
- Includes non-US companies with ADRs traded in US
- NOT ALL transactions with Iran need to be reported
- But figuring out which ones is itself a painful experience





What Did the Joint Plan of Action Do for U.S. Sanctions on Iran?

- Primary sanctions remain for U.S. Persons and persons physically in the United States
- Removal of secondary sanctions against non-U.S. persons related to several industries
- Only three kinds of transactions are licensed:
 - Exports of commercial passenger aircraft, spare parts and components and associated services – via Specific License;
 - Imports of Iranian origin carpets and foodstuffs including pistachios and caviar – via General License; and
 - “License non-U.S. entities that are owned or controlled by a U.S. person to engage in activities with Iran that are consistent with this JCPOA.”



OFAC's General License H

- GL H authorizes an entity owned or controlled by a U.S. person and established or maintained outside the United States to engage in most transactions, directly or indirectly, with the Government of Iran or any person subject to the jurisdiction of the Government of Iran that would otherwise be prohibited by the Iranian Transactions and Sanctions Regulations (ITSR).
- For most subsidiaries of U.S. companies, this will require a change in U.S. parent company's corporate policy.



General License H - Still Prohibited:

- The direct or indirect export/report of goods, technology, or services from the United States without separate authorization from OFAC;
- Transferring funds to, from, or through the U.S. financial system;
- Transacting with SDNs, parties on the Foreign Sanctions Evaders List, or any activity that would be prohibited by non-Iran sanctions administered by OFAC if engaged in by a U.S. person or in the United States;
- Any activity prohibited by, or requiring a license under the EAR or with a person on the Denied Persons or Entity List (unless authorized by BIS);
- Transacting with any military, paramilitary, intelligence, or law enforcement entity of the Government of Iran, or any official, agent, or affiliate thereof;
- Any activity that is sanctionable under EOs 12938, 13382, 13224, 13572, 13582, 13611, 13553 13606, and EO 13628 Sections 2 and 3; or
- Any nuclear activity that is subject to the procurement channel established in [U.N. Security Council Resolution 2231](#), ¶16, and the JCPOA and that has not been approved through the procurement channel process.

Policy at U.S. Parent Can Be Changed



Authorizes U.S. persons from senior management to compliance personnel to establish or alter existing policies to enable their foreign subsidiaries to do business in Iran that is consistent with GL H.

U.S. persons can also train, advise, and counsel personnel in both the parent and the subsidiaries on these new policies.

Caution....

➤ Such transactions cannot involve:



U.S.-origin products
(except EAR99 in
general inventory and
BEWARE!!!)

Reexports of items
containing 10% or
more U.S. export-
controlled content if
undertaken with
knowledge or reason
to know that it is
specifically for Iran or
the Government of
Iran

NO U.S. person
approving or
“facilitating” sales

Automated & Globally Integrated Systems

➤ *U.S. parent can make available to non-U.S. sub any “automated” and “globally integrated” computer, accounting, email, telecommunications, or other business support system, platform, database, application, or server necessary to store, collect, transmit, generate, or otherwise process documents or information related to the authorized transactions.*

OK

- an enterprise resource planning (ERP) system that utilizes a U.S.-based server – without any human intervention in the United States – to generate a purchase order initiated by a Canada-based, non-U.S. person employee of a U.S.-owned or -controlled foreign entity;

**NOT
OK!!**

- if the ERP system required the intervention of an individual located in the United States to complete a request initiated by a Canada-based, non-U.S. person employee of a U.S.-owned or -controlled foreign entity, such as a U.S. person performing data entry or internal processing for the creation of a customer record

What about U.S. Sanctions on Iran for Non-U.S. Persons?

- Threat of secondary sanctions remains for non-U.S. persons who:

Activities if they involve persons or entities remaining on the SDN List or the Islamic Revolutionary Guard Corps;

Facilitating the efforts of Iran to acquire or develop WMDs, supporting terrorist organizations, and engaging in money laundering or facilitating such efforts by an Iranian financial instruction

Transfers of raw and semi-finished metals not approved by the procurement channel established by JCPOA and UNSCR 2231, ¶16

Diversion of goods, including agricultural commodities, food, medicine, and medical devices, intended for the people of Iran, or the misappropriation of proceeds from the sale or resale of such goods

Knowingly and directly providing specialized financial messaging services to, or knowingly enabling or facilitating direct or indirect access to such messaging services for a financial institution whose property or interests in property are blocked in connection with Iran's proliferation of WMD or their means of delivery, or Iran's support for international terrorism

Perform any conduct to evade U.S. restrictions on transactions or dealings with Iran or that causes the export of goods or services from the United States to Iran

Additionally, no U.S. banks and no U.S. dollar transactions!!!!

What About U.S. Export Controls for Non-U.S. persons?

➤ No change – Non-U.S. persons are prohibited from:

Exporting, reexporting, selling or supplying, directly or indirectly, from the US of any goods, software, technology, or services if the items are destined for Iran or the Government of Iran at the time they leave the US;

Reexporting to Iran US-origin goods, software, or technology, or services that require a license for reexport to Iran if undertaken with knowledge or reason to know that the reexportation is specifically for Iran or the Government of Iran; and

Reexporting goods, software or technology containing 10 percent or more US export-controlled content or are otherwise subject to US export controls that require a license for reexport to Iran, if undertaken with knowledge or reason to know that the reexportation is specifically for Iran or the Government of Iran.

Cuba





Revised Cuba Sanctions Regulations

- US embargo on Cuba prohibits nearly all transactions by US persons or involving US goods (including EAR99) to or with Cuba
- On January 15, 2015 Departments of the Treasury and Commerce revised the Cuban Assets Control Regulations (CACR) and the Export Administration Regulations (EAR)
- The comprehensive U.S. embargo of Cuba remains in effect but the new rules issue a series of general licenses (and license exceptions) and authorizations that simplify the process for those traveling to Cuba and expand the number of permitted activities

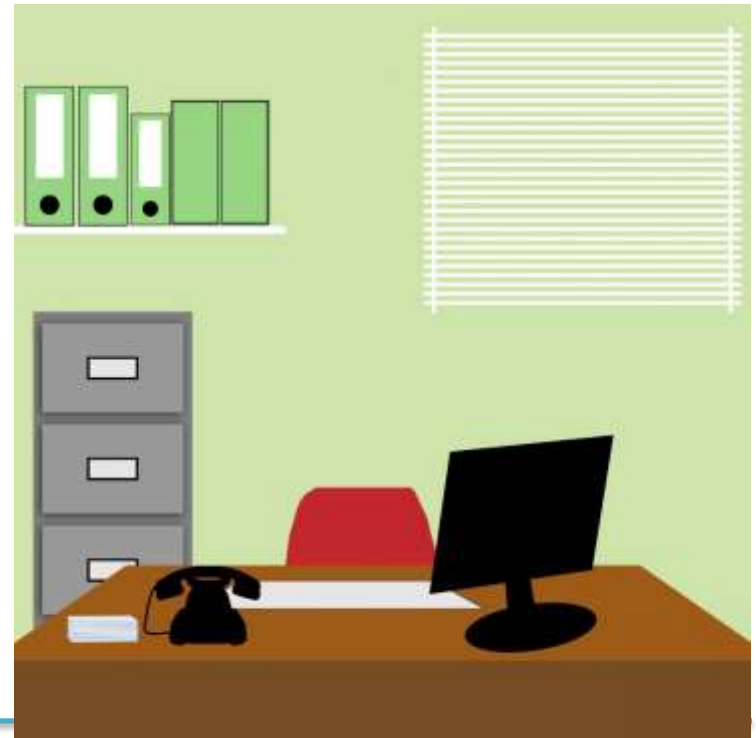
Revised Cuba Terrorism Designation

- On May 29, 2015, the Secretary of State rescinded the designation of Cuba as a State Sponsor of Terrorism
- On July 20, 2015, the US and Cuban Embassies reopened as embassies in Havana and Washington respectively
- On July 22, 2015, the Bureau of Industry and Security (BIS) amended its Export Administration Regulations to remove Cuba from some of the controls applicable to State Sponsors of Terrorism – but BIS took care to ensure that the embargo remained
- On September 21, 2015, January 15, 2016, and March 16, 2016 BIS and OFAC published additional amendments to the CACRs and EARs to provide additional limited relief

Opening an Office in Cuba

- For first time in 60 years, U.S. companies can establish a limited physical presence in Cuba.
- U.S. companies are allowed to open bank accounts and will not be “blocked”

Eligible examples: exporters of goods authorized for export (now assembly included!), news bureaus, mail/parcel services, telecom and internet-based services, travel & carrier services, humanitarian projects



License Exception: Support for the Cuban People (SCP)

- Authorizes the export/reexport of EAR99/AT only items commercially sold or donated:
 - Building materials, equipment, and tools to construct or renovate privately-owned buildings, including privately-owned residences, businesses, places of worship, and buildings for private sector social or recreational use
 - Tools and equipment for private agricultural activity
 - Tools, equipment, supplies, and instruments for use by “private sector entrepreneurs”

YES
WE
CAN



Case by Case Review of License Applications

- For transactions to meet the needs of the Cuban people,
 - Including to state owned enterprises and agencies of the government in Cuba that provide goods and services to the Cuban people
- For exports and reexports that would enable or facilitate exports of items produced by the private sector in Cuba
 - NOTE: Cannot primarily generate revenue for Cuban State.

License Exception SCP

- “Improving Communications:”
 - License exception to improve the free flow of information to and from the Cuban people
 - For export/reexport to Cuba items “sold or donated, for telecommunications, including access to the Internet, use of Internet Services, infrastructure creation and upgrades”
 - Authorized for export – EAR99 and AT-controlled items



License Exception: Consumer Communication Devices (CCD)



- Authorizes the export/reexport of certain communications items to eligible end users in Cuba
- Allows for commercial sales – previously items had to be donated



- License Exception CCD covers a broad range of enumerated hardware and software, such as computers, monitors, printers, cell phones, digital cameras, television and radio receivers, and certain consumer software

License Exception CCD

Services related to the use of CCF hardware/software

- cloud storage,
- software design,
- business consulting,
- the provision of IT management and support
- software or services to install, repair (including repair training), or replace such items

Transactions to provide fee-based services related to authorized export/reexport of CCD communications items and internet-based communications authorized

Telecommunications and Internet-Based Services

- Transactions that establish mechanisms in Cuba to provide commercial telecommunications services linking third countries and Cuba and in Cuba authorized
- General license for transactions (including payments) related to the establishment of facilities, including fiber-optic cable and satellite facilities, to provide telecommunications services
- Telecommunication services may include data, telephone, internet connectivity, radio, television, news wire feeds, and similar services
- Transactions relating to certain Internet-based services authorized



Financial Services

- As of March 16th, US Banks can process U-turn payments and US\$ monetary instruments (e.g. cash, travelers checks) presented indirectly by Cuban financial institutions
- Financial institutions may process payments of credit cards, debit cards, checks, etc. negotiated in Cuba
- Depository institutions can open correspondent accounts at Cuban financial institutions to process the new authorized transactions
- US financial institutions can enroll merchants to process credit/debit card transactions
- Financing by banks located in third countries is permitted provided bank is not:
 - organized under the laws of the United States
 - or a branch of a U.S. bank
- Financing may be confirmed/ advised by a U.S. bank



Other Developments Making Things Easier

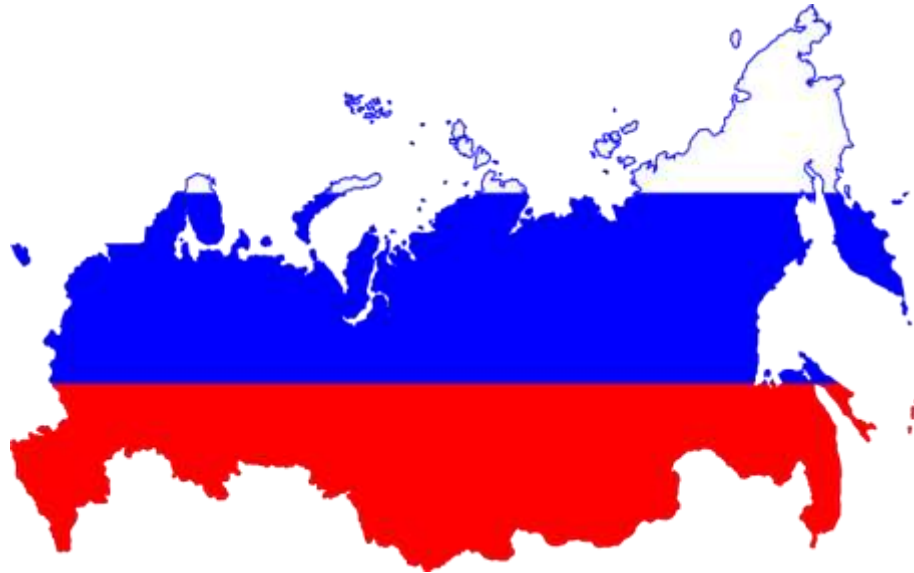


General license for vessels to transport cargo and passengers (provided US passengers are going to Cuba for authorized travel)

License exception for temporary exports to Cuba – tools of trade such as laptops and exhibition items for trade shows

No license required for deemed exports of EAR99 technology to Cubans in US & third countries

Russia/Ukraine/Crimea



Sanctions Related to the Situation in Ukraine

3/6/2014
EO No.
13660

3/16/2014
EO 13661

3/20/2014 EO
13662

8/13/2014
OFAC -
Revised 50%
Guidance

9/12/2014 EU,
BIS & OFAC -
More Defense
& Oil Sanctions

7/16/2014
OFAC -
Sectoral
Sanctions

12/18/2014
Ukraine
Freedom
Support Act

8/6/2014
BIS - Oil &
Gas
Sanctions

12/19/2014
EO 13685 -
imposes
embargo on
Crimea

Executive Orders

EO 13660

- Sanctions on persons that:
- Threaten the peace, security, stability, sovereignty, or territorial integrity of Ukraine
- Misappropriate Ukrainian state assets or those of a significant entity in Ukraine
- Assert governmental authority—without authorization—over any part or region of Ukraine
- Materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of, any of these activities
- Are owned or controlled by any person whose property and interests in property are blocked

EO 13661

- Sanctions on:
- Officials of the Government of the Russian Federation
- Persons operating in the Russian arms, related materiel sector
- Persons owned or controlled by or having acted on behalf of a blocked person or “senior official” in the Government of the Russian Federation
- Persons that have materially assisted, sponsored or provided support to, or in support of, any senior Russian government official or blocked person

EO 13662

- Sanctions persons:
- Operating in sectors of the Russian Federation economy such as financial services, energy, metals and mining, engineering, and defense and related materiel designated by Treasury
- Providing financial, material or technological support
- Owned or controlled by blocked persons

Designations

- Multiple rounds of designations under EOs 13660 and 13661
- U.S. persons cannot transact with these entities and must block all property and interests in property
- Who is an SDN or blocked person?



OFAC 50% Rule Revised

- Companies owned 50% or more by one or more SDN are automatically blocked
- Lesser percentages can be deemed “controlled” – meaning OFAC can designate them – use “caution”

THEN

Spring 2014 OFAC designated Arkady and Boris Rotenberg and then LATER designated two banks they controlled:


InvestCapitalBank
SMP Bank

NOW

The two banks jointly owned by OFAC designated Arkady and Boris Rotenberg would be automatically blocked without an additional designation by OFAC

Executive Order No. 13662 - July 16, 2014

- Directives 1 and 2: impose sanctions on entities listed on a new “Sectoral Sanctions Identifications List” (SSIL)
- NOT all transactions with SSIL are prohibited – only:



New debt with a maturity of longer than 90 days (now 30 in some cases); or
New equity (for some but not all SSIL entities)
All financing in support of new debt or new equity
Any dealing in, including provision of services, of new debt or new equity for the persons in Directive 1

U.S. Energy Sanctions Come in 4 Flavors – 2 for Each Agency



- 1) Requires license for listed products to prohibited end uses (deepwater, Arctic offshore locations & shale formations in Russia)
- 2) Requires license for all products subject to the EAR to certain entity list end-users for these prohibited end uses



- 1) Directive 2 – prohibits dealing in new debt (greater than 90 days) with listed SSIL entities
- 2) Directive 4 – prohibits US persons exporting products, services or technologies to prohibited end uses by SSIL entities

BIS Oil & Gas Sanctions: What Items Are Listed?

- Long list of Schedule B numbers (in supp. 2 to part 746)
- Plus the following ECCNS:

0A988: oil and gas exploration data

3A232: detonators and multipoint initiation systems

1C992: Commercial Charges and devices containing energetic materials

6A991: marine or terrestrial acoustic equipment

3A229: firing sets and equivalent high-current pulse generators

8A992: vessels, marine systems or equipment not controlled by 8A001 or 8A002

3A231: neutron generator systems, including tubes

8D992: software specially designed for the operation of unmanned submersible vehicles used in oil & gas industry

BIS Oil & Gas Sanctions

- 5 Russian energy companies added to the BIS Entity List:

Gazprom

Gazpromneft

Lukoil

Rosneft

Surgutneftgas

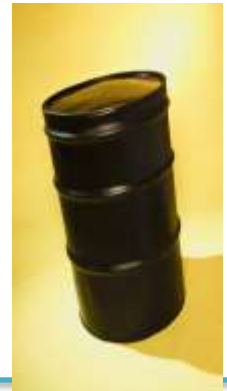
- Licenses required for all items subject to EAR to but only when the exporter, reexporter, or transferor knows those items will be used directly or indirectly in exploration for, or production from, deepwater, Arctic offshore, or shale projects in Russia



OFAC Energy Sanctions – Sept. 12, 2014

Directive 4

- Prohibits the provision, exportation or reexportation, directly or indirectly of **goods, services (except financial services) and technology** in support of exploration or production for deepwater, Arctic offshore or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory that involve one of the entities designated under Directive 4.



OFAC Energy Sanctions – Sept. 12, 2014

Directive 4

Entities	
GAZPROM NEFT OAO,GAZPROM OAO,JSC GAZPROM NEFT	OTKRYTOE AKTSIONERNOE OBSHCHESTVO SURGUTNEFTEGAZ
LUKOIL, LUKOIL OAO, LUKOIL OIL COMPANY	SIBIRSKAYA NEFTYANAYA KOMPANIYA OAO
NEFTYANAYA KOMPANIYA LUKOIL OOO, NK LUKOIL OAO	SURGUTNEFTEGAS, SURGUTNEFTEGAS OAO, SURGUTNEFTEGAS OJSC, SURGUTNEFTEGAZ OAO
OAO GAZPROM, OJSC GAZPROM NEFT	OAO ROSNEFT OIL COMPANY, OIL COMPANY ROSNEFT
OPEN JOINT STOCK COMPANY GAZPROM	OJSC ROSNEFT OIL COMPANY
OPEN JOINT STOCK COMPANY SURGUTNEFTEGAS	OPEN JOINT-STOCK COMPANY ROSNEFT OIL COMPANY
OPEN JOINT-STOCK COMPANY GAZPROM NEFT	ROSNEFT, ROSNEFT OIL COMPANY

How Do I Know Which Oil & Gas Sanction Applies?

Do you have an SSIL customer?

- Check SSIL List and Directives 2 and 4

Do you have an Entity List customer?

- Check Entity List and 15 CFR 746.5

Are you exporting a special product?

- Check Schedule B # in supplement No. 2 to part 764 or in ECCNs 0A998, 1C992, 3A229, 3A231, 3A232, 6A991, 8A992, and 8D999 and 15 CFR 746.5

If the answer to 1 (Directive 4), 2 or 3 is yes, do you have a prohibited end use in Russia?

- Check Directive 4, 15 CFR 746.5 and the OFAC and BIS +FAQs

If the answer to 1 (Directive 2) is yes, do you have new debt or extension of credit of more than 90 days?

- Check Directive 2 and the OFAC FAQs

BIS Military End Use Sanctions – Sept. 12, 2014

5 Russian defence companies added to the BIS Entity List.

Licenses required for all items subject to EAR to these entities, and they will be subject to a presumption of denial.

- Almaz-Antey Air Defense Concern Main System Design Bureau, JSC
- Tikhomirov Scientific Research Institute of Instrument Design
- Mytishchinski Mashinostroitelny Zavod, OAO
- Kalinin Machine Plant, JSC
- Dolgoprudny Research Production Enterprise (develops and manufactures high-technology defense products)

BIS Military End Use Sanctions – Sept. 12, 2014 also restricts CERTAIN ECCNs to:

Military end-user broadly defined

National armed services (army, navy, marine, air force, or coast guard), as well as the national guard and national police, government intelligence or reconnaissance organizations, or any person or entity whose actions or functions are intended to support 'military end uses'

Military end- uses:

Incorporation into a military item described on the U.S. Munitions List (USML)

Incorporation into a military item described on the Wassenaar Arrangement Munitions List (WAML)

Incorporation into items classified under ECCNs ending in "A018" or under "600 series" ECCNs

For the "use," "development," or "production" of military items described on the USML or the WAML, or items classified under ECCNs ending in "A018" or under "600 series" ECCNs.

OFAC Military Sanctions – Sept. 12, 2014

Directive 3

Prohibits all transactions in, provision of, financing for, or other dealings in new debt **of longer than 30 days maturity** to persons subject to the Directive.

Rostec	Rostec State Cooperation
Russian technologies	State cooperation Rostekhnologii
Russian Technologies state cooperation for assistance to development, production and export of advanced technology industrial product	State cooperation for assistance to development, production, & export of advanced technology industrial product Rostekhnologii

Executive Order 13685 - December 19, 2014

Imposes effective embargo on the Crimea region of Ukraine, prohibiting:

Export/import of goods, technology, or services to/from Crimea

US persons from making new investments in Crimea

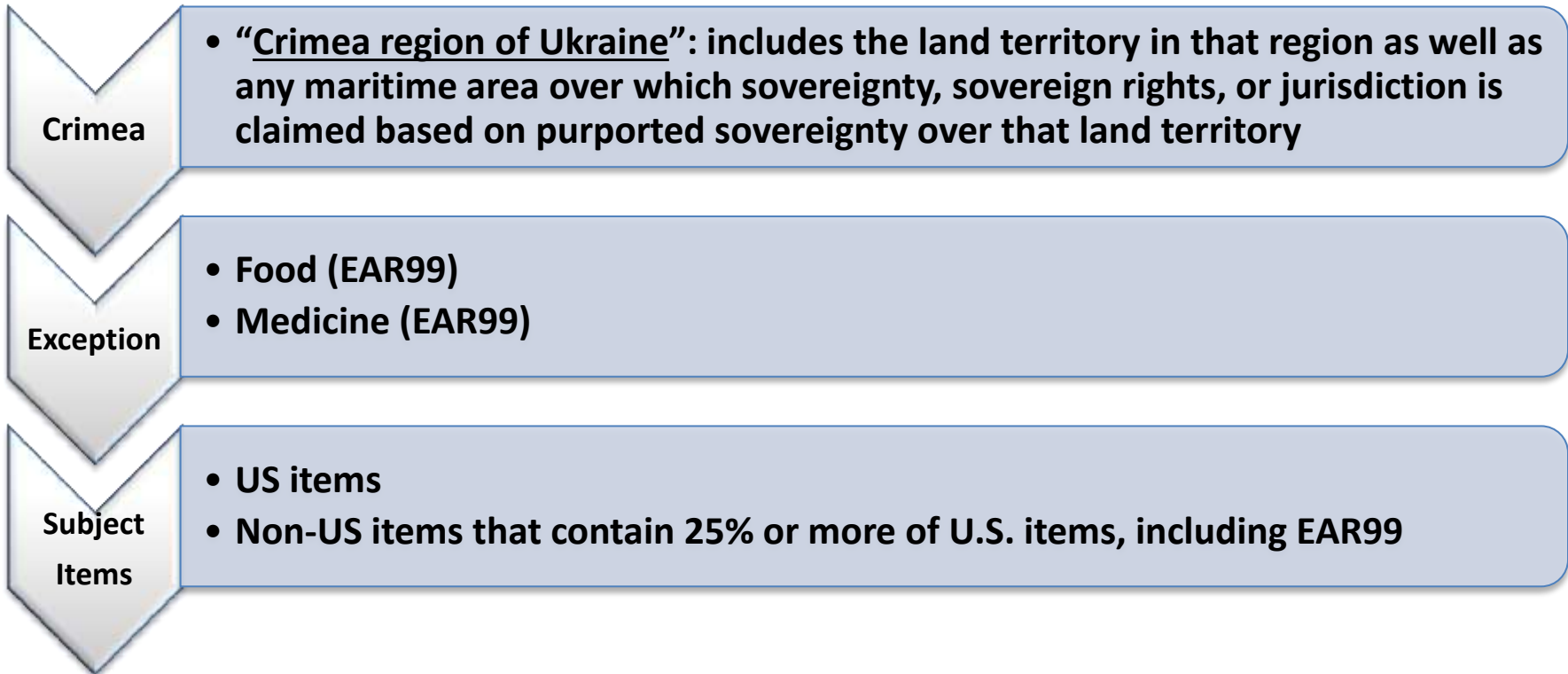
US persons approving, facilitating or guaranteeing a transacting by a foreign person

Authorizes OFAC to impose sanctions on individuals/entities operating in Crimea



BIS Crimea Sanction Regulations

- Licenses required for the export , reeexport and transfer to/within Crimea region of Ukraine



Sudan





Sudan (North) Sanctions

- › Nearly all business activities (e.g. investments, contracts, trade) by U.S. persons with Sudan (North)
- › Direct/indirect exports from the United States to, and imports from, Sudan (North) through third countries
- › Exports of non-U.S. products with 10% or more U.S. controlled content
- › Dealings with Government of Sudan and SDNs
- › Performance by a U.S. person of any contract in support of an industrial, commercial, public utility, or governmental project in Sudan
- › “Facilitation” by U.S. persons of transactions by foreign persons that would be prohibited if undertaken by U.S.

persons



Some of What's NOT Prohibited

- › Travel to Sudan by U.S. persons (provided no prohibited activities)
- › Exports of EAR99 products from general inventory in third countries provided no U.S. person involvement
- › Exports of foreign origin products containing less than 10% U.S. controlled content, provided they are not the foreign direct product of certain controlled technology
- › Exports of agricultural products, medical devices, and medicines with valid OFAC license
- › Exports of services software & hardware incident to personal communications (e.g. laptops, cell phones. accessories)
- › Exports of “informational materials” already in existence –
books, records, brochures

South Sudan

- Southern Sudan is not included in the territory of Sudan and is not covered by the sanctions on Sudan. However, due to the interdependence between Sudan's and Southern Sudan's economies, the following remain prohibited:
 - Financial and all other transactions with the “Government of Sudan” – meaning Northern Sudan – and Specially Designated Nationals (SDNs)
 - Transactions related to petroleum and petrochemical industries in Sudan (Northern Sudan)

- Transactions with SDNs in So Sudan prohibited

North Korea Sanctions

- Restrictions on trade with North Korea are increasing
- All exports and reexports of US products need license from BIS (except food and medicines classified as EAR99)
- Includes foreign products that have 10% or more controlled US content
- On August 30, 2010, President Obama issued an Executive Order blocking assets of persons to be identified as SDNs
- On April 18, 2011, President Obama prohibited imports from North Korea (previously it was possible to get licenses)
- On February 19, 2016, President Obama signed into law the “North Korea Sanctions and Policy Enhancement Act of 2016”
 - Requires the President to sanction non-US companies that do certain kinds of business with North Korea -- Secondary Sanctions





Syria Sanctions

- E.O. 13582 (August 18, 2011) froze Government of Syria assets subject to U.S. jurisdiction, including, agencies instrumentalities, and controlled entities
- Prohibits
 - Any transactions by U.S. persons involving the Government of Syria, its agencies, instrumentalities, or controlled entities;
 - New investments in Syria by U.S. persons;
 - Export of and direct/indirect supply of services by U.S. persons;
 - Import of Syrian-origin petroleum or petroleum products into the United States;
 - Any transaction or dealing by U.S. persons related to petroleum or petroleum products of Syrian origin; and
 - Facilitation by U.S. persons of otherwise prohibited transactions by foreign persons.

Myanmar (Burma) Sanctions



- General licenses authorize most transactions with Myanmar
- But US persons investing an aggregate amount of greater than USD 500K in Myanmar must file annual reports to the US State Department -- www.HumanRights.gov/BurmaResponsibleInvestment
- There are still many SDNs in Myanmar (some banks are blocked, some are blocked but some transactions are authorize) and screening is difficult
- There are still restrictions on US persons exporting security or financial services to the Burmese Ministry of Defense, any state or non-state armed group including the military and any entity owned 50% or more by these military entities
- As a result, many US corporations have reentered Myanmar



Enforcement

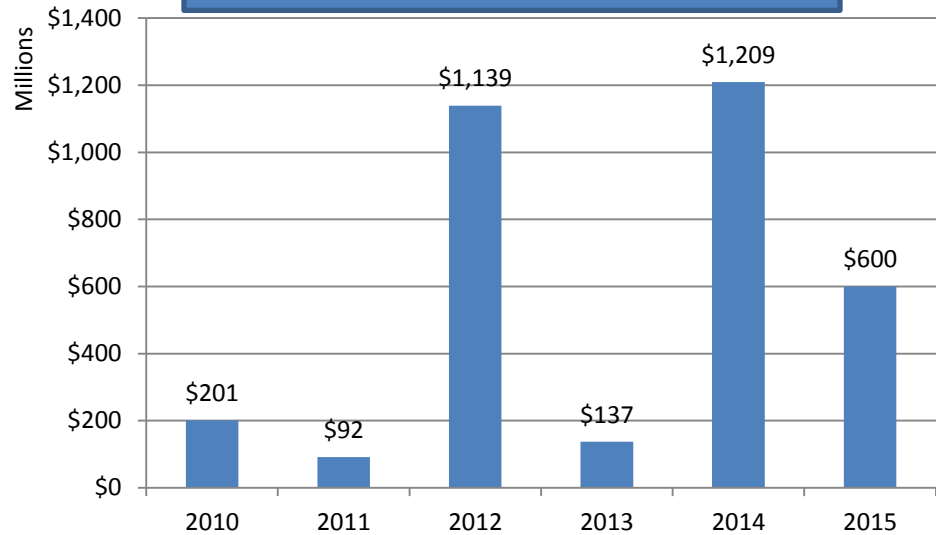


OFAC Penalties

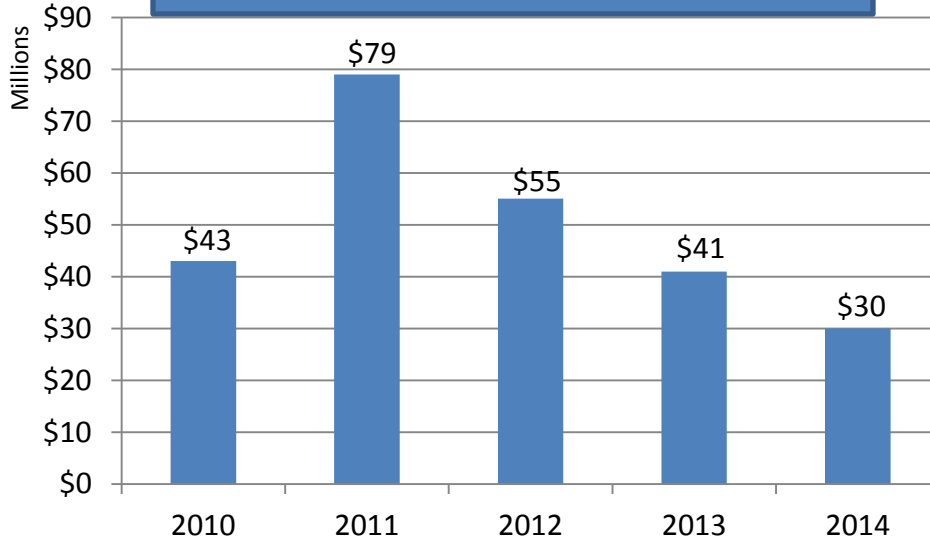
Criminal Penalties	Civil Penalties (strict liability)	Collateral Consequences
20 years imprisonment US \$1 million	US \$250,000 per “transaction”, or twice the value of the transaction, whichever is higher	Costs of Investigation Disqualification from federal or state government contracts and licenses Negative impact on investor relations and share value Reputational harm and damage to client relations

Penalties Breakdown (in millions USD)

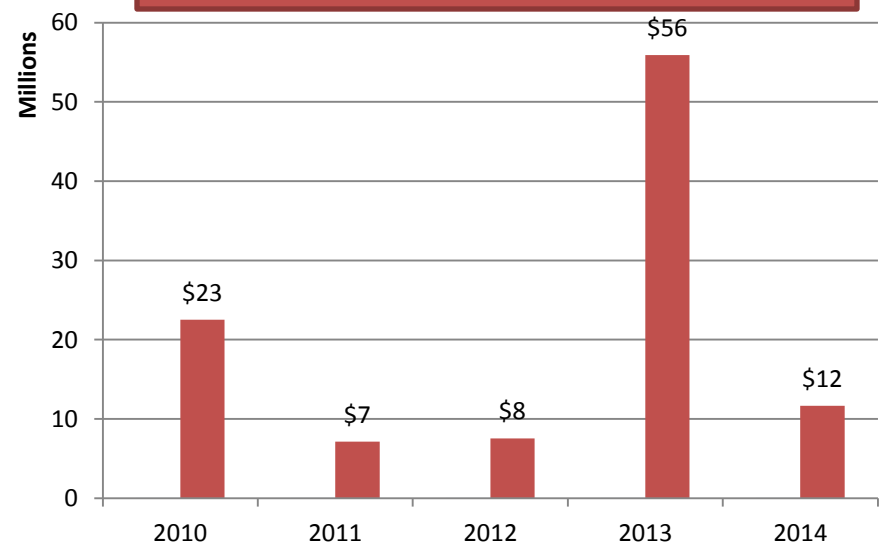
OFAC (Sanctions)



DDTC (ITAR Violations)



BIS (EAR Violations)



What is the biggest risk for both U.S. and non-U.S. companies? Primary sanctions!

- If a non-U.S. company buys products or services from the US for an embargoed country market, or involve US persons in the transaction, they may violate US laws
- The biggest cases in 2014 & 2015 involved non-US companies:



– BNP Paribas criminal conviction US \$8.8 billion fine

BNP PARIBAS
La banque d'un monde qui change



– Fokker civil settlement US \$21 million fines

2015 Was a Big Sanctions Year for non-U.S. companies



\$1.45 billion

•\$718 million in sanctions penalties (\$342 mil criminal to SOJ and DANY, and \$376 in civil penalties) and \$734 million in AML-related penalties. A \$260 million **OFAC settlement** was satisfied by the other amounts paid.

Schlumberger

\$233 million for violating Iran, Sudan sanctions

Schlumberger - March 25, 2015

Schlumberger

- Schlumberger Oilfield Holdings Ltd. **pleads guilty and agrees to a pay \$232.7 million criminal penalty for willfully facilitating** illegal transactions and trade with Iran and Sudan in violation of IEEPA
 - Parent company – Schlumberger Ltd. also agrees to:
 - Continue cessation of all operations in Iran & Sudan
 - Three years probation
 - Submit compliance reports to DOJ
 - Respond to requests for information and materials re: compliance
 - Hire an independent consultant



US Government's Statement



*U.S. Attorney Ronald Machen,
District of Columbia
March 25, 2015*

“This is a landmark case that puts global corporations on notice that they must respect our trade laws when on American soil. . . . Today’s announcement should send a clear message to all global companies with a U.S. presence: whether your employees are from the U.S. or abroad, when they are in the United States, they will abide by our laws or you will be held accountable.”

Lessons Learned – Schlumberger

Schlumberger

- Efficient corporate structures are incompatible with economic sanctions compliance – unless your company has completely opted out of embargoed countries
- Drilling & Measurement was a business segment HQ Sugar Land Texas covering world
 - had to approve CAPEX expenses for world
 - CAPEX expenses included those in “Northern Gulf” (aka Iran) & “South Egypt” (aka Sudan)

Lessons Learned – Schlumberger

Schlumberger

This order is absolutely essential for the future strategy in the “Northern Gulf.” You have approved other [requests for similar tools]. Please approve this one too.

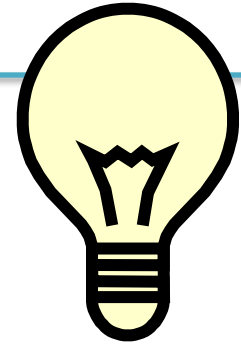
Please give these additional [requests] your approval. This is important for the operations in “Southern Egypt.” I have purposely not sent additional files as they refer to “Southern Egypt” by name.

Lessons Learned – Schlumberger

- The Inventory Rule: Provided they are not reexported exclusively or predominantly to Iran, EAR99 US origin goods in inventory in third country can be exported by non US persons from third countries to Iran
- The Schlumberger One-Year Rule: policy that mandated that US origin equipment located outside the US could only be reexported to a US sanctioned country if it had been outside the US for over a year.

ONE YEAR
AND
COUNTING

Lessons Learned – Schlumberger

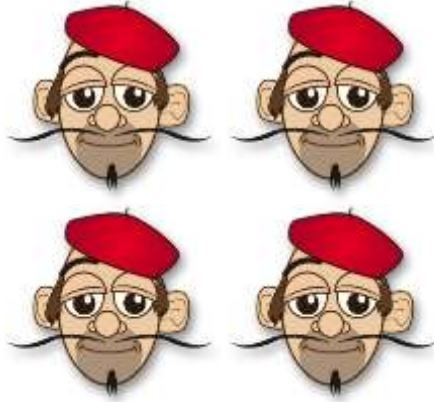


➤ Add human ingenuity and

– *“This is to help out Sudan again with their embargo. We will receive this tool [new tool from US] first and send out the year old tool.”*

Lessons Learned – Schlumberger

Non-US Persons



USA



US PERSONS!!! (w/o training)



Sanctions Dos and Don'ts

Do

- Know if your transaction is subject to US economic sanctions
- Know your product and if it requires a license
- Know what other regulatory bodies regulate/control exports
- Know the country of ultimate destination, end user/end use
- Know your customer/agents, and all third parties
- Make sure that screening department gets all names and addresses to screen
- Include appropriate compliance language in contracts
- Check for red flags

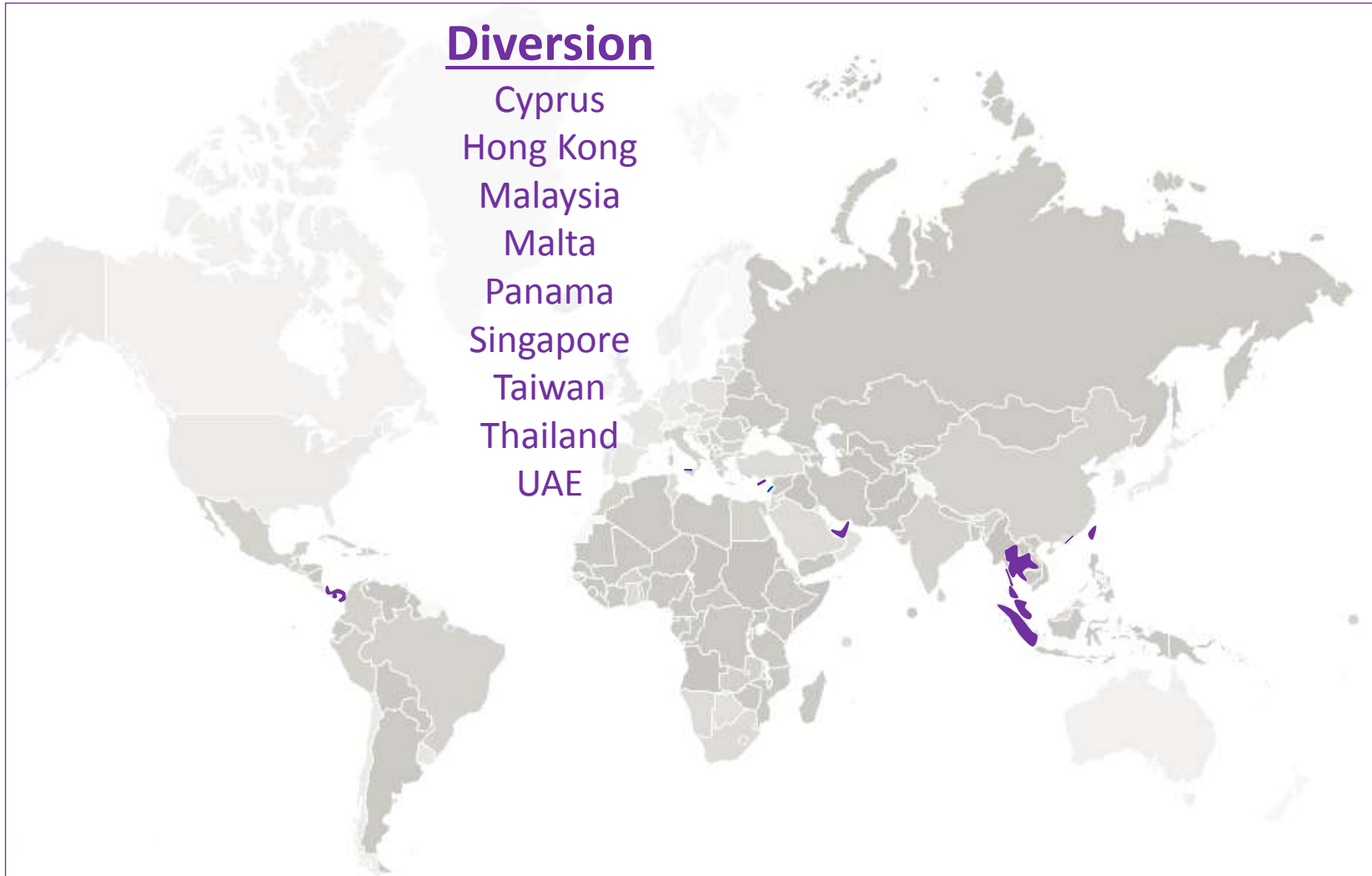
Don't

- Agree to terms or ship if you don't know
 - What is being exported
 - Where it is being exported
 - To Whom it is being Exported
 - Who is the end user
 - What they are using it for
- Agree to terms or ship if you see a red flag, or if the deal does not include our compliance language

Transshipments and Diversion

- Transshipments: Exports are considered directed at the ultimate country of destination
 - For example, an export to Dubai is considered an export to Iran if at the time of export, anyone knows or has reason to know that Iran is the ultimate destination
- Diversion: Where someone does know and diverts your shipment to another country or customer
- The 3 C's = used by U.S. prosecutors to prove a criminal violation by any involved party
 - Circuitous route
 - Cash
 - Cover up

Diversion Risks....



Reducing Risk

Determine if entity is already sanctioned

Run due diligence reports



Determine if entity is at risk for sanctions

Who owns or controls it?



Plan escape route!



Due Diligence

- Duty to exercise due diligence, to inquire regarding the suspicious circumstances and ensure appropriate end use, end user, or ultimate country of destination in the transactions you propose to engage in
- No affirmative duty upon exporters to inquire, verify, or otherwise "go behind" the customer's representations EXCEPT when there are indications of a potential diversion to an embargoed country or restricted party – in that case further inquiry is necessary
- Do not self blind, by cutting off the flow of information that may prevent the learning of relevant information

Red Flags

The customer/address is similar to a restricted party.

The customer is reluctant to offer information about the end use of the item.

The product's capabilities do not fit the buyer's line of business.

The item ordered is incompatible with the technical level of the country to which it is being shipped.

The customer is willing to pay cash for an expensive item when the terms of sale would normally call for financing.

The customer has little or no business background.

The customer is unfamiliar with the product's performance characteristics but still wants the product.

Routine installation, training, or maintenance services are declined.

Delivery dates are vague or deliveries are planned for out of the way destinations.

A freight forwarder is listed as the product's final destination.

The shipping route is abnormal for the product and destination.

Packaging is inconsistent with the stated method of shipment or destination.

The customer is evasive and unclear about the end use of the product.

Questions?

