



SHEARMAN & STERLING

Sanctions Roundup

April 20, 2020

FIRST QUARTER 2020

- Despite easing sanctions on COSCO Shipping, U.S. continues to target Chinese firms for secondary sanctions over Iran-related activities.
- President Trump announces new restrictions on Iran's construction, mining, and textile sectors; maintains sanctions pressure despite COVID-19 pandemic.
- OFAC blacklists two Rosneft entities in effort to thwart Russia's expanding support of Venezuela's oil exports.
- Enforcement action against Swiss company illustrates OFAC's broad view of primary jurisdiction based on use of "U.S.-origin" technology.

CONTENTS

CHINA	4
OFAC Eases Restrictions on COSCO Shipping’s Tanker Operations.....	4
Chinese & Hong Kong Entities Targeted for Iran Dealings.....	4
OFAC Sanctions Chinese Actors Supporting North Korea	5
RUSSIA	7
OFAC Sanctions Two Rosneft Subsidiaries for Facilitating Venezuelan Oil Exports.....	7
OFAC Again Postpones GAZ Group Sanctions.....	8
U.S. Continues to Scrutinize Russian Activities in Ukraine.....	8
IRAN	9
Sector-wide Sanctions Expanded to Iran’s Construction, Mining, and Textile Industries	9
OFAC Takes Aim at Iran’s Largest Metal Companies, Chinese Trading Firm	9
UAE Companies Blacklisted for Facilitating Iran’s Petroleum and Petrochemical Sales.....	10
European Signatories Invoke JCPOA Dispute Resolution Procedures.....	10
Europe’s INSTEX Conducts First Transactions with Iran.....	10
US Targets Vast IRGC-QF Support Network and Senior Iranian Officials	10
VENEZUELA	12
OFAC Blacklists Rosneft Subsidiaries in Effort to Curtail Russian Support	12
OFAC Blocks Venezuelan State-Owned Property	13
OFAC Targets Officials for Attempted Seizure of National Assembly	13
US SANCTIONS REMAIN UNABATED AMID COVID-19 CRISIS	14
OFAC TARGETS HUMAN RIGHTS ABUSES IN SOUTH SUDAN & NICARAGUA	16
COUNTER—TERRORISM DESIGNATIONS	17
OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS	18
ENFORCEMENT ACTIONS	19

CHINA



U.S. authorities maintained a sharp focus on China this quarter. Despite easing restrictions on China’s shipping sector, U.S. enforcement agencies continued to impose secondary sanctions against firms in China (and elsewhere) for supporting Iran’s petrochemical, petroleum, and metals sectors.

OFAC Eases Restrictions on COSCO Shipping’s Tanker Operations

On January 31, OFAC announced the removal of COSCO Shipping Tanker (Dalian) Co. from the SDN list. The company was designated for secondary sanctions last September for its alleged involvement in transporting Iranian oil exports. The blacklisting of COSCO’s oil tanker operations caused an immediate spike in freight prices worldwide. To mitigate these effects, OFAC twice extended the applicable wind-down periods while it engaged in discussions with the company. COSCO Dalian’s de-listing reportedly stemmed from its commitments to abide by U.S. sanctions against Iran going forward, but the move could also be tied to ongoing trade negotiations between the U.S. and China. Notably, COSCO’s management entity, **COSCO Shipping Tanker (Dalian) Seaman & Ship Management Co.**, remains designated.

Chinese & Hong Kong Entities Targeted for Iran Dealings

On January 10, OFAC designated a Chinese trading company and Chinese vessel pursuant to E.O. 13871 (targeting Iran’s iron, steel, aluminum, and copper sectors) for purchasing, transporting, or supplying goods in connection with Iran’s metals production. Beijing-based **Pamchel Trading Beijing Co. Ltd.** was designated, along with its Seychelles-based subsidiary **Power Anchor Limited**, for purchasing “tens of thousands of metric tons of steel slabs on a monthly basis” from Iran’s Mobarakeh Steel Company. According to OFAC, Pamchel also sold carbon blocks, cathode blocks, and graphite electrodes to an Iranian trading company for use by Iranian metals producers and facilitated the sale of Iranian copper and other metals to other Chinese purchasers.

Additionally, OFAC designated the Chinese vessel **Hong Xun** and its owner, **Hongyuan Marine Co. Ltd.**, for allegedly transporting the steel slabs purchased by Pamchel from Iran to China.

On January 23, OFAC designated four non-U.S. brokers under secondary sanctions (E.O 13846) for providing material support to Iran's National Iranian Oil Company (NIOC) by facilitating the export of petroleum and petrochemical products to purchasers in China and the United Arab Emirates. The sanctions all related to activities occurring after May 2019, when the U.S. terminated the significant reduction exceptions (SREs) that allowed firms in China and elsewhere to purchase Iranian oil without being subject to sanctions. While OFAC did not release the exact value of the transactions at issue, the companies' collective activities resulted in "the equivalent of hundreds of millions of dollars" paid to NIOC. The designated entities include:

- **Triliance Petrochemical Co. Ltd.** (Hong Kong): allegedly transferred "the equivalent of millions of dollars" in payments to NIOC for Iranian petrochemicals, crude oil, and petroleum products shipped to the United Arab Emirates and China. According to OFAC, the company took steps to conceal the Iranian origin of the products. OFAC also specifically noted that Triliance facilitated the sale of petroleum products from Naftiran Intertrade Company (a NIOC subsidiary) to purchasers in China.
- **Sage Energy HK Limited** (Hong Kong) and **Peakview Industry Co. Limited** (Shanghai): both allegedly paid "the equivalent of millions of dollars" to NIOC to facilitate oil exports.
- **Beneathco DMCC** (Dubai): allegedly facilitated payments equivalent to "several million dollars" to NIOC. OFAC also noted that, in late 2018 (prior to the termination of the SRE waivers), the company "offered to assist NIOC in hiding the origin of Iranian products destined for the United Arab Emirates."

In conjunction with these designations, the State Department also designated several companies and senior executives for blocking sanctions "for knowingly engaging in a significant transaction for the purchase, acquisition, sale, or transport of petrochemical products from Iran." Those targets included **Jiaxiang Industry Hong Kong Limited** (Hong Kong), **Shandong Qiwangwa Petrochemical Co., Ltd.** (China), and Chinese national **Zhiqing Wang**.

On March 18, the State Department again announced blocking sanctions on a number of companies in China and Hong Kong for engaging in a "significant" transaction for the purchase, acquisition, sale, transport, or marketing of petrochemical products from Iran. The designated parties include Hong Kong-based companies **McFly Plastic HK Ltd**, **Saturn Oasis Co., Ltd**, and **Sea Charming Shipping Company Ltd**, and Chinese companies **Dalian Golden Sun Import & Export Co., Ltd.**, **Tianyi International (Dalian) Co., Ltd.**, and **Aoxing Ship Management (Shanghai) Ltd**. Two South African companies were also designated: **SPI International Proprietary Ltd** and **Main Street 1095**.

On the same day, the State Department imposed sanctions on four Chinese individuals and entities for allegedly supporting the missile development programs in Iran and Pakistan. Pursuant to the Iran, North Korea, and Syria Nonproliferation Act, on February 25 the State Department imposed new sanctions on **Luo Dingwen**, **Baoding Shimaotong Enterprises Services Company Limited**, **Gaobeidian Kaituo Precise Instrument Co. Ltd**, and **Wuhan Sanjiang Import and Export Co., Ltd**. The sanctions include restrictions on U.S. government procurement, U.S. government assistance, and exports. Turkish entity **Eren Carbon Graphite Industrial Trading Company, Ltd** was also designated.

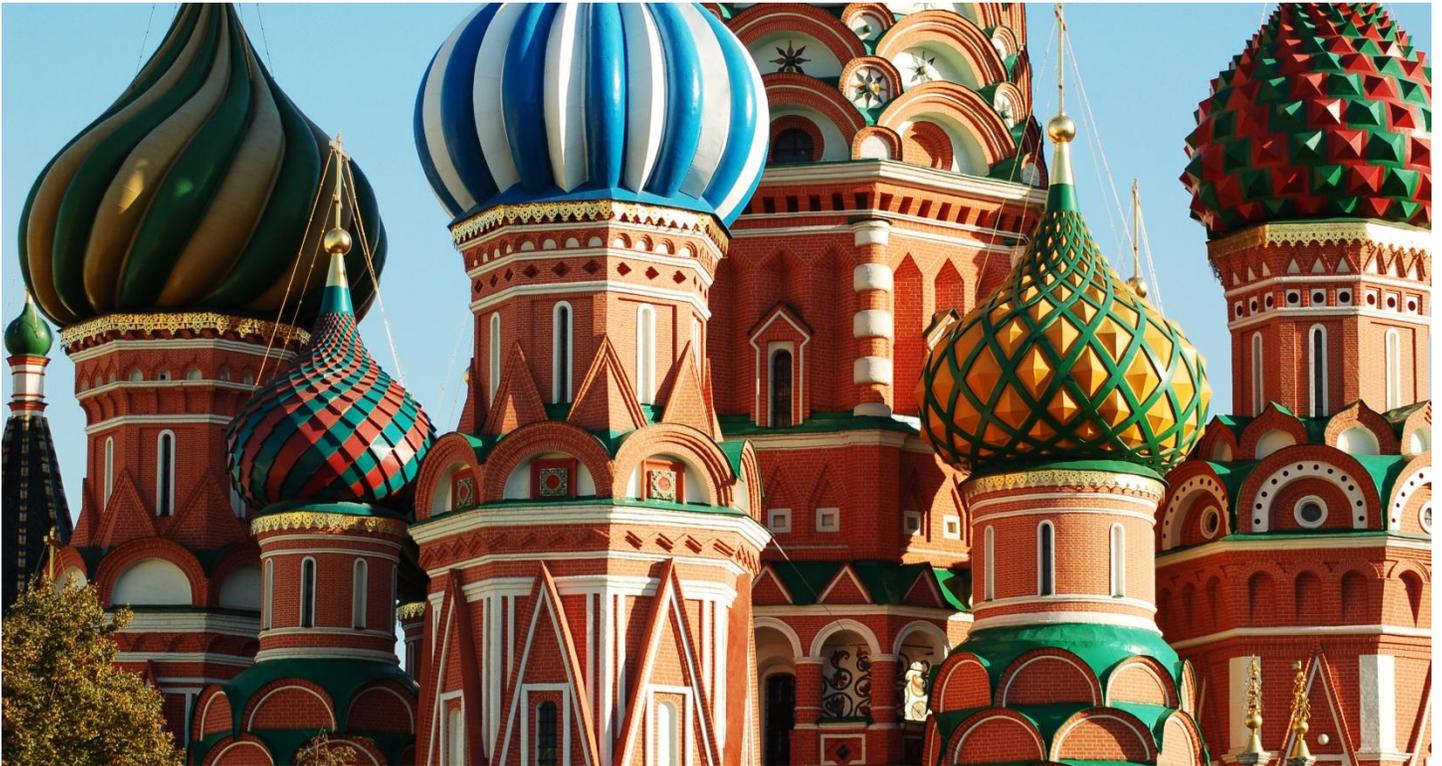
OFAC Sanctions Chinese Actors Supporting North Korea

Two of North Korea's primary sources of revenue are remittances sent by its citizens working abroad and illicit proceeds from cybercrime. OFAC addressed the role of Chinese actors in both this quarter. On January 14, OFAC designated DPRK and Chinese entities pursuant to E.O. 13722 for assisting in the illicit exportation of North Korean laborers:

- **Namgang Trading Corporation** (DPRK): throughout 2018, allegedly handled visas, passports, and travel logistics necessary to station North Korean laborers in Russia, Nigeria, and numerous countries in the Middle East, and then repatriated the resulting funds back to the North Korean government.
- **Beijing Sukbakso** (China): allegedly provided material support to NTC and Namgang Construction (a DPRK entity designated in 2016) by serving as a lodging facility that handles travel and logistics for NTC's overseas laborers.

On March 2, OFAC designated two Chinese nationals, **Tian Yinyin** and **Li Jiadong**, for allegedly laundering cryptocurrency stolen during a 2018 cyber-attack linked to Lazarus Group, a North Korean state-sponsored cybercrime group. According to OFAC, Tian and Li together transferred approximately \$91 million of the illicit proceeds through various accounts under their control and invested large sums in gift cards capable of purchasing Bitcoin. In announcing the designations, OFAC warned that financial institutions or other persons who engage in transactions with Tian and Li could themselves face sanctions.

RUSSIA



This quarter, the U.S. took aim at Russia's second largest energy company in an attempt to curb its increasing support of Venezuela's oil trade. OFAC again extended the wind-down period related to dealings with the Deripaska-linked auto conglomerate, GAZ Group, and the U.S. continued to scrutinize government officials and infrastructure networks operating in the Crimea region of Ukraine.

OFAC Sanctions Two Rosneft Subsidiaries for Facilitating Venezuelan Oil Exports

In a further attempt to cut off funding to the Maduro regime, OFAC took action this quarter to curb Russia's support for Venezuela's oil trade. After months of U.S. secondary sanctions on Venezuelan oil exports showed relatively little effect, the U.S. envoy to Venezuela explained that the U.S. initially "underestimated the importance of Russia," which reportedly now facilitates the purchase and transport of over 70% of Venezuela's oil.

OFAC designated two Switzerland-incorporated oil brokerage subsidiaries of Russian oil giant PJSC Rosneft Oil Company pursuant to E.O. 13850 (targeting persons operating in the oil sector of the Venezuelan economy). First, on February 18, OFAC took action against oil brokerage firm **Rosneft Trading S.A.** and its president, **Didier Casimiro**, for allegedly coordinating with PdVSA to ship millions of barrels of crude oil to West Africa and Asia. In the wake of Rosneft Trading's designation, Rosneft shifted its Venezuela dealings to a different subsidiary, re-allocating cargoes to **TNK Trading International S.A.**, which OFAC promptly designated on March 12. In conjunction with the sanctions, OFAC issued General License 36A, authorizing until May 20, 2020, all transactions and activities necessary to the wind-down of transactions involving Rosneft Trading and TNK Trading, and their majority-owned subsidiaries.

On March 28, Rosneft responded to the sanctions by announcing that it would sell its Venezuelan assets to an unnamed firm owned by the Russian government—later reported to be a newly created entity called "Roszarubzhneft." It remains unclear whether the divestment will result in the de-listing of Rosneft Trading and TNK Trading.. The U.S. special envoy to Venezuela stated that authorities are continuing to analyze the transaction.

OFAC Again Postpones GAZ Group Sanctions

On March 20, OFAC issued two amended General Licenses, extending through July 22, 2020, the deadline by which investors must divest, and entities must wind-down, operations related to GAZ Group LLC. Specifically, OFAC issued General License 13N and General License 15H. GL 13N extends the deadline for investors to take steps to divest or transfer their interests in GAZ Group, or to engage in activities that facilitate the divestment or transfer to non-U.S. persons. GL 15H extends the deadline for transactions related to the maintenance or wind-down of operations involving GAZ Group.

U.S. Continues to Scrutinize Russian Activities in Ukraine

On January 29, OFAC designated eight individuals and one entity pursuant to E.O. 13660 for contributing to ongoing destabilization in Ukraine. First, OFAC targeted **Grand Service Express** and its CEO, **Alexander Ganov**, for operating in the Crimea region of Ukraine. Grand Service Express is a private railway company that offers passenger service between Russia's mainland and the Crimean Peninsula. OFAC also targeted seven individuals for asserting governmental authority over the Crimean Peninsula without authorization of the Government of Ukraine. Many individuals designated in this action were also targeted by the European Union and Canada.

IRAN



2020 began with heightened military tensions between the U.S. and Iran, which reverberated throughout the first quarter. President Trump extended sector-wide sanctions to encompass Iran’s construction, mining, and textile sectors. Iran then followed through on its threat to breach uranium enrichment levels established by the JCPOA. Despite widespread appeals for the U.S. to ease sanctions during the ongoing COVID-19 pandemic, OFAC continued to target Iran’s oil exports and other sectors.

Sector-wide Sanctions Expanded to Iran’s Construction, Mining, and Textile Industries

In the wake of Iran’s retaliatory air strikes on U.S. military bases in Iraq – a response to the assassination of IRGC-QF commander Qassem Soleimani – President Trump issued Executive Order 13902 on January 10, which establishes broad new sanctions against Iran’s construction, mining, manufacturing, or textiles sectors. Among other restrictions, the order permits secondary sanctions against non-U.S. persons who knowingly engage in a “significant” transaction for the “sale, supply, or transfer to or from Iran of goods and services used in connection with those sectors.” E.O. 13902 further contemplates secondary sanctions against foreign financial institutions who facilitate such transactions, or conduct other business with entities designated under the order. Perhaps most importantly, the order purports to grant the Treasury Secretary (in consultation with the Secretary of State) discretion to expand these restrictions to any other sector of the Iranian economy. OFAC granted a 90-day wind down period for entities to wind-down business activities with entities engaged in these economic sectors, but noted that no new business should be entered into after January 10, the effective date of the order.

OFAC Takes Aim at Iran’s Largest Metal Companies, Chinese Trading Firm

Also on January 10, OFAC designated 17 of Iran’s largest metals producers pursuant to E.O. 13871 (targeting Iran’s iron, steel, aluminum, and copper sectors). The designated entities included steel companies **Saba Steel**, **Hormozgan Steel Company**, and **Esfahan Steel Company**, and aluminum companies **Iran Aluminum Company (IRALCO)**, **Al-Mahdi Aluminum Corporation**, and **National Iranian Copper Industries**.

Notably, OFAC also imposed secondary sanctions on a Chinese trading company and Chinese vessel for allegedly purchasing, transporting, or supplying goods in connection with Iran's metal production. **Pamchel Trading Beijing Co. Ltd.** was designated along with its Seychelles-based subsidiary **Power Anchor Limited** for purchasing "tens of thousands of metric tons of steel slabs on a monthly basis" from Iran's Mobarakeh Steel Company. According to OFAC, Pamchel also sold carbon blocks, cathode blocks, and graphite electrodes to an Iranian trading company for use by Iranian metals producers, and facilitated the sale of Iranian copper and other metals to Chinese purchasers. OFAC also designated the Chinese vessel **Hong Xun** and its owner, **Hongyuan Marine Co. Ltd.**, for allegedly transporting steel from Iran to China.

UAE Companies Blacklisted for Facilitating Iran's Petroleum and Petrochemical Sales

On March 19, OFAC designated five United Arab Emirates-based companies for their purchase of petroleum products from the National Iranian Oil Company. According to OFAC, the following companies last year collectively purchased "hundreds of thousands of metric tons of petroleum products" from NIOC for shipment to the UAE: **Petro Grand FZE**, Alphabet International **DMCC**, **Swissol Trade DMCC**, **Alam Althwa General Trading LLC**, and **Alwaneo LLC Co.** Three of the entities allegedly took steps to conceal the Iranian origin of the products. Designated pursuant to E.O. 13846, these companies are barred from dealings with U.S. persons, and non-U.S. persons could also face secondary sanctions for engaging in significant transactions with them.

European Signatories Invoke JCPOA Dispute Resolution Procedures

In January, Iran declared that it would no longer abide by the uranium enrichment levels set by the JCPOA. By February, reports surfaced that Iran had tripled its stockpile of enriched uranium, and in March the International Atomic Energy Agency issued a report finding that Iran's stockpile was nearly five times larger than the limit set by the JCPOA. In response, the agreement's three European signatories (France, Germany, and the U.K.) announced that they would invoke the dispute settlement clause of the JCPOA, triggering a mechanism that could further unravel the nuclear accord unless a diplomatic solution can be reached. The provision establishes a Joint Commission composed of representatives from every signatory country, which will review the situation and propose a resolution to safeguard the deal. The Joint Commission held its initial meeting on February 26. As of the date of publication, discussions are ongoing. OFAC responded to Iran's announcement by designating the head of Iran's Atomic Energy Organization, **Ali Akbar Salehi**.

Europe's INSTEX Conducts First Transactions with Iran

Last year, a coalition of European countries—the U.K., France, and Germany—launched a special-purpose entity called Instrument in Support of Trade Exchanges (INSTEX). The government-supported entity was described as a vehicle to protect European firms from the threat of U.S. secondary sanctions for Iran-related commercial activities that lack any U.S. connection. Since its inception, five more countries have joined: Belgium, Denmark, the Netherlands, Finland, and Sweden. This quarter, in late March, the EU took its first cautious step to test INSTEX's efficacy by executing a small sale of medical goods to Iran amid the COVID-19 pandemic. U.S. sanctions programs already contain exceptions for humanitarian purposes and medical supplies, so the transaction posed little, if any, risk of backlash from the U.S. It remains to be seen whether INSTEX will give EU firms sufficient comfort to re-engage in commercial dealings with Iran on a large scale.

US Targets Vast IRGC-QF Support Network and Senior Iranian Officials

On March 26, OFAC took action to address those who provide support or act on behalf of the IRGC-QF and the transfer of lethal aid to Iran-backed militias operating in Iraq. In total, OFAC designated twenty Iran and Iraq-based front companies, senior officials, and business associates who allegedly engaged in weapons smuggling, money laundering, oil dealings with Syria, and misappropriation of funds to support the malign activities of the IRGC-QF. Among those designated were The Reconstruction Organization of the Holy Shrines in Iraq and its IRGC-QF-appointed leader, **Mohammad Jalal Maab**. OFAC alleges that while ROHSI purports to be a religious organization, it has transferred millions to Iraq-based front companies that funnel resources to Iranian-backed terrorist militias. Also designated was **Al Khamael Maritime Services**, an Iraq-based company that has sold

Iranian-origin petroleum products in violation of U.S. sanctions against the Iran. See [the full list of the entities and individuals designated in this action](#).

OFAC also pressed forward in targeting officials linked to Iran's Supreme Leader. On February 20, OFAC designated five senior officials who allegedly exercised their authority to disqualify political candidates opposed to the views of Iran's Supreme Leader. The designated individuals are appointed members of Iran's Elections Supervision Committee and of the Guardian Council, which is responsible for "vetting" candidates and has the power to disqualify certain candidates. For their alleged role in preventing free and fair elections in Iran, OFAC designated the following individuals: **Ahmad Jannati, Mohammad Yazdi, Siamak Rahpeyk, Abbas Ali Kadkhodaei, and Mohammad Hasan Sadeghi Moghadam.**

VENEZUELA



As President Nicolás Maduro maintains power in the face of U.S. sanctions pressure, OFAC took additional action this quarter to cut off the regime’s financial lifelines. As previously described, two subsidiaries of Russia’s PJSC Rosneft Oil Company were designated for facilitating Venezuelan oil exports. OFAC also took aim at Venezuela’s state-owned airline CONVIASA and identified a number of aircraft owned or operated by state-owned oil company PdVSA.

The Trump Administration is reportedly planning to deny further waivers to Chevron Corp. and four U.S. oilfield service providers: Halliburton, Schlumberger, Baker Hughes, and Weatherford. To date, the companies have received periodic licenses to continue operating in Venezuela. In January, OFAC issued the fourth 90-day waiver since announcing the Venezuela sanctions in November 2018. If not renewed, the current waivers will expire on April 22, 2020. Chevron has reportedly begun terminating certain contracts with local oil services firms in Venezuela.

OFAC Blacklists Rosneft Subsidiaries in Effort to Curtail Russian Support

Disrupting revenues earned from the sale of Venezuelan oil remained a top priority of OFAC. Departing from its prior focus on Venezuela’s Cuba-related dealings, this quarter OFAC designated two Switzerland-incorporated oil brokerage subsidiaries of Russian oil giant **PJSC Rosneft Oil Company** pursuant to E.O. 13850 (targeting persons operating in the oil sector of the Venezuelan economy). First, on February 18, OFAC took action against oil brokerage firm **Rosneft Trading S.A.** and its president, **Didier Casimiro**. According to OFAC, from August 2019 to January 2020, Casimiro met with PdVSA officials during which the companies discussed plans to strengthen their strategic relationship, and then coordinated to ship millions of barrels of crude oil to West Africa and Asia. In the wake of Rosneft Trading’s designation, Rosneft shifted its Venezuela dealings to a different subsidiary, re-allocating cargoes to **TNK Trading International S.A.**, which OFAC designated on March 12. Upon announcing the sanctions, OFAC issued General License 36A, authorizing until May 20, 2020, all transactions

and activities necessary to the wind-down of transactions involving Rosneft Trading and TNK Trading, and their majority-owned subsidiaries.

OFAC Blocks Venezuelan State-Owned Property

This quarter, OFAC took action against Venezuelan state-owned airlines and aircraft. In January, OFAC identified [fifteen aircraft](#) as blocked property of PdVSA. According to OFAC, these aircraft have been used to transport senior Maduro regime officials, many of whom have been designated by OFAC. OFAC further alleges that some of the aircraft have been operated in dangerous manner, including by flying in close proximity to U.S. military aircraft. Later, on February 7, OFAC identified the Venezuelan state-owned airline, **Consortio Venezolano de Industria Aeronauticas y Servicios Aereos, S.A. (CONVIASA)**, pursuant to E.O. 13884, which targets, in part, property of the Government of Venezuela. Although already considered blocked property of the Government of Venezuela, the most recent action adds CONVIASA and its fleet of aircraft to OFAC's SDN List. In announcing the designation, OFAC noted that the Maduro regime relies on CONVIASA to shuttle officials to North Korea, Cuba, and Iran, abusing state-owned assets to advance Venezuela's destabilizing activities. See [the complete list of identified aircraft](#).

OFAC Targets Officials for Attempted Seizure of National Assembly

On January 13, OFAC designated seven Venezuelan government officials who, on behalf of President Nicolás Maduro, led a failed attempt to illegitimately seize control of the National Assembly and block opposition leader Juan Guaidó and other officials from participating in a required election of National Assembly leadership. According to OFAC, on January 5, Maduro-controlled security forces prevented Guaidó and around 100 opposition delegates of the National Assembly from entering the Federal Legislative Palace. Furthermore, a small group of Maduro-aligned delegates staged an attempt to obstruct the election process and, instead, held a fraudulent election lacking a quorum. Pursuant to E.O. 13692, which targets current and former Venezuelan government officials, the following individuals were designated: **Luis Eduardo Parra Rivero, Jose Gregorio Noriega Figueroa, Franklyn Leonardo Duarte, Jose Dionisio Brito Rodriguez, Conrado Antonio Perez Linares, Adolfo Ramon Superlano, and Negal Manuel Morales Llovera.**

US SANCTIONS REMAIN UNABATED AMID COVID-19 CRISIS



As world nations take extraordinary measures to combat the spread of the highly contagious and deadly COVID-19 virus, U.S. sanctions enforcement appears to remain unabated. There are, however, growing calls for the U.S. to take temporary sanctions relief measures that might facilitate treatment of COVID-19 in hard-hit countries. On March 31, 2020, thirty-four members of Congress issued a letter to the Trump Administration calling for a suspension of Iranian sanctions in light of the COVID-19 public health emergency. Signatories to the letter noted with urgency that stemming the spread of the virus in the Middle East depends on the Iranian government's ability to combat it with adequate medical supplies. The statement cites a recent Human Rights Watch report that found ITSR sanctions limited the country's ability to finance the import of medicine and other humanitarian supplies. Framed as a humanitarian request aimed at combatting the rapidly deteriorating health situation in the country, the letter implores the Trump Administration to remove obstacles that prevent medicines and medical equipment from reaching the Iranian people. Similar arguments could be made regarding the effect of U.S. sanctions on humanitarian assistance to other vulnerable populations in countries such as Syria, Cuba, and Venezuela. Venezuela's President Maduro recently applied to the International Monetary Fund for a \$5 billion loan to help finance Venezuela's response to the novel Coronavirus but was turned down owing to the lack of international consensus as to his political legitimacy. With heavy sanctions on Venezuelan oil exports, Venezuela could struggle to combat the spread without international assistance.

The Treasury Department maintains that the current sanctions framework already permits the provision of humanitarian supplies and assistance to vulnerable populations through a set of broad exceptions and authorizations under the relevant sanctions regimes which generally allow for the sale or donation of humanitarian goods, including medicine and medical devices. In addition, OFAC announced in late February that the U.S. and Swiss governments had finalized the terms of the Swiss Humanitarian Trade Arrangement. The

SHTA is designed as a vehicle to facilitate the flow of humanitarian goods to the Iranian people while preventing the Iranian regime from siphoning relief funds to support its malign activities. Secretary of State Mike Pompeo responded to calls for temporary relief by stating that the Trump Administration is “doing everything [it] can to facilitate the humanitarian assistance moving in and to make sure that the financial transactions connected to that can take place as well. There is no sanction on medicines going to Iran, there is no sanctions on humanitarian assistance going into that country.” Despite these assurances from U.S. officials, the strong reaction from other governments and from human rights groups indicates that the existing sanctions framework may not be sufficient to overcome the perceived risks associated with exporting or financing humanitarian goods to sanctioned countries.

OFAC TARGETS HUMAN RIGHTS ABUSES IN SOUTH SUDAN & NICARAGUA



On January 8, OFAC targeted **Taban Deng Gai**, the Vice President of South Sudan, for alleged human rights abuses, including the disappearance and deaths of civilians, pursuant to the Global Magnitsky Human Rights Accountability Act (E.O. 13818). OFAC attributes the inability of the South Sudanese government to implement a peace agreement to settle unrest in South Sudan to efforts by political leaders, such as Deng, to silence opposition and citizen dissent. For example, Deng reportedly arranged and directed the disappearance and deaths of human rights lawyer Samuel Dong Luak and opposition party member Aggrey Idry. According to OFAC, Deng directed these actions to solidify his position within South Sudanese President Kiir’s government and to intimidate members of the opposition party.

On March 5, OFAC announced that it was designating the Nicaraguan National Police for its role in committing human rights abuses in Nicaragua. Nicaragua’s primary law enforcement agency was designated pursuant to E.O. 13851 (“Blocking Property of Certain Persons Contributing to the Situation in Nicaragua”) and the Nicaragua Human Rights and Anticorruption Act of 2018. According to OFAC, since 2018, NNP has used live ammunition against peaceful protesters and carried out targeted executions and kidnappings of political opponents of the Ortega regime. OFAC also designated three individual NNP commissioners: **Juan Antonio Valle**, **Luis Alberto Perez Olivas**, and **Justo Pastor Urbina**. The blocking sanctions apply to the NNP as an entity, as well as to the three named NNP commissioners. They do not apply to individual, non-designated NNP police officers. Concurrent with these designations, OFAC issued Nicaragua—related General License No. 1, authorizing the conduct of official business of the U.S. Government, and General License No. 2, authorizing the wind-down of transactions involving the NNP, including the processing of salary payments from the NNP to its employees, through May 6, 2020.

COUNTER—TERRORISM DESIGNATIONS



On January 3, pursuant to E.O. 13224, OFAC designated **Aas'ib Ahl al-Haq** as a Foreign Terrorist Organization and two individuals involved in the organization for allegedly using violence to further the Iranian government's efforts to undermine Iraqi sovereignty. According to OFAC, Aas'ib Ahl al-Haq, led by brothers **Qais al-Khazali** and **Laith al-Khazali**, has claimed responsibility for more than 6,000 attacks against U.S. and coalition forces since 2006.

On February 26, OFAC acted pursuant to E.O. 13224 to curtail the activities of the **Martyrs Foundation**, an Iranian parastatal organization that seeks to aid Hizballah's global terror support network. OFAC designated three Lebanon—based individuals and twelve Lebanon—based entities linked to the Foundation. According to OFAC, **Jawad Nur-al-Din** and **Sheikh Yusuf Aasi**, both of whom work as officials of the Martyrs Foundation, oversee payments to the families of Hizballah fighters killed in action. OFAC designated **Mirath S.A.L.** because it is owned or controlled by Nur-al-Din. Similarly, **Atlas Holding**, which is owned by the Martyrs Foundation, and Atlas Holding's senior official **Kassem Mohamad Ali Bazzi** allegedly funneled money to Hizballah to further its military activities. OFAC further designated **Al Kawthar**, **Amana Fuel Co.**, **Amana Plus Co.**, **Amana Sanitary and Paints Company L.T.D.**, **Capital S.A.L.**, **City Pharma SARL**, **Global Touristic Services SAL**, **Medical Equipment & Drugs International Corporation**, **Sanovera Pharm Company SARL**, and **Shahed Pharm** because the companies are owned or controlled by Atlas Holding.

Also on February 26, OFAC designated **Ahmad al-Hamidawi** for his alleged leadership role in Kata'ib Hizballah, an Iran—backed terrorist group. Al-Hamidawi now serves as the Secretary General of the terrorist group, which has claimed responsibility for sniper and rocket attacks on U.S. forces in Iraq.

On March 18, OFAC designated **Amir Muhammad Sa'id Abdal-Rahman al-Mawla**, pursuant to E.O. 13224, for his involvement in ISIS. Following the death of former ISIS leader Abu Bakr al-Baghdadi, al-Mawla succeeded him to become the leader of ISIS. Al-Mawla helped lead the slaughter of Yazidi religious minorities in northwest Iraq and now oversees the terrorist group's global operations.

OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS



Pursuant to the Kingpin Act, OFAC designated on March 11 four Mexican businesses for their links to two Mexican drug cartels—CJNG and Los Cuinis. According to OFAC, CJNG and Los Cuinis funnel fentanyl and other deadly drugs into the U.S. and launder their drug proceeds through multiple entities. To disrupt these money laundering efforts, OFAC designated **International Investments Holdings S.A. de C.V.** and **GBJ de Colima, S.A. de C.V.** for their direct ties to the leader of Los Cuinis. Likewise, OFAC designated **Master Reposterias y Restaurantes, S.A. de C.V.** and **Corporativo Sushi Provi S. de R.L. de C.V.**, two companies which allegedly serve as new management fronts for already—designated restaurants connected to Los Cuinis’ money laundering operations.

ENFORCEMENT ACTIONS



On January 21, OFAC entered into a settlement agreement with New York-based lobbying firm **Park Strategies, LLC** to settle its potential civil liability for apparent violations of the Global Terrorism Sanctions Regulations. Specifically, between August 2017 and November 2017, Park Strategies signed a contract with Al-Barakaat Group of Companies Somalia Limited, a Specially Designated Global Terrorist, and then received payment for its services from Al-Barakaat. Under the contract, Park Strategies was to provide lobbying services for Al-Barakaat to various levels of the U.S. government in exchange for three installment payments totaling \$30,000. According to OFAC, despite having actual knowledge of Al-Barakaat's SDGT status, senior executives at Park Strategies nevertheless actively participated in signing the contract. Further, the lobbying services were outside the scope of generally authorized activities under the GTSR, including the GTSR general license permitting legal services. Upon receipt of the first \$10,000 payment, Park Strategies commenced work under the contract, but later contacted its financial institution to place the payment into a blocked account, suspended work, and commenced an investigation into the conduct. Park Strategies agreed to pay \$12,150, after OFAC determined that Park Strategies voluntarily disclosed the apparent violations and that they were deemed non-egregious under OFAC's enforcement guidelines.

On January 27, OFAC entered into a \$1,125,000 settlement agreement with **Eagle Shipping International (USA) LLC** to settle its potential civil liability arising from thirty-six apparent violations of the Burmese Sanctions Regulations. Eagle Shipping carries out commercial and strategic management of vessels owned by subsidiaries of its parent company, Marshall Islands—incorporated Eagle Bulk Shipping Inc. According to OFAC, between June 2011 and May 2012 Eagle Shipping violated OFAC's sanctions against Burma by shipping sand from Burma to Singapore for Myawaddy Trading Limited, an entity on OFAC's SDN List. Specifically, in June 2011, Eagle Shipping's Singapore—based affiliate entered into a chartering agreement with a sand buyer in Singapore to carry sea sand from Burma to Singapore on an Eagle Vessel. Initially, the Singaporean buyer sent the affiliate shipping documents that listed Myawaddy as the shipper. When the Singapore affiliate demanded clarification as to the identity of the shipper, the buyer sent amended documents that removed Myawaddy as the shipper, and Eagle Shipping management ordered the affiliate to sign the documentation and execute the shipment. The captain of the affiliate's vessel refused to sign the documents upon information and belief that the actual shipper remained Myawaddy, including information from a port officer that Myawaddy is the only shipper of sea sand from Burma.

The Singaporean buyer then contacted Eagle Shipping, warning that failure to execute the shipment would result in negative repercussions from the Burmese government and noting that Burmese officials had confiscated the passports of the vessel's crewmembers. Though Eagle applied for a specific license from OFAC, before receiving a response, and citing concerns for crew safety, Eagle Shipping signed the shipping documents and the shipment was delivered. Eagle then submitted a new license request that would authorize additional shipments. While

that license was pending, Eagle carried out additional shipments of sea sand from Burma to Singapore. When OFAC eventually denied the license application, Eagle failed to forward the denial within Eagle, and the affiliate continued to transport sea sand on behalf of Myawaddy. The total value of the transactions totaled over \$1.7 million. In determining the penalty figure, OFAC noted that Eagle Shipping voluntarily disclosed the conduct, but that the violations constituted an egregious case.

On February 26, 2020, OFAC announced a \$7,829,640 settlement agreement with **Société Internationale de Télécommunications Aéronautiques SCRL** (SITA) to settle its potential civil liability for 9,256 apparent violations of the Global Terrorism Sanctions Regulations. SITA is a Swiss company that provides telecom and IT services to the civilian air transportation industry. SITA's membership includes civil aviation industry operators and organizations worldwide, and its services are provided to member and non-member customers. SITA's services include flight reservation services, networking and connectivity services, and flight planning and dispatch services. The company violated the GTSR between April 2013 and February 2018 when it provided commercial services and software that were subject to U.S. jurisdiction, and provided a benefit to GTSR—designated airlines such as Mahan Air, Syrian Arab Airlines, and Caspian Air.

The settlement illustrates OFAC's broad view of its jurisdiction to enforce U.S. primary sanctions, even in contexts that lack a clear U.S. connection. As a non-U.S. person, SITA is not directly subject to the GTSR, but OFAC nonetheless determined that the company's provision of services to the designated airlines was "subject to U.S. jurisdiction" because it involved services and software that "were provided from, or transited through, the United States or involved the provision of U.S. origin software." The services SITA provided to the sanctioned airlines included: (1) Type B messaging (TBM) services; (2) Maestro DCS Local ("Maestro"); and (3) WorldTracer. The TBM messaging services, for example, allowed users to communicate with others in the industry to order aircraft maintenance, refuel planes, and book passengers, all of which were routed through a central hub located in Atlanta, Georgia.

Although SITA maintained a compliance program, OFAC noted that it was primarily "reactive," and SITA knowingly continued to provide certain services to designated airlines despite stopping the provision of other services. In determining the penalty, OFAC noted that SITA did not voluntarily disclose the violations and that they constituted a non-egregious case.

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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.

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Sanctions Roundup

July 20, 2020

SECOND QUARTER 2020

- Hong Kong Security Law, coronavirus, and reported human rights abuses prompt a spate of new U.S. sanctions on China.
- Seeking to curb Venezuela's oil trade, OFAC continues to target shippers and brokers for secondary sanctions.
- OFAC targets Iran's largest steel, iron, and copper companies.
- Regulators issue industry-wide advisories related to North Korea's malicious cyber-attacks and warning maritime shippers of sanctions risks.
- Non-U.S. bank pays \$86 million to state and federal regulators for sanctions violations caused by AML/KYC failures.

CONTENTS

CHINA	4
China's National Security Law Prompts US Sanctions Backlash.....	4
COVID-19 Pandemic Sparks Sanctions Threat	5
US Takes Aim at Chinese Officials for Treatment of Uyghur Muslims	5
RUSSIA	6
US Considers Sweeping Measures as Nord Stream 2 Nears Completion	6
OFAC Sanctions White Supremacist Groups in Russia	6
NORTH KOREA	7
OFAC Issues Guidance Regarding DPRK's Cyber Activities	7
IRAN	9
OFAC Targets Iran's Largest Metals Manufacturers	9
Human Rights Abusers Sanctioned Pursuant to CAATSA	9
US Sanctions Officials of Iran's Nuclear Program.....	10
Ship Captains Designated for Delivering Fuel to Venezuela	10
VENEZUELA	11
OFAC Continues to Target Shipping Companies	11
US Oil Companies to Wind Down Venezuelan Operations	12
OFAC ISSUES ADVISORY ON ILLICIT SHIPPING AND SANCTIONS EVASION PRACTICES	13
UK COURT OF APPEAL AFFIRMS CONTRACTUAL RIGHT TO SUSPEND PAYMENTS TO COMPLY WITH US SANCTIONS	14
COUNTERTERRORISM DESIGNATIONS	15
ENFORCEMENT ACTIONS	16

CHINA



U.S.-China tensions sharply escalated this quarter in response to a host of actions by the People’s Republic of China towards Hong Kong and religious and ethnic minorities. In the wake of the PRC’s continued crackdown on protests in Hong Kong and new national security legislation perceived to intrude on Hong Kong’s autonomy, the U.S. authorized new sanctions on PRC officials and revoked Hong Kong’s special trade status. Meanwhile, Congress passed legislation that authorized sanctions for China’s perceived human rights abuses against the Uyghur Muslims and other minority communities, and some U.S. senators called for sanctions over China’s alleged deception related to the novel coronavirus.

China’s National Security Law Prompts US Sanctions Backlash

In response to China’s perceived efforts to crack down on protests in Hong Kong, as well as new national security legislation that asserted increased PRC authority in the territory, the U.S. took dramatic action designed to punish Chinese officials for their involvement in these measures. At the second quarter’s close, President Trump signed bipartisan legislation authorizing sanctions on Chinese Communist Party officials determined to have been involved in activities perceived to threaten the autonomy of Hong Kong, as well as certain financial institutions and companies that do business with them. Titled the “Hong Kong Autonomy Act,” the legislation contemplates asset-blocking sanctions against CCP officials, as well as visa restrictions preventing their travel to the United States. The legislation further calls for sanctions on foreign financial institutions who knowingly do business with these officials, including restrictions on loans from U.S. banks, exclusion from the U.S. financial system, and executives of those financial institutions.

In May, President Trump instructed his administration to “begin the process” of revoking the special trade status Hong Kong enjoys with the U.S., which could affect the region’s viability as an international business hub. Pursuant to the Hong Kong Human Rights and Democracy Act of 2019, the U.S. State Department this quarter delivered a report to Congress certifying that Hong Kong is no longer considered sufficiently autonomous from

the PRC. The U.S. Commerce Department announced on June 29 that the U.S. had officially revoked Hong Kong's special status, creating the potential for a host of new trade and financial restrictions. These include ending Hong Kong's preferential trade treatment as compared to China, including its exemption from U.S. tariffs, currency exchange benefits, favorable export controls and licensing, and special visa provisions for students and workers. Commerce Secretary Wilbur Ross announced that the Commerce Department would suspend all export licensing exceptions afforded to Hong Kong companies and halt defense exports to the region, citing the likelihood that sensitive U.S. exports could be illegally diverted to mainland China.

Lastly, the State Department on June 26 issued a first wave of visa sanctions on current and former Chinese officials over their alleged efforts to undermine the autonomy of Hong Kong. Though the specific names were kept confidential, Secretary of State Mike Pompeo said that the unnamed officials have been involved in "eviscerating Hong Kong's freedoms," violating the terms of the 1997 pact ceding control over Hong Kong from the United Kingdom to China.

COVID-19 Pandemic Sparks Sanctions Threat

As the U.S. attempts to combat the spread of COVID-19 domestically, some members of Congress called for sanctions on Chinese officials whom they believe are responsible for early attempts to conceal the severity of the virus from world health officials. In April, Senator Ted Cruz introduced legislation that would punish China and CCP officials for their alleged deception during the initial outbreak in Wuhan, China. In a statement, Senator Cruz accused China of deliberately silencing those who sought to sound the alarm and instead engaged in propaganda efforts to downplay the realities of the crisis. The legislation, tentatively titled "Ending Medical Censorship and Cover Ups in China Act of 2020," contemplates sanctions against Chinese officials "involved in the ongoing suppression of medical experts, journalists, and political dissidents, amid Chinese censorship of its citizens." The legislation, which has yet to pass either house of Congress, would impose sanctions on Chinese officials who engage in censorship through activities that:

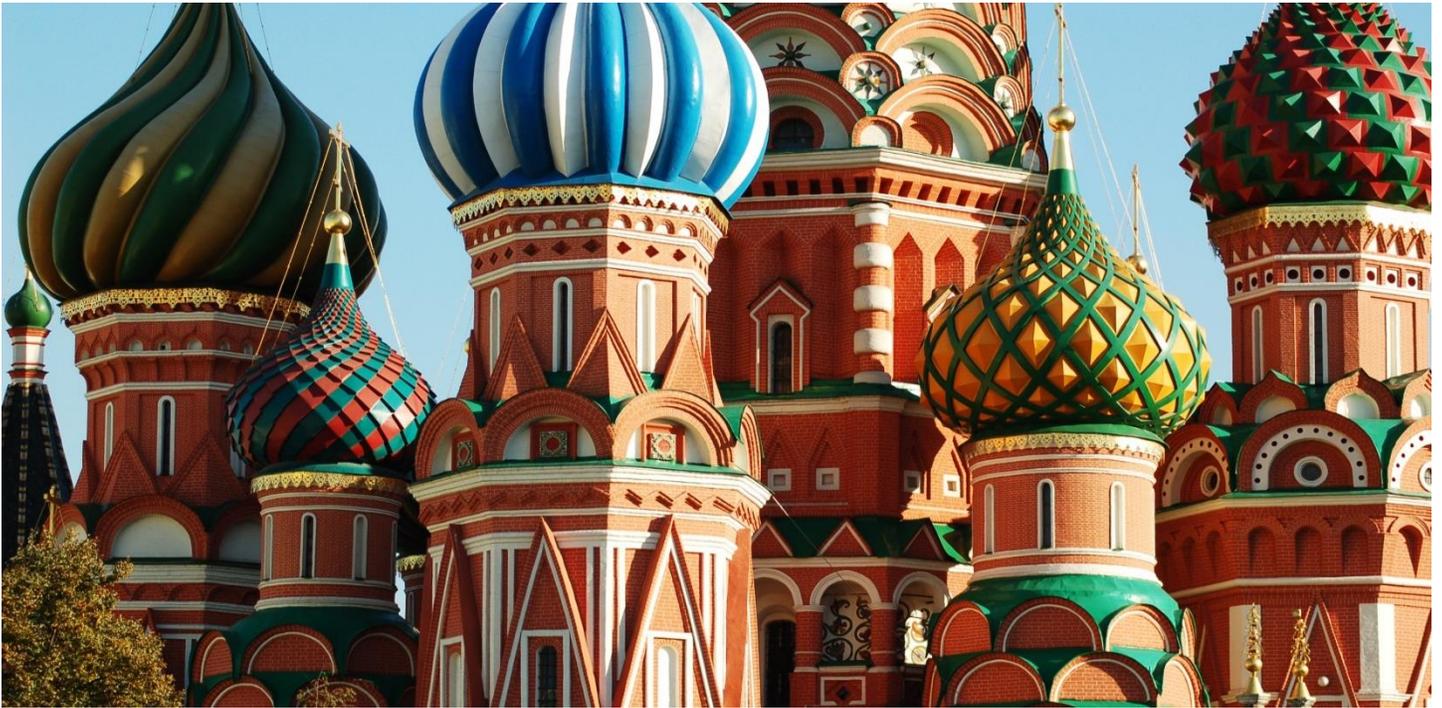
- Prohibit, limit, or penalize the exercise of freedom of expression or assembly by Chinese citizens, including restrictions related to the use of social media;
- Penalize the spread of inaccurate medical information, including information related to emerging diseases or pathogens; or
- Limit access to print, broadcast, digital, or social media.

US Takes Aim at Chinese Officials for Treatment of Uyghur Muslims

In June, Congress passed, and President Trump signed into law, the Uyghur Human Rights Policy Act of 2020 in response to alleged human rights violations perpetrated against the Uyghur Muslim community and other religious and ethnic minorities in the Xinjiang Uyghur Autonomous Region. The Act condemns the use of detention centers, forced labor, and other physical abuses inflicted on the Uyghurs, and requires the President to impose blocking sanctions on Chinese officials deemed responsible for the alleged human rights abuses.

Relatedly, OFAC on July 9 sanctioned **Xinjiang Public Security Bureau**, a Chinese government entity, as well as four current or former officials pursuant to the Global Magnitsky Human Rights Accountability Act and E.O. 13818 in connection with reported serious human rights abuses in Xinjiang. The designated individuals include **Chen Quanguo**, the Party Secretary of the Xinjiang Uyghur Autonomous Region, as well as his former deputy, **Zhu Hailun**. Together, according to OFAC, Chen and Zhu are responsible for maintaining internal security and law enforcement in Xinjiang, including the construction and management of mass detention camps. Similarly, OFAC took action against the Xinjiang Public Security Bureau and its current and former leaders, including **Wang Mingshan** and **Huo Liujun**. Through artificial intelligence programs, it is believed that the Public Security Bureau used digital surveillance to track the Uyghurs' movements and activities in an effort to identify individuals perceived to pose a threat, some of whom are believed to have been sent to detention camps.

RUSSIA



The controversial Nord Stream 2 pipeline connecting Russia to Germany returned to focus this quarter, as congressional leaders considered stronger measures to prevent the project's completion. Russia has previously vowed to finish the pipeline by the end of the year and recently dispatched its own vessels to complete construction of the project as EU contractors withdrew in the face of increasingly intense U.S. opposition.

US Considers Sweeping Measures as Nord Stream 2 Nears Completion

Despite a last-ditch effort in December 2019 to halt completion of the controversial Nord Stream 2 pipeline, Russia pressed forward this quarter with plans to complete the project by year's end. In December 2019, Congress authorized sanctions on companies whose vessels are used to lay the pipes under the Baltic Sea. In the face of the sanctions threat, key pipe-laying companies, including Swiss firm AllSeas Group S.A., suspended work on the project with only six percent of the pipeline left to complete. In response, Russia dispatched state-owned vessels to complete the installation. In June, Congress signaled a willingness to further expand sanctions targeting the Nord Stream 2 and Turkstream pipelines. A proposed Senate bill would authorize sanctions against foreign companies involved in nearly all activities related to pipeline laying, including those that provide insurance, port facilities, and tethering services for pipeline laying vessels. German officials resoundingly criticized the contemplated measure, calling it an interference in Europe's sovereignty and energy policy. The proposed legislation has not yet been scheduled for a vote.

Shortly after the end of the quarter, the State Department issued guidance that, although it did not impose new sanctions, clarified that for purposes of CAATSA Section 232, the U.S. will consider investments and other activities related to Nordstream 2 and Turkstream as encompassed within the State Department's sanctions authority. The scope of potentially sanctionable activities with respect to these pipelines include financing, pipe-laying vessels, and engineering services. In announcing the updated guidance, the State Department cautioned companies to reassess their participation in Russian energy export pipelines and to take any necessary steps to mitigate their sanctions exposure.

OFAC Sanctions White Supremacist Groups in Russia

For the first time, the U.S. this quarter targeted a white supremacist group as a Specially Designated Global Terrorist. On April 7, the U.S. State Department designated the **Russian Imperial Movement**, a noted white supremacist group operating out of Russia, as well as three of its leaders. According to the State Department, RIM provides paramilitary-style training to white supremacists and neo-Nazis throughout Europe and operates two training facilities there. RIM allegedly trained two Swedish individuals who later committed a series of bombings in Sweden targeting refugees and asylum seekers. The individuals designated in this action were **Stanislav Anatolyevich Vorobyev**, **Denis Valiulloevich Gariyev**, and **Nikolay Nikolayevich Trushchalov**.

NORTH KOREA



OFAC Issues Guidance Regarding DPRK's Cyber Activities

On April 15, OFAC, in conjunction with the U.S. State Department, Homeland Security, and the Federal Bureau of Investigation, issued an advisory on the malicious cyber threat posed by North Korea. In recent years, OFAC has imposed sanctions on malicious cyber-actors with increased regularity. The advisory provides recommended steps for businesses to mitigate cyber risks, respond to security breaches, and identify resources for businesses to strengthen their compliance programs. In particular, the Advisory highlights the DPRK's cyber tactics that target financial institutions, including:

- Cyber-enabled theft and money laundering in which cyber actors steal from international financial institutions and then launder the stolen currencies through multiple jurisdictions to conceal its origins;
- Cyber-enabled extortion campaigns in which malicious cyber actors infect a third-country entity's network and then threaten to shut down its operations unless a ransom is paid; and
- Cryptojacking schemes in which a target's computer networks are infiltrated to mine digital currencies to fund the DPRK.

The advisory outlines a number of risk mitigation measures, which include raising organizational awareness, sharing technical information with regulators and industry peers, and implementing cybersecurity best practices, among others. The full advisory can be accessed on [OFAC's website](#).

IRAN



This quarter, OFAC took significant action against some of Iran’s largest companies operating in Iran’s metals industry in an apparent effort to cut off funding for the regime’s paramilitary forces. In addition, the U.S. imposed sanctions against officials in Iran involved in Iran’s nuclear development program. Finally, OFAC designated captains of several Iranian vessels for delivering gasoline shipments to Venezuela.

OFAC Targets Iran’s Largest Metals Manufacturers

OFAC continued targeting Iran’s largest metals companies, including the global operations of Iran’s largest steel manufacturer. On June 25, OFAC acted pursuant to E.O. 13871 to target a number of steel, aluminum, and iron companies operating in Iran. Among those designated are entities connected to Mobarakeh Steel Company, Iran’s largest steel manufacturer, including its foreign and domestic sales agents and subsidiaries. According to OFAC, Mobarakeh Steel Company alone accounts for one percent of Iran’s gross domestic product, and its global subsidiaries provide millions of dollars to their parent company, which allegedly remits money to entities closely linked to Iran’s paramilitary forces. The targeted subsidiaries include **Tara Steel Trading GmbH, Pacific Steel FZE, Better Future General Trading Co LLC, Metil Steel, and Tuka Metal Trading DMCC**. OFAC also sanctioned three other aluminum, steel, and iron producers in Iran: **South Aluminum Company, Sirjan Jahan Steel Complex, and Iran Central Iron Ore Company**.

Human Rights Abusers Sanctioned Pursuant to CAATSA

On May 20, OFAC designated nine individuals and three entities for alleged human rights abuses in Iran. The targets included Iran’s Interior Minister, **Abdolreza Rahmani Fazli**, seven senior officials of Iran’s Law Enforcement Forces, and a provincial commander of Iran’s Islamic Revolutionary Guard Corps. In addition, OFAC designated the **Bonyad Taavon NAJA**, its director, and members of the board of trustees. Bonyad Taavon NAJA (also known as Law Enforcement Forces of the Islamic Republic of Iran Cooperative Foundation), is a LEF-controlled economic collaborative involved in Iran’s energy, construction, services, technology, and banking industries. According to OFAC, the LEF plays a key role in suppressing protests in Iran, operating unlawful

detention centers, and coercing Afghani migrants to join Iranian proxy militias in Syria. See the [full list of entities and individuals designated in this action](#).

US Sanctions Officials of Iran's Nuclear Program

On May 27, the U.S. State Department sanctioned **Majid Agha'i** and **Amjad Sazgar** pursuant to E.O. 13382 for engaging in activities that contribute to the proliferation of weapons of mass destruction. Sazgar currently serves as the Managing Director of Iran's Atomic Energy Organization, an entity responsible for producing enriched uranium gas centrifuge machines. According to OFAC, Sazgar oversaw the installation of the centrifuges at a plant in Iran. Agha'i heads a subsidiary of Iran's Atomic Energy Organization and is responsible for research and development of advanced centrifuges. The designations were made in conjunction with the U.S.'s end of the sanctions waiver covering all remaining JCPOA-originating nuclear projects in Iran. The waiver will go into effect following a 60-day wind-down period allowing companies and entities involved in these activities to cease their operations.

Ship Captains Designated for Delivering Fuel to Venezuela

On June 24, OFAC imposed sanctions on five individual ship captains employed by Islamic Republic of Iran Shipping Lines and National Iranian Tanker Company, both designated entities, for facilitating the delivery of Iranian gasoline to Venezuela. In announcing the sanctions, OFAC stated that Iran dispatched five tankers carrying over 1.5 million barrels of gasoline and gasoline components for sale to Venezuela, despite imposing strict domestic rationing measures that deprived the Iranian people of oil supplies. The following five captains were designated for working at IRISL and NITC, in command of U.S.-sanctioned vessels: **Ali Danaei Kenarsari**, **Mohsen Gohardehi**, **Alireza Rahnavard**, **Reza Vaziri**, and **Hamidreza Yahya Zadeh**.

VENEZUELA



This quarter saw continued efforts by OFAC to disrupt exports of Venezuelan oil cargoes, a key source of funding to the regime of Venezuelan President Nicolás Maduro. In addition, OFAC targeted a Mexico-based network for brokering sales of Venezuelan oil under the guise of an “oil for food” program. Finally, at least two major U.S. oilfield service providers signaled an intent to abandon their Venezuelan assets after OFAC declined to extend their license to conduct drilling operations there.

OFAC Continues to Target Shipping Companies

On June 2, OFAC designated four companies and blocked their vessels for operating in the oil sector of the Venezuelan economy. The action continues the U.S.’s aggressive efforts to disrupt the Maduro regime’s trade in oil, one of its few financial lifelines. In announcing the designations, the Treasury Department reiterated that the Maduro regime “has enlisted the help of maritime companies and their vessels to continue the exploitation of Venezuela’s natural resources for the regime’s profit.” Pursuant to E.O. 13850, which targets, in part, those operating in Venezuela’s oil sector, OFAC designated the following four companies and their vessels for continuing to lift oil cargoes from Venezuelan ports:

- **Franav Maritime Ltd.** and its vessel ***Athens Voyager***;
- **Seacomber Ltd.** is based in Greece and is the registered owner of the vessel ***Chios I***;
- **Adamant Maritime Ltd.** is based in the Marshall Islands and owns the vessel ***Seahero***; and
- **Sanibel Shiptrade Ltd.** is based in the Marshall Islands and owns the vessel ***Voyager I***.

On June 18, OFAC designated three individuals, eight entities, and two vessels for their alleged efforts to evade U.S. sanctions targeting Venezuela’s oil sector. Taken pursuant to E.O. 13850, the action targets primarily Mexico-based individuals and entities involved in a scheme designed to benefit state-owned oil company Petróleos de Venezuela. Those designated included **Joaquin Leal Jimenez** and **Olga Maria Zepeda Esparza**, and **Veronica Esparza Garcia**, the owners of **Libre Abordo, S.A. de C.V.** and **Schlager Business Group S. de R.L. de C.V.**, respectively, as well as additional entities that they own or control. According to OFAC, the evasion scheme worked to exploit a so-called “oil for food” program to broker sales of Venezuelan oil abroad. Under

the alleged scheme, Mexico City-based Libra Abordo signed a contract with Venezuela's foreign trade corporation, CORPOVEX, to supply corn and water to Venezuela in exchange for brokering the sale of PdVSA oil. According to OFAC, Libre Abordo and Schlager lifted and sold crude oil valued in excess of \$300 million but failed to deliver the food shipments to Venezuela. OFAC also noted that Libre Abordo effectively acted as a substitute broker for two Rosneft entities, which abandoned PdVSA dealings after being sanctioned by OFAC in March 2020. OFAC stated, for example, that Libre Abordo marketed the oil to the same oil buyers in Asia and followed identical shipping routes. Schlager, meanwhile, took charge of the chartering contracts needed to lift the crude oil.

US Oil Companies to Wind Down Venezuelan Operations

After months of extensions, OFAC this quarter de-authorized a number of large U.S. oil companies from engaging in further drilling activities in Venezuela. On April 21, OFAC issued General License 8F, authorizing certain U.S.-based petroleum companies to continue limited transactions related to Venezuelan state-owned oil company PdVSA. Specifically, GL 8F authorizes, until December 1, 2020, Chevron Corporation, Halliburton, Schlumberger Limited, Baker Hughes, and Weatherford International, PLC, to continue all transactions and activities that are ordinarily incident and necessary to the limited maintenance of existing operations, contracts, or other agreements related to the safety or preservation of assets in Venezuela that involve PdVSA. Notably, however, the amended general license no longer authorizes drilling, transporting, or providing equipment to each company's operations. In response, at least two of the companies—Chevron and Halliburton—announced that they would suspend their operations in Venezuela and likely abandon their infrastructure following the wind down period.

OFAC ISSUES ADVISORY ON ILLICIT SHIPPING AND SANCTIONS EVASION PRACTICES



On May 14, the U.S. Department of Treasury issued a joint global advisory with the Department of State and the U.S. Coast Guard to offer a detailed set of compliance “best practices” for the maritime industry to reduce exposure to sanctions risk. Issued in response to the proliferation of evasive shipping practices, which sought to conceal transportation of goods in high-risk sectors, such as energy and metals, the advisory offers guidance to a diverse set of industry players: from ship owners and managers to freight forwarders and financial institutions.

The advisory notes that a variety of high-risk actions have been employed to evade U.S. sanctions in recent years, including (1) the manipulation of vessel Automatic Identification Systems (AIS), (2) the physical alteration of vessel identification on the ships’ hulls, (3) the forging of cargo and vessel documents, (4) ship-to-ship transfers, (5) disguising ultimate destination or origin by using indirect routing or unscheduled detours, (6) the flying of false flags, or flag hopping to avoid detection, and (6) the use of complex ownership structures to disguise the ultimate beneficial owner of a vessel or cargo.

The advisory emphasizes that the onus of addressing these red flags rests firmly with the private sector entities conducting business in the industry. Appropriate due diligence and risk-based compliance programs should be aimed at detecting and abolishing such practices, including investigating AIS transponder manipulation for third-party vessels and continuously monitoring ships and the supply chain through all stages of the transaction. KYC diligence should be utilized by insurers and financial institutions, as well as other relevant actors, to determine the beneficial owner of a vessel.

Guidelines for an effective compliance program appended to the May 14th advisory (mirroring requirements in OFAC’s 2019 framework for compliance commitments) set out five essential components for such a program: (1) management commitment, (2) risk assessment, (3) internal controls, (4) testing and auditing, and (5) training. The advisory also includes information for the separate industry sub-sectors. Finally, the guidance encourages industry members to provide and widely share relevant information related to suspicious conduct and new tactics to help foster industry-wide awareness of evolving challenges and risk mitigation strategies.

The full advisory is available [on OFAC’s website](#).

UK COURT OF APPEAL AFFIRMS CONTRACTUAL RIGHT TO SUSPEND PAYMENTS TO COMPLY WITH US SANCTIONS



In June, a U.K. Court of Appeal left in place a previous court ruling that authorized a defendant bank’s attempt to avoid paying interest on a loan to a U.S.-sanctioned entity. *Lamesa Investments Ltd v. Cynergy Bank Ltd* [2020] EWCA Civ 281. As we reported in our [Third Quarter 2019 Roundup](#), in 2017, U.K.-based Cynergy Bank borrowed £30 million from Cyprus-based Lamesa Investments, under which Cynergy was required to make periodic interest payments. Cynergy Bank ceased making interest payments following the SDN-designation of Lamesa’s beneficial owner, Russian billionaire Viktor Vekselberg. When Lamesa sued, the English High Court ruled that Cynergy could rely on a clause in its contract with Lamesa allowing it to miss payments without defaulting on the loan if a law, regulation, or court order prevented it from transferring the money. In this case, Cynergy argued that making payments to an SDN entity risked the imposition of mandatory secondary sanctions by OFAC under its CAATSA authorities.

Writing for a unanimous three-judge panel, Chancellor of the High Court Geoffrey Vos determined that the U.S. legislation requiring the president to impose sanctions on a foreign financial institution that conducts a significant transaction with a sanctioned person was indeed a “mandatory provision of law.” Among other reasons, the court pointed to the fact that the parties chose contractual language that closely tracked the EU Blocking Regulation, which itself regards U.S. secondary sanctions as imposing a “requirement or prohibition” on EU entities (although the court noted that the blocking statute did not apply to the specific US sanctions provision at issue). Chancellor Vos also found compelling that the Facility Agreement clause relied on by Cynergy to avoid interest payments was a standard contractual clause and that the drafters of the agreement would have been aware of, and thus informed by, U.S. secondary sanctions at the relevant time.

The dismissal of the appeal brings clarity to efforts by non-U.S. companies seeking to avoid financial payments that pose a risk of secondary sanctions, an increasingly vexing area many non-U.S. companies must now navigate. Non-U.S. entities must be mindful of any U.S. sanctions implications at the outset of a transaction and should consider including protections designed to address the potentiality for future sanctions exposure.

COUNTERTERRORISM DESIGNATIONS



On May 1, OFAC designated Iranian and Iraqi dual-national **Amir Dianat** and his company **Taif Mining Services LLC** pursuant to E.O. 13224 for actions related in support of Iran’s Islamic Revolutionary Guard Corps-Qods Force. OFAC alleges that Dianat, who was indicted by the U.S. government in May 2020 on charges related to violations of sanctions and money laundering laws, supported IRGC-QF’s efforts to destabilize the region and to smuggle weapons abroad. He is further alleged to have developed business opportunities for IRGC-QF by using his company to procure an oil tanker for the designated Iranian entity.

On May 19, OFAC designated Chinese-based **Shanghai Saint Logistics Limited** pursuant to E.O. 13224 for its involvement with Iranian airline Mahan Air, itself a designated entity for providing support to IRGC-QF. Shanghai Saint Logistics Limited allegedly acted as a general sales agent for Mahan Air, which OFAC alleges has transported terrorists and lethal cargo throughout the Middle East. Shanghai Saint Logistics Limited allegedly provided freight booking services and other administrative support to the Iranian airline, which led to OFAC’s designation. This action is the seventh designation of a GSA linked to Mahan Air.

ENFORCEMENT ACTIONS



On May 6, **BIOMIN America, Inc.**, a Kansas-based animal nutrition company, agreed to pay \$257,862 to settle its potential civil liability for apparent violations of the Cuban Assets Control Regulations. Specifically, between July 2012 and September 2017, BIOMIN America and its owned or controlled foreign entities made thirty unauthorized sales of agricultural commodities produced outside the United States to Cuba-based Alfarma S.A. The sales resulted in forty-four apparent violations of the CACR. According to OFAC, BIOMIN America processed purchase orders from Alfarma on behalf of BIOMIN America's foreign affiliates, which in turn fulfilled the orders to Alfarma. BIOMIN America then received commissions on the sales executed by its foreign affiliates. In doing so, both BIOMIN American and its foreign affiliates dealt in blocked property in apparent violation of the CACR. OFAC noted that BIOMIN America could have obtained authorization from OFAC by means of a general or specific license but failed to take the steps necessary to do so. Instead, BIOMIN America, which at the time did not have an OFAC compliance program in place, attempted to devise a transaction structure that it incorrectly determined would be consistent with U.S. sanctions requirements. In setting the penalty amount, OFAC determined that BIOMIN America voluntarily disclosed the apparent violations and that they constituted a non-egregious case.

On April 20, **Industrial Bank of Korea (IBK)** and its New York branch (**IBKNY**) reached settlements with the U.S. Attorney's Office for the Southern District of New York (USAO) and the New York State Department of Financial Services (NYDFS), agreeing to pay a combined \$86 million to resolve investigations into its anti-money laundering compliance program, which the USAO and NYDFS claimed led to the bank processing over \$1 billion worth of transactions in violation of U.S. sanctions against Iran. According to the settlement agreements, IBK failed to establish, implement, and maintain an adequate AML program at IBKNY from 2011 to 2019. Specifically, the USAO and NYDFS claimed that IBK and IBKNY failed to implement a properly functioning automated transaction review program; failed to properly staff, train, and provide resources to IBKNY's compliance program; and failed to institute required Know-Your-Customer policies and procedures. For example, authorities noted that until 2014, IBKNY employed just one compliance officer who had to manually review financial transactions for suspicious activities, and bank managers ignored the compliance officer's requests for additional resources. Understaffed and working without automated screening tools, IBKNY fell behind on transaction reviews required under U.S. law and failed to detect illicit conduct. The USAO and NYDFS emphasized that IBKNY was on notice of its deficient AML program from both internal whistleblowers and from regulator admonitions before the improper transactions went undetected.

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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.

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Sanctions Roundup

October 29, 2020

THIRD QUARTER 2020

- Hong Kong crackdowns and reported human rights abuses continue to prompt new U.S. sanctions on China, as Trump Administration signs legislative act and a new executive order.
- Faced with lack of international support for “snapback” of U.N. sanctions, President Trump issues new executive order to curb Iran’s acquisition of conventional weapons.
- OFAC addresses election interference at home and abroad, targeting Russian cyber-actors and Venezuelan lawmakers.
- Third quarter saw broad range of medium-sized enforcement actions, highlighting need for companies to ensure sanctions and export-controls compliance by U.S. and non-U.S. subsidiaries, as well as acquisition targets.

CONTENTS

CHINA	4
PRC Officials Designated for Undermining Hong Kong’s Autonomy	4
US Continues to Address Xinjiang Human Rights Abuses	5
President Trump Targets WeChat and ByteDance	5
Commerce Department Tightens Restrictions on Huawei	6
RUSSIA	7
Ties to Russian Financier Prigozhin Prompt Cyber-Related Sanctions	7
OFAC Targets Malicious Cyber-Actors and Warns of Election Interference	8
New Guidance Broadens Sanctions on NordStream Pipeline Actors	8
IRAN	9
President Trump Issues New Executive Order on Conventional Weapons in Lieu of U.N. Sanctions Snapback	9
US Confiscates Iranian Oil from Alleged Export Facilitators; Continues Effort to Disrupt Venezuela Trade Channels	10
State Department Announces CAATSA Sanctions in Response to Athlete’s Execution	11
US Targets Iran’s Financial Sector	11
VENEZUELA	12
Individuals Targeted for Close Ties to Maduro and Corruption of Gold Resources	12
OFAC Targets Actions to Rig Parliamentary Elections	12
COUNTERTERRORISM DESIGNATIONS	13
OFAC TARGETS HUMAN RIGHTS ABUSERS AND CORRUPT ACTORS IN AFRICA AND CHINA	14
OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS	15
ENFORCEMENT ACTIONS	16

CHINA



During the third quarter, the U.S. continued applying targeted pressure on the People’s Republic of China, sanctioning a host of PRC officials and entities in response to perceived democratic encroachments in Hong Kong and the reported mistreatment of religious and ethnic minorities in China. Meanwhile, U.S. regulators collectively urged businesses to conduct human rights due diligence.

PRC Officials Designated for Undermining Hong Kong’s Autonomy

On August 7, OFAC imposed sanctions on eleven (11) individuals for their alleged role in undermining the autonomy of Hong Kong and limiting the free expression and assembly rights of Hong Kong residents. The targeted individuals include senior PRC officials responsible for oversight of Hong Kong, including **Carrie Lam**, the Chief Executive of the Hong Kong Special Administrative Region, and **Chris Tang**, the Commissioner of the Hong Kong Police Force. OFAC also targeted the following individuals pursuant to E.O. 13936:

- **Eric Chan**, Secretary General, Committee for Safeguarding National Security of the HKSAR
- **John Lee Ka-chiu**, HKSAR Secretary for Security
- **Teresa Cheng**, HKSAR Secretary for Justice
- **Erick Tsang**, HKSAR Secretary for Constitutional and Mainland Affairs
- **Stephen Lo**, Former Commissioner of HKPF
- **Xia Baolong**, Director of the Hong Kong and Macao Affairs Office of the State Council
- **Zhang Xiaoming**, Deputy Director of the Hong Kong and Macao Affairs Office of the State Council
- **Luo Huining**, Director of the Hong Kong Liaison Office
- **Zheng Yanxiong**, Director, Office for Safeguarding National Security in Hong Kong

This quarter, OFAC built upon previous efforts to deter the Chinese government from taking actions believed to undermine Hong Kong's autonomy and democratic norms. The Trump Administration issued a new executive order that declared a national emergency with respect to Hong Kong and eliminated the preferential treatment enjoyed by Hong Kong. In addition, President Trump signed into law the Hong Kong Autonomy Act of 2020, new legislation that will impose mandatory sanctions on non-U.S. persons that are determined to have assisted in undermining Hong Kong's autonomy, and foreign financial institutions who do business with such persons. Specifically, Section 5(a) of the HKAA requires the Secretary of State to submit a report to Congress identifying foreign persons who have (or who have attempted) to materially contribute to the failure of the Government of China to meet its obligations under the Sino-British Joint Declaration and Hong Kong's Basic Law. Section 5(b), in turn, requires the Treasury Secretary to submit a report identifying foreign financial institutions that knowingly conduct "significant" transactions with a person identified in the Section 5(a) report. As with other secondary sanctions programs, the statute provides for a menu of restrictions that may be imposed on sanctions targets.

On October 14, the State Department submitted to Congress its first report under section 5(a) of the HKAA, naming ten (10) prominent PRC officials. The officials named in the State Department report are the same individuals designated by OFAC in August. Pursuant to Section 5(b) of the HKAA, the Treasury Department is now required, by December 13, 2020, to provide its own report identifying foreign financial institutions engaged in "significant transactions" with the named individuals. OFAC clarified that FFIs will not be subject to sanctions for transactions conducted within thirty-days of a person's identification on the 5(a) report, and that it would engage with FFIs before naming them on its 5(b) report. In addition, OFAC [issued FAQs](#) addressing what it considers "significant transaction" and the ways a financial institution could off the list or perhaps prevent it from being listed. In addition to reputational harm, those institutions named in Treasury's report could face secondary sanctions restricting or prohibiting their access to the U.S. financial system.

US Continues to Address Xinjiang Human Rights Abuses

Throughout 2020, the U.S. has accused the PRC of carrying out a campaign of repression in Xinjiang that targets for mistreatment Uyghur Muslims, ethnic Kazakhs, ethnic Kyrgyz, and members of other Muslim minority groups. In July, the U.S. Departments of State, Commerce, Homeland Security, and Treasury jointly issued guidance to businesses with supply chain links to entities in the Xinjiang Uyghur Autonomous Region, which may be engaged in forced labor and other human rights abuses (**Xinjiang Supply Chain Business Advisory**), highlighting the reputational, economic, and legal risks associated with such commercial ties. The Advisory also singled out companies whose businesses involve cameras, surveillance, tracking technologies, and biometric devices, as well as companies in joint-venture arrangements with the PRC, as those that face the greatest exposure. To reduce such exposure, the Advisory urges all at-risk companies to conduct human rights due diligence and instructs financial institutions to adopt a risk-based approach to prevent violations of sanctions, anti-money laundering, and terrorist financing.

In addition, OFAC acted pursuant to the Global Magnitsky Human Rights Accountability Act to punish a number of entities and individuals responsible for ongoing human rights abuses. First, on July 9, OFAC sanctioned the **Xinjiang Public Security Bureau**, a Chinese government entity, as well as four (4) PRC officials, two (2) of whom are: **Chen Quanguo**, the Party Secretary of the Xinjiang Uyghur Autonomous Region, as well as his former deputy, **Zhu Hailun**. According to OFAC, Chen and Zhu are responsible for maintaining internal security and law enforcement in Xinjiang, including the construction and administration of mass detention facilities. OFAC also targeted current and former leaders of the Xinjiang Public Security Bureau, including **Wang Mingshan** and **Huo Liujun**. The Xinjiang Public Security Bureau reportedly deploys artificial intelligence programs and digital surveillance to track the Uyghurs' movements.

On July 31, OFAC again targeted one PRC government entity and two current or former officials for alleged human rights abuses: the **Xinjiang Production and Construction Corps**, **Sun Jinlong**, a former Political Commissar of the XPCC, and **Peng Jiarui**, the Deputy Party Secretary and Commander of the XPCC.

President Trump Targets WeChat and ByteDance

Citing his authority to address national emergencies under the International Emergency Economic Powers Act, on August 6 President Trump issued two (2) Executive Orders prohibiting U.S. persons from transacting with

ByteDance Ltd. and Tencent Holdings, Inc., the respective Chinese parent companies of the popular smartphone apps TikTok and WeChat. Specifically, the E.O.s set forth the following restrictions:

- The E.O. directed at TikTok prohibits “any transaction by any person, or with respect to any property, subject to the jurisdiction of the United States,” with ByteDance “or its subsidiaries, in which any such company has any interest, as identified by the Secretary of Commerce.”
- The E.O. directed at WeChat, meanwhile, prohibits “any transaction that is related to WeChat by any person, or with respect to any property, subject to the jurisdiction of the United States,” with Tencent “or any subsidiary of that entity, as identified by the Secretary of Commerce.”

The Secretary of Commerce later defined “transactions” to mean the provision of an array of technology services, including internet hosting services, information exchanges, and app downloads. While that definition seemingly permits U.S. persons to continue using the apps, it operates as a *de facto* ban by prohibiting U.S. internet service providers and app stores from making the apps available to users in the U.S. As a result, the government announced the WeChat and TikTok would effectively be shut down. Almost immediately, private companies and app users filed lawsuits challenging the two orders. As of the date of publication, both orders are temporarily enjoined from taking effect. A subsequent E.O. directed at TikTok called for ByteDance to sell or spin off its TikTok business by November 12. ByteDance is reportedly negotiating a potential sale of TikTok with several interested U.S. buyers, including Oracle and Walmart.

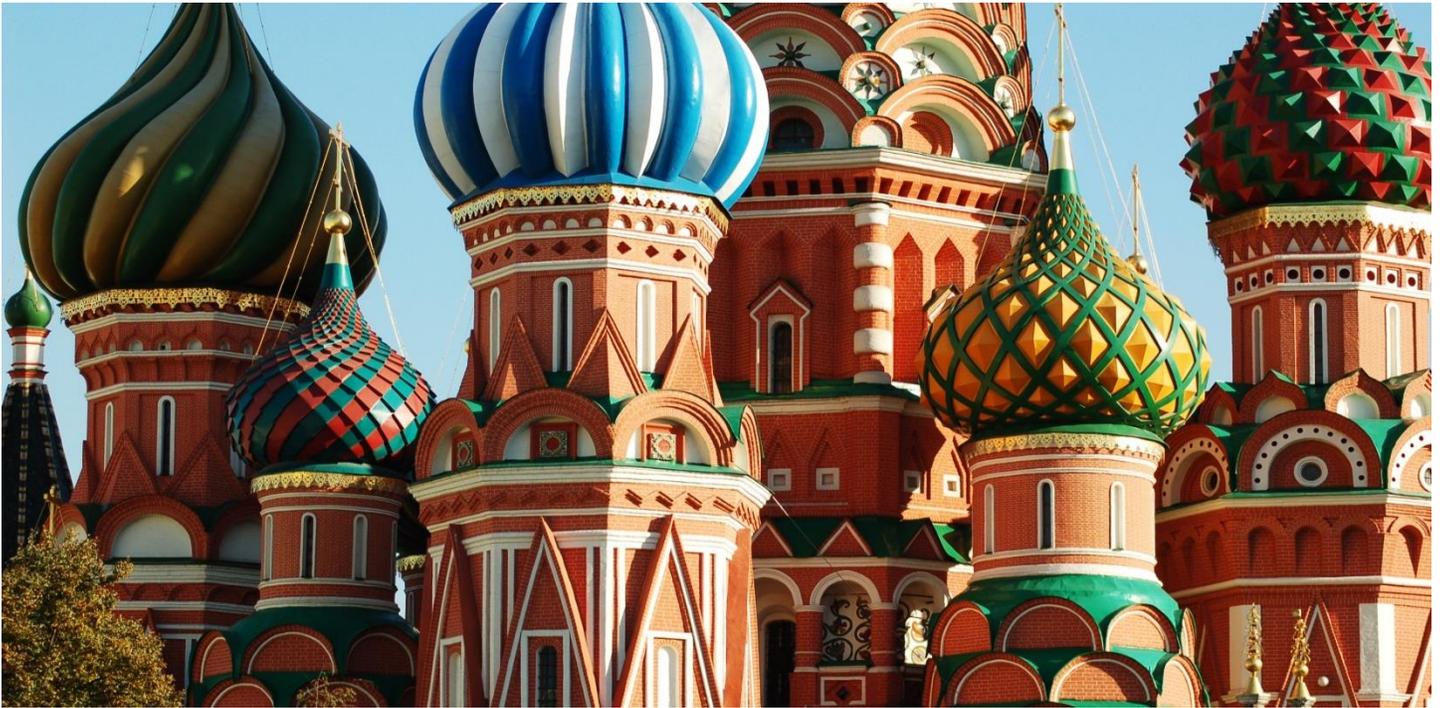
Commerce Department Tightens Restrictions on Huawei

In August, the Bureau of Industry and Security at the Department of Commerce escalated pressure on Huawei’s supply chain. First, BIS announced that the Temporary General License authorizing U.S. companies to continue sales to Huawei for certain categories of activity would not be extended, meaning that export restrictions on Huawei are now fully applicable as to U.S. and foreign companies. BIS also added thirty-eight (38) Huawei entities to its Entity List. More significantly, BIS amended the Export Administration Regulations to revise the so-called “foreign direct product” rule to further restrict Huawei’s ability to obtain U.S.-origin goods and services related to semiconductor chips. The rule change is designed to close perceived loopholes that permitted Huawei to circumvent controls, such as by procuring foreign-produced items that are the “direct product” of U.S. technology through indirect supply chains or outsourced designs. The most recent rule makes at least two principal changes:

First, the new rule expands the universe of “foreign produced items” to include: (1) items that are a direct product of U.S. technology or software subject to the EAR or are specified as a controlled item under the EAR; and (2) a direct product of a plant or major component of a plant located outside the United States, when the plant or major component of a plant (whether made in the United States or a foreign country) itself is a direct product of U.S.-origin technology or software subject to the EAR. The prior FDP rule captured foreign-produced items that were the product of Huawei’s design specifications. The most recent changes are intended to capture any foreign-produced item, developed by any party, using U.S. technology or design processes.

Second, the new rule expands the range of circumstances that would trigger a license from BIS to capture a wider range of transactions involving Huawei. Specifically, the FDP rule now applies to “foreign-produced items” (defined above) when there is *knowledge* that the item will be incorporated into, or will be used in the production or development of, any part, component, or equipment produced, purchased, or ordered by a Huawei entity, or any when any Huawei entity is a party to the transaction of a foreign-produced item, either as a purchaser, intermediate consignee, ultimate consignee, or end-user. While the prior rule only required knowledge that the foreign-produced item was destined for Huawei, the new Rule captures any foreign-produced item developed by any party if there is knowledge of Huawei’s involvement at any stage of the transaction.

RUSSIA



European leaders decided not to halt construction of Nord Stream 2, despite alleged involvement by the Russian Federation in the high-profile poisoning of Russian dissident Aleksei Navalny. Meanwhile, OFAC targeted a host of actors connected to billionaire oligarch Yevgeniy Prigozhin and others engaged in a cryptocurrency phishing scheme. Finally, OFAC designated a suspected Russian agent, highlighting efforts to curb interference in the upcoming U.S. elections.

Ties to Russian Financier Prigozhin Prompt Cyber-Related Sanctions

On July 15, OFAC designated individuals and entities located in Sudan, Hong Kong, and Thailand connected to sanctioned Russian financier Yevgeniy Prigozhin and his efforts to evade U.S. sanctions. This action specifically addressed Prigozhin's operations and attempts to suppress and discredit protestors seeking democratic reforms in Sudan, and included the following entities: **M Invest, Meroe Gold, Andrei Mandel, Mikhail Potepkin, Igor Lavrenkov, Shine Dragon Group Limited, Shen Yang Jing Cheng Machinery Imp&Exp. Co., and Zhe Jiang Jiayi Small Commodities Trade Company Limited.** OFAC alleges that the businesses under Prigozhin's control spread disinformation and helped ousted Sudanese President Omar al-Bashir quell protests and suppress calls for democratic reforms. In return, Prigozhin allegedly reaped financial benefits from lucrative government contracts in Sudan's gold, oil, and natural gas sectors, then employed a network of financial entities in Hong Kong and Thailand under his control to launder the proceeds.

Two (2) months later OFAC targeted individuals and entities associated with a variety of Prigozhin's malign operations, including his activities in Central African Republic ("CAR"), his role as a leader and financier of the sanctioned Russian troll farm Internet Research Agency, as well as a financial supporter and leader of various Russian defense proxy forces. In total, OFAC targeted eight (8) individuals and seven entities (7), including two (2) companies owned by Prigozhin that conduct mining operations in CAR: Russia-based **M Finans** and CAR-based **Lobaye Invest.** OFAC also took action against numerous individuals and entities connected to Russia's Federal Security Service, an entity subject to sanctions for engaging in malicious cyber activities. A full list of those designated in this action are included [on OFAC's website announcing the action.](#)

OFAC Targets Malicious Cyber-Actors and Warns of Election Interference

As the 2020 U.S. election draws near, OFAC sanctioned numerous Russian individuals in actions that highlighted the Russian Federation's alleged attempts to influence the U.S. electoral process via malicious cyber activity. Chief among those designated on September 10 was **Andrii Derkach**, an alleged active Russian agent whose covert interference campaign included the release of edited audio tapes, unsubstantiated allegations, and dissemination of other misinformation to discredit U.S. political figures. News reports suggested that the interference was designed to harm Democratic presidential nominee Joe Biden. In addition, OFAC targeted three (3) individuals associated with the Internet Research Agency, a Russian internet troll farm previously sanctioned for malign cyber activity. According to OFAC, IRA employees **Artem Lifshits**, **Anton Andreyev**, and **Darya Aslanova** provided support to the IRA's cryptocurrency accounts, which the IRA uses to fund its activities around the world.

On September 16, OFAC targeted two (2) Russian-nationals, **Danil Potekhin** and **Dmitrii Karasavidi**, for their alleged involvement in a sophisticated phishing campaign in 2017 and 2018 that resulted in losses of at least \$16.8 million. The scheme targeted customers of two (2) U.S.-based and one (1) foreign-based virtual asset service providers, including U.S. citizens and businesses. According to OFAC, Potekhin's scheme involved creating numerous web domains identical to those of legitimate virtual currency exchanges and fraudulently obtaining users' personal information. Potekhin and his accomplices stole the personal identification of users as they logged into the illegitimate websites, and then gained access to those customers' real accounts to steal their assets. Proceeds from the attacks were then laundered by Karasavidi, who layered the money transfers through multiple accounts and virtual currency blockchains.

New Guidance Broadens Sanctions on NordStream Pipeline Actors

On October 21, the State Department issued interpretive guidance expanding the scope of activities that could trigger sanctions against non-U.S. companies involved in completion of the Nordstream 2 or Turkstream pipelines. Pursuant to the Protecting Europe's Energy Security Act of 2019, the Secretaries of State and Treasury are required to submit to Congress a report that identifies (i) vessels that engaged in pipelaying for the construction of the Nordstream 2 or Turkstream pipelines, and (ii) foreign persons that knowingly sold, leased, or provided those vessels for the construction of such a project; or facilitated deceptive or structured transactions to provide those vessels for the construction of such a project. In the October guidance, the State Department expanded the reach of these categories by announcing that the phrase "provid[ing] . . . vessels" encompasses an array of activities, including the provision of services or facilities for upgrades or installation of equipment for those vessels, or funding for upgrades or installation of equipment for those vessels. The guidance reaffirms that the department of State and the Treasury are prepared to use the full range of sanctions authorities to halt construction of these pipelines.

IRAN



After the Trump Administration's unilateral effort to reimpose U.N. secondary sanctions on Iran was met with rejection by the international community, President Trump issued a new Executive Order authorizing secondary sanctions against those who support Iran's acquisition of conventional military weapons and arms. OFAC targeted a network of front companies for facilitating trade in Iranian petroleum resources, and the U.S. State Department took separate action to disrupt Iran's ties to Venezuela. Finally, the U.S. acted pursuant to CAATSA to impose sanctions for human rights abuses against anti-regime protesters.

President Trump Issues New Executive Order on Conventional Weapons in Lieu of U.N. Sanctions Snapback

Citing to the JCPOA framework, the State Department issued a press release on September 19, 2020 stating that it was unilaterally imposing virtually all previously terminated U.N. sanctions on Iran in response to Iran's purported breach of its JCPOA-commitments. The previously suspended U.N. sanctions included extending the U.N. conventional arms embargo and would require Iran to halt any ballistic missile testing and nuclear weapons development.

The move follows a series of actions by the United States in previous months seeking to force an international consensus to reimpose the U.N. sanctions as a result of purported breaches of the JCPOA (from which the US had withdrawn two (2) years earlier). In August, the U.N. Security Council rejected a U.S. proposal to indefinitely extend an arms embargo on Iran. The U.S. then warned that it had the right under the JCPOA to initiate a snapback of sanctions against Iran and, thereafter, on August 20, submitted a formal notification to the UN Security Council of Iran's failure to perform under the JCPOA. The State Department insisted that this notification triggered a thirty (30)-day process leading to a mandatory return to the pre-JCPOA era of sanctions, including the continuation of the arms embargo.

The unilateral U.S. effort met with a resounding lack of international support. Notably, the snapback provisions are set out explicitly in operative paragraph 11 and the Dispute Resolution section of the JCPOA, the implementation of which the Trump Administration has disavowed for the last several years. As a result of this

perceived inconsistency, Britain, France, and Germany, in a joint statement sent to the president of the UNSC, affirmed their shared commitment to the JCPOA and explained that the snapback had no legal effect because the U.S. is no longer a participant to the JCPOA.

Although the move may have little effect re-imposing *international* sanctions, it formed the basis for expanding unilateral U.S. measures: just two (2) days after the State Department's press release, it issued a comprehensive statement describing a set of new actions the Administration would take against Iran.

Most notably, on September 21, President Trump issued a new Executive Order titled "Blocking Property of Certain Persons with Respect to the Conventional Arms Activities of Iran." The new order seeks to curb the sale and acquisition of conventional weapons, arms, and military-related material by Iran. Specifically, the Order blocks the property and interests of property of:

- any person determined to engage in any activity that materially contributes to the supply, sale, or transfer, directly or indirectly, to or from Iran, or for the use in or benefit of Iran, of arms or related material, including spare parts;
- any person determined to provide to Iran any technical training, financial resources or services, advice, other services, or assistance related to the supply, sale, transfer, manufacture, maintenance, or use of arms and related material; and
- any person deemed to contribute to the proliferation of arms, related material, or military end-use items by the Government of Iran.

The new Order also authorizes sanctions on any person determined to have materially assisted those designated for the foregoing activities. Importantly, the new order authorizes sanctions on "any person," meaning that non-U.S. persons face exposure for engaging in activities prohibited by the Order. In addition, OFAC issued a host of designations targeting individuals and entities connected to Iran's nuclear and ballistic missile programs. OFAC noted that the designations were made in support of its effort to implement and enforce U.N. sanctions on Iran. A full listing of those designated in this action can be found on [OFAC's website announcing the action](#).

US Confiscates Iranian Oil from Alleged Export Facilitators; Continues Effort to Disrupt Venezuela Trade Channels

On September 3, OFAC and the State Department collectively designated three (3) individuals and eleven (11) entities with ties to Triliance Petrochemical Co. Ltd., an entity designated in January 2020 for allegedly transferring hundreds of millions of dollars' worth of Iranian oil on behalf of the National Iranian Oil Company. The six (6) entities designated in this action—based in Iran, the United Arab Emirates, or China—allegedly support Triliance's continued trade in Iranian oil. OFAC alleges, for example, that Triliance concealed its involvement in the purchase, shipment, and resale of Iranian petrochemicals by using these entities as front companies to act on its behalf. Pursuant to E.O. 13846, the following six (6) entities were designated: **Zagros Petrochemical Company, Petrotech FZE, Jingho Technology Co. Limited, Dynapex Energy Limited, Trio Energy DMCC, and Dinrin Limited**. The State Department designated an additional five (5) entities and three (3) individuals for knowingly engaging in a significant transaction of petroleum or petroleum products from Iran. The entities sanctioned were Iran-based **Abadan Refining Company**; China-based **Zhihang Ship Management Co Ltd., New Far International Logistics LLC and Sino Energy Shipping Ltd.**; and USA-based **Chemtrans Petrochemicals Trading LLC**. The individuals sanctioned were: **Min Shi**, employee of New Far; **Zuoyou Lin**, employee of Sino Energy; and **Alireza Amin**, employee of Abadan.

In a first-of-its-kind operation, U.S. authorities confiscated nearly \$40 million worth of Iranian petrol allegedly destined for Venezuela by disrupting a series of planned ship-to-ship transfers. According to reports, the State Department contacted a Greek shipping company suspected of owning vessels that had transported Iran-origin petrol to Venezuela. The company agreed to give up the cargo and cooperated with U.S. authorities to arrange the seizure and confiscation operation. The U.S. State Department's Iran Action Group applied for and was granted a seizure warrant from a U.S. judge after identifying the names of the ships (with the assistance of the

Greek shipping company) and linking their cargo to an Iranian official connected to the IRGC-QF. Following the Iran-to-Venezuela ship-to-ship transfer, officials were able to execute seizure orders against the ships known to have received the Iranian petrol.

However, despite the U.S.'s increasingly aggressive enforcement efforts, Iran and Venezuela persisted in their oil and gas trade. As the third quarter closed reports surfaced that Iran shipped a cargo of oil condensate to Venezuela in late September, and later used the same ship to lift Venezuelan crude oil for export. News outlets reported that the Iranian tanker delivering the oil condensate turned off its satellite signal to evade detection and interception by the United States. Since the onset of aggressive enforcement of U.S. sanctions on vessels transporting oil, Venezuela has struggled to find tankers willing to risk sanctions.

State Department Announces CAATSA Sanctions in Response to Athlete's Execution

On September 24, the U.S. State Department imposed sanctions on several Iranian officials and entities for alleged gross violations of human rights pursuant to Section 106 of the Countering America's Adversaries Through Sanctions Act of 2017. The sanctions follow a high-profile criminal case in which a young athlete, Navid Afkari, was imprisoned and executed on September 12, 2020 by Iranian authorities. According to the State Department, Afkari was arrested in 2018 after participating in protests. He was accused of murder and subjected to unfair trials in front of Judge Sadati of Branch 1 of the Shiraz Revolutionary Court. The State Department noted that, prior to his execution, Afkari reported that he was tortured by Iranian officials at Adelabad Prison to extract a confession that was later played on Iran's state television. The following persons were designated in connection with the case: **Judge Seyyed Mahmoud Sadati, Branch 1 of the Revolutionary Court, Judge Mohammad Soltani, Adelabad, Orumiye, and Vakilabad Prisons.**

US Targets Iran's Financial Sector

On October 8, OFAC and the State Department acted pursuant to Executive Order 13902 to identify the financial sector of the Iranian economy. E.O. 13902 permits the Secretary of the Treasury, in consultation with the Secretary of State, to determine and identify sectors of the Iranian economy subject to sanctions. The same executive order currently authorizes sanctions on those operating in Iran's construction, mining, manufacturing, or textiles sectors. After identifying the financial sector as subject to sanctions, OFAC designated eighteen (18) Iranian financial institutions, including: **Amin Investment Bank, Bank Keshavarzi Iran, Bank Maskan, Bank Refah Kargaran, Bank-E Shahr, Eghtesad Novin Bank, Gharzolhasaneh Resalat Bank, Hekmat Iranian Bank, Iran Zamin Bank, Islamic Regional Cooperation Bank, Karafarin Bank, Khavarmianeh Bank, Mehr Iran Credit Union Bank, Pasargad Bank, Saman Bank, Sarmayeh Bank, Tosee Taavon Bank, and Tourism Bank. M** The sanctions will go into effect following a forty-five (45)-day wind-down period.

VENEZUELA



This quarter, OFAC targeted close associates of Venezuelan President Nicolás Maduro who engaged in activities designed to sustain the Maduro family’s personal finances. At the third quarter’s close, meanwhile, OFAC focused its attention on Maduro-designed schemes to maintain power by rigging the upcoming parliamentary elections.

Individuals Targeted for Close Ties to Maduro and Corruption of Gold Resources

On July 23, OFAC designated **Santiago Jose Moron Hernandez** and **Ricardo Jose Moron Hernandez (Ricardo)** for providing material support to Venezuelan government officials, including Nicolas Ernesto Maduro Guerra and his father, President Nicolás Maduro. According to OFAC, Santiago and Ricardo are members of the influential Moron Hernandez family, a trusted partner of Maduro and his children. As partners to the Maduro regime, Santiago and Ricardo allegedly help distribute Maduro assets around the world, including by conducting business transactions. Additionally, they are allegedly central figures in Venezuela’s gold industry, and the two oversee the financial mechanisms of illicit sales of Venezuela’s gold resources conducted by Maduro Guerra.

OFAC Targets Actions to Rig Parliamentary Elections

OFAC acted twice in September to punish individuals allegedly involved with Maduro-led schemes to undermine democracy in Venezuela by corrupting Venezuela’s upcoming parliamentary elections. In announcing the designations, the U.S. Treasury Department stated that the designated individuals sought to manipulate elections by “placing control of Venezuela’s opposition parties in the hands of politicians affiliated with Nicolas Maduro’s regime, undermining any credible opposition challenge to that regime.” First, on September 4, OFAC targeted four (4) individuals for their alleged involvement: **David Eugenio De Lima Salas**, **Reinaldo Enrique Muñoz Pedroza**, **Indira Maira Alfonzo Izaguirre**, and **Jose Luis Gutierrez Parra**. Second, on September 22, OFAC targeted an additional five (5) Venezuelan lawmakers—**Miguel Antonio Jose Ponente Parra**, **Guillermo Antonio Luces Osorio**, **Jose Bernabe Gutierrez Parra**, **Chaim Jose Bucaran Paraguan**, and **Williams José Benavides Rondón**—for their alleged role in the scheme.

COUNTERTERRORISM DESIGNATIONS



On July 28, 2020, pursuant to E.O. 13224, OFAC designated **Faruq Hamud** and **'Adnan Muhammad Amin al-Rawi** as specially designated global terrorists. According to OFAC, Hamud and al-Rawi assisted and supported ISIS activities in the Middle East. Hamud allegedly worked inside an internally displaced persons camp in Syria and transferred international payments to ISIS members in the camp. Additionally, according to OFAC, Al-Rawi allegedly provided critical financial and logistical support to ISIS operations in Turkey.

On August 19, 2020, OFAC acted pursuant to E.O. 13224 to curtail the activities of **Parthia Cargo LLC** and **Delta Parts Supply FZC** for their support of the Iranian airline Mahan Air, which had previously been designated for its connection to Iran's Islamic Revolutionary Guard Corps. OFAC further designated **Amin Mahdavi** as the CEO and owner of Parthia Cargo, which allegedly offered freight forwarding services to Mahan Air. Additionally, according to OFAC, Parthia Cargo regularly forwarded aircraft parts and other goods to the airline in violation of U.S. sanctions. Similarly, according to OFAC, Delta Parts sold key aviation goods, including U.S.-origin parts, to Mahan Air.

On September 8, 2020, OFAC designated former Lebanese government ministers **Yusuf Finyanus** and **Ali Hassan Khalil** for their alleged connections to Hizballah's activities in Lebanon. Finyanus is the former Lebanese Minister of Transportation and Public Works, and according to OFAC, used his position to siphon funds from the Lebanese government to ensure companies related to Hizballah won government contracts worth millions of dollars. Khalil, on the other hand, served as the Lebanese Minister of Public Health and then as the Minister of Finance. He allegedly used his political position to send money directly from government ministries to Hizballah institutions.

On September 17, 2020, OFAC designated two (2) Lebanese companies, **Arch Consulting** and **Meamar SARKL** for alleged connections to Hizballah. According to OFAC, Arch Consulting and Meamar SARKL are owned or controlled by Hizballah's Executive Council and have been used to conceal monetary transfers for the designated terrorist group. Notably, according to OFAC, senior officials of both companies have direct ties to Hizballah and both companies remain important sources of funding for the terrorist group. Separately, OFAC designated **Sultan Khalifah As'ad**, alleging he serves as a senior member of the Hizballah Executive Council.

OFAC TARGETS HUMAN RIGHTS ABUSERS AND CORRUPT ACTORS IN AFRICA AND CHINA



On August 17, OFAC sanctioned four (4) Ugandan individuals pursuant to E.O. 13818, which builds upon and implements the Global Magnitsky Human Rights Accountability Act, for their alleged involvement in an adoption scam that allegedly victimized Ugandan children. Those designated include Ugandan judges and lawyers who together orchestrated an adoption scheme to remove children from their homes and resettle them in the United States. Specifically, OFAC alleges that Ugandan judges **Moses Mukiibi** and **Wilson Musalu Musene**, Ugandan lawyer **Dorah Mirembe**, and Mirembe's husband, **Patrick Ecobu**, participated in a scheme whereby, for example, children were removed from Ugandan families under false promises for "special education" programs and study in the United States but were subsequently offered to U.S. families for adoption. The scheme was organized by an adoption agency which used Mirembe's law firm to handle the legal aspects of the adoptions, which included manipulation and falsification of court documents. In addition, OFAC alleges that Mirembe and Ecobu paid bribes to the judges and other government officials to process the adoptions. A parallel action was brought by the U.S. Department of Justice related to the bribery scheme. On August 17, prosecutors filed a thirteen (13)-count indictment against Margaret Cole, Debra Parris, and Dorah Mirembe, alleging, among other offenses, violations of the Foreign Corrupt Practices Act and money laundering.

On September 15, OFAC acted pursuant to E.O. 13818, which builds upon and implements the Global Magnitsky Human Rights Accountability Act and targets perpetrators of serious human rights abuse and corruption, in two (2) separate actions. First, OFAC targeted **Zineb Souma Yahya Jammeh** and **Nabah LTD** for their alleged roles in providing support to persons previously designated for their own corrupt behavior. Zineb is the former First Lady of The Gambia and wife of Yahya Jammeh, the country's designated former president. Zineb, his wife, is alleged to be in control of Jammeh's wealth around the world and is accused of aiding and abetting her husband's corrupt schemes. OFAC also designated Nabah LTD, a U.K.-registered entity controlled by Ashraf Seed Ahmed Al-Cardinal, a South Sudanese official designated in 2019 upon allegations of bribery, kickbacks, and procurement fraud.

Also, on September 15, OFAC imposed sanctions on one (1) Chinese state-owned entity, **Union Development Group Co., Ltd.**, for the alleged seizure and demolition of local Cambodians' land for the construction of the \$3.8 billion tourism development called Dara Sakor. According to OFAC, UDG registered itself as a Cambodian-owned entity to secure land for the Dara Sakor development project, but only three (3) years later reverted to its true Chinese ownership. UDG was assisted by Kun Kim, a former Cambodian general previously sanctioned by OFAC for corruption. According to OFAC, UDG, through Kim, used Cambodian military forces to intimidate local villagers and to clear out land necessary to build the Dara Sakor project.

OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS



Pursuant to the Kingpin Act, on July 17, 2020, OFAC designated four (4) Chinese individuals, **Songyan Ji, Longbao Zhang, Guifeng Cheng,** and **Guangfu Zheng,** for their alleged involvement in a synthetic opioid trafficking organization known as the Zheng Drug Trafficking Organization. In connection with these individual designations, OFAC also designated **Global United Biotechnology Inc.** as being owned or controlled by the drug trafficking organization. OFAC announced that it designated the four (4) individuals as part of a concerted effort to crack down on the trafficking of fentanyl into the United States.

Relatedly, on August 25, 2020, OFAC designated Chinese national **Taotao Zhang** and his company, **Allyrise Technology Group Co., Limited** for allegedly shipping fentanyl to the United States. According to OFAC, using Allyrise Technology, which allegedly serves as a front company for his drug operations, Zhang has shipped synthetic opioids into the country from China via multiple individuals and freight-forwarders to disguise the origin and content of the packages.

ENFORCEMENT ACTIONS



On August 11, OFAC announced that an unnamed U.S. individual agreed to pay \$5,000 to settle potential civil liability arising from twenty-four (24) apparent violations of the Foreign Narcotics Kingpin Sanctions Regulations. At the time of the violations, the individual was a civilian employee of the U.S. Army stationed in Colombia who allegedly began a personal relationship with a Specially Designated Narcotics Trafficker (SDNT) after meeting at the U.S. embassy in Bogotá. Although the individual knew that the SDNT was a target of U.S. sanctions, he or she nonetheless bought the SDNT jewelry and gifts, and paid for meals and hotels rooms, and did not seek guidance on whether it was legal to do so. In determining the penalty, OFAC noted that the individual cooperated with OFAC during the investigation and that the transactions to the benefit of the SDNT were personal in nature and amounted to a total of only \$3,450.

On July 8, **Amazon.com, Inc.** entered into an agreement with OFAC to settle potential civil liability arising from apparent violations of multiple sanctions programs. Specifically, Amazon agreed to pay \$134,523 for providing goods and services to persons on OFAC's SDN List; persons located in sanctioned jurisdictions such as Crimea, Iran, and Syria; and to individuals located in or employed by the foreign missions of countries sanctioned by OFAC. The settlement agreement alleges that Amazon also failed to report several hundred

transactions conducted pursuant to a general license, as required. Between November 2011 and October 2018, Amazon's automated sanctions screening tool failed fully to analyze all transactions and customer data with respect to OFAC's sanctions regulations. For example, the screening tool failed to account for slight variations in the spelling of sanctioned jurisdictions, such as Crimea, and did not flag for review customer orders destined for the Iranian Embassy in non-sanctioned third countries. OFAC determined that the apparent violations were a non-egregious case, that Amazon self-disclosed the violations, and that Amazon implemented remedial action upon discovery of the apparent violations.

On July 16, **Essentra FZE Company Limited** entered into a settlement agreement with OFAC to settle potential civil liability for three (3) apparent violations of the North Korea sanctions. Between September 2018 and December 2018, the UAE-based cigarette filter and tear tape manufacturer allegedly used deceptive practices to export cigarette filters to North Korea through a network of front companies in China and other countries. OFAC alleges that Essentra FZE personnel met with a DPRK national to discuss exporting cigarette filter rods to North Korea, and later exchanged messages in which the DPRK national instructed Essentra FZE not to list North Korea as the destination and that the contract would be signed by another foreign company. Thereafter, Essentra FZE executed contracts that listed various customers in China when it knew that the filter rods were destined for North Korea. Payment for the exports transited through foreign branch accounts of a U.S. bank. In total, Essentra FZE agreed to pay \$665,112 to OFAC, which considered the violations an egregious case.

On July 28, OFAC announced a \$824,314 settlement with **Whitford Worldwide Company, LLC**, a Pennsylvania-headquartered cookware coating manufacturer, for 74 apparent violations of the Iranian Transactions and

Sanctions Regulations. According to OFAC, between about November 2012 and December 2015, Whitford and its subsidiaries in Italy and Turkey sold coatings intended for customers in Iran and engaged in other trade-related transactions with Iran, some of which were facilitated by U.S. persons employed by Whitford. According to the settlement agreement, some of Whitford's subsidiaries in Europe historically sold to customers in Iran. When the U.S. acted to prohibit foreign subsidiaries of U.S. companies from transacting with Iran in 2012, Whitford's subsidiaries nonetheless continued to sell coatings to customers in Iran and did so pursuant to incorrect advice of Whitford's compliance department. Specifically, Whitford management developed a plan that would route all sales to Iran through a third-party distributor, under the incorrect belief that doing so would not run afoul of revised U.S. sanctions. In setting the penalty amount, OFAC determined that Whitford voluntarily disclosed the apparent violations and that they constituted a non-egregious case.

On September 9, OFAC announced two (2) settlements totaling \$583,100 with **Deutsche Bank Trust Company Americas** to resolve its potential civil liability arising from apparent violations of Ukraine sanctions. Specifically, DBTCA agreed to pay \$157,500 for processing, through the U.S. financial system, a large payment related to a series of fuel oil purchases that involved a designated oil company in Cyprus. According to OFAC, DBTCA had reason to know of the involvement of the sanctioned Cyprian entity but did not conduct due diligence sufficient to determine whether the designated oil company's interest in the payment had been extinguished. Separately, DBTCA agreed to remit \$425,600 for processing payments destined for accounts at a sanctioned financial institution. OFAC alleges that DBTCA failed to stop the 61 payments because its sanctions screening tool only screened for exact matches of a designated entity's name and did not screen for other identifiers such as a SWIFT Business Identifier Code. DBTCA's screening tool was instead programmed so that only an exact match to a designated entity would trigger a manual review. OFAC determined that neither case was voluntarily self-disclosed to OFAC and that the apparent violations constitute non-egregious cases.

On September 17, New York-based **Comtech Telecommunications Corp.** and its wholly-owned subsidiary, **Comtech EF Data Corp.**, agreed to pay \$894,111 to settle potential civil liability arising from four (4) apparent violations of the Sudanese Sanctions Regulations. Between June 2014 and October 2015, Comtech, through EF Data, indirectly exported satellite equipment and facilitated services and training to a government-owned entity in Sudan. EF Data became aware that the ultimate-end user of the telecommunications services was in Sudan, both from an electronic screening software that flagged export restrictions against Sudan and in notices from the intermediary company located in Canada. Despite these warnings, EF Data still shipped the satellite equipment to its customer in Canada. Twice over the next year, EF Data performed services for the setup, support, and operation of the satellite equipment, without first obtaining a specific license from OFAC. In determining the penalty, OFAC determined that Comtech voluntarily disclosed the apparent violations and that the apparent violations constituted an egregious case.

On September 24, California-based **Keysight Technologies Inc.**, as successor entity to Anite Finland OY, based in Finland, agreed to pay \$437,157 to settle its potential civil liability arising from six (6) apparent violations of the Export Administration Regulations through the reexport of goods to Iran. From January 2016 to June 2016, Anite completed six (6) orders, without OFAC authorization, totaling \$300,000 worth of U.S.-origin goods to a joint venture between South African telecommunications company MTN and the Iranian government in 2016. Anite designed and sold test and measurement instruments, as well as related software products to the wireless industry. After Keysight's acquisition of Anite in August 2015, and after Keysight implemented a policy to restrict sales to Iran, Anite employees deliberately continued sales to Iran and intentionally obfuscated such sales from Keysight. OFAC determined that Keysight voluntarily disclosed the apparent violations and that the apparent violations constitute an egregious case.

On October 1, New York-incorporated **Generali Global Assistance, Inc.** agreed to remit \$5,864,860 to settle its potential civil liability for 2,593 apparent violations of the Cuban Assets Control Regulations. According to OFAC, GGA, a travel services company offering medical expense and travel insurance policies, engaged in a deliberate scheme to indirectly pay for Cuba-related claims through a Canadian affiliate. Between June 2006 and January 2015, GGA provided travel services on behalf of two (2) Canadian insurers for non-U.S. Canadian subscribers who traveled to Cuba. By processing and paying claims on behalf of these travelers, GGA dealt in blocked property in which Cuba or Cuban nationals had an interest. Under the scheme, GGA intentionally referred requests for payments intended for Cuban service providers to a Canadian affiliate. Then, GGA would reimburse

the affiliate in Canada. This referral process was codified in GGA's procedures manual. OFAC determined that the case was voluntarily self-disclosed to OFAC and that the apparent violations constituted an egregious case.

ABU DHABI

AUSTIN

BEIJING

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DALLAS

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FRANKFURT

HONG KONG

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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.

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Sanctions Roundup

January 27, 2021

FOURTH QUARTER 2020

As the Trump Administration wound down, the President, through Executive Orders, and the State, Treasury, and Commerce Departments, through designations, FAQs, and other guidance, continued to impose new and expanded sanctions, particularly with respect to China and Iran. For that reason, we delayed publication of this issue until the inauguration of the new Administration in the expectation that the pace may slow down as the Biden Administration appointees take stock and determine which of the existing sanctions programs, particularly those implemented between the election and the inauguration, align with the new Administration's foreign policy approach. Indeed, as we go to press, President Biden's newly confirmed Secretary of Treasury, Janet Yellen, has announced a review of sanctions policy to ensure that sanctions are used "strategically and appropriately," and President Biden ordered the Departments of State, Treasury, and Commerce to review U.S. sanctions to evaluate whether they are "unduly hindering responses to the COVID-19 pandemic."

This quarter saw numerous developments, including:

- The Trump Administration bans U.S. investment in public securities of "Communist Chinese Military Companies" and signs new executive order targeting Chinese app developers.
- In parting shot, President Trump concludes "maximum pressure" campaign by announcing new sanctions against Iran's financial sector and steel industry, among others.
- Despite presidential veto threat, Congress passes expanded sanctions against Nordstream/Turkstream pipeline projects.
- Enforcement action against French bank shows compliance risks related to internal USD transactions despite remote connection to sanctions targets.

CONTENTS

CHINA	1
US Bans Trading in Public Chinese Companies with Perceived Military Ties	1
Outgoing Trump Administration Issues Executive Order Addressing Data Collection by Chinese Applications	2
PRC Officials Designated for Undermining Hong Kong’s Autonomy	3
Financial Institutions Spared Secondary Sanctions under HKAA	3
Commerce Department Issues List of Military End-Users	3
China Enacts Legislation to Shield Its Companies from Economic Sanctions	4
RUSSIA	5
US Congress Expands Sanctions on NS2 Pipeline Actors	5
CAATSA-Related Sanctions Imposed in Response to Variety of Russian Activity	5
OFAC Targets Attempted Interference in US Elections	6
NORTH KOREA	7
OFAC Targets North Korea’s Export of Human and Natural Resources	7
IRAN	8
OFAC Sanctions Key Actors Iran’s Financial & Steel Sectors	8
Secondary Sanctions Imposed for Dealings with Iranian Petrochemical Company	9
Cyber-Enabled Election Interference Effort Prompts Sanctions	9
OFAC Takes Aim at Conventional Arms and WMD Proliferators	9
Supreme Leader’s Patronage Network Faces Sanctions	10
VENEZUELA	11
Chinese Tech Firm Sanctioned over Maduro Ties	11
Efforts to Corrupt Parliamentary Elections Spark Sanctions	11
OFAC Sanctions Judge and Prosecutor of “CITGO 6”	12
US. Continues to Target Venezuelan Oil Exports	12
COUNTERTERRORISM DESIGNATIONS	13
OFAC TARGETS HUMAN RIGHTS ABUSERS AND CORRUPT ACTORS	16
OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS	18
ENFORCEMENT ACTIONS	19
French Bank Fined for Internal USD Transfers on Behalf of Syrian Client	20

CHINA



The People's Republic of China remained at the forefront of U.S. sanctions developments during the final months of 2020 and early 2021, with the Trump Administration using its waning months to issue a whirlwind of new restrictions. Most prominently, President Trump issued a new executive order aimed at cutting off dozens of Chinese companies from U.S. investors. Meanwhile, as the Treasury Department published formal Hong Kong Sanctions Regulations, OFAC continued to target PRC officials for their alleged role in the perceived democratic encroachments in Hong Kong. The Department of Commerce also published a list of Chinese Military End-Users. In response, China passed legislation aimed at protecting its companies from U.S. sanctions, and itself sanctioned twenty-eight U.S. officials, including outgoing Secretary of State Mike Pompeo.

US Bans Trading in Public Chinese Companies with Perceived Military Ties

On November 12, President Trump issued Executive Order 13959, titled "Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies," which prohibits U.S. persons from investing in dozens of Chinese companies identified by U.S. officials as being closely linked to Chinese military and intelligence agencies (CCMCs). Effective January 11, 2021, the order prohibits U.S. persons from transacting in publicly traded securities of CCMCs, as well as any securities that are derivative of, or "designed to provide investment exposure" to, such securities. Initially, thirty-one companies were listed as CCMCs by the Department of Defense, including entities in China's aerospace, shipbuilding, construction, technology and communication industries. By January 14, 2021, the Department of Defense designated additional companies, taking the list to forty-four. The E.O. also authorizes the Secretary of the Treasury to identify additional CCMCs or their subsidiaries.

Upon the E.O.'s release, there was initial confusion as to whether the restrictions would apply only to those entities specifically listed by the Treasury Department, or whether OFAC's traditional 50 percent rule would

apply to cover trades in securities of subsidiaries and affiliates of the companies. This and other compliance questions prompted OFAC and the White House to issue a series of guidance announcements and amendments.

- OFAC will not apply its traditional “50 percent rule” to entities listed under E.O. 13959, meaning that the prohibitions only apply to subsidiaries of listed entities after the subsidiary is publicly listed by the Treasury Department. (See [FAQ 857](#).) However, OFAC confirmed it intends to update the list to add subsidiaries issuing publicly traded securities that are majority-owned or controlled by the listed CCMCs.
- OFAC published a consolidated [list](#) of all CCMCs listed to date, and clarified that the name of any entity that “exactly or closely matches” a name in the list is subject to the prohibitions in the E.O. (See [FAQ 858](#).) This approach thus captures legal entities that are *not* on the Defense Department list and was widely understood to be a means of avoiding the 60-day delay in implementation had the Treasury Department exercised its authority to designate subsidiaries of companies on the Defense Dept. list.
- On January 13, 2021, the White House amended E.O. 13959 to clarify that prohibited “transactions” include both sales and purchases for value and that U.S. persons are required to divest all holdings within a one-year wind-down period.
- The prohibitions apply to a broad range of “publicly traded securities” denominated in any currency that trade on a securities exchange or over-the-counter (OTC), anywhere in the world, including derivatives, warrants, ADRs, GDRs, ETFs, index funds, and mutual funds. (See [FAQ 859, 860](#).) Significantly, because many exchanges in the world are owned by U.S. companies, OFAC issued a general license authorizing non-US exchanges to continue processing trade in such securities, provided no US person was a buyer or seller.
- U.S. persons are prohibited from investing in U.S. or foreign funds that hold publicly traded securities of a Communist Chinese military company “regardless of such securities’ share of the underlying index fund, ETF, or derivative thereof.” ([See FAQ 861](#).)
- Prohibitions on transactions involving entities named in the future will go into effect 60 days after an entity is listed by OFAC. E.O. 13959 establishes a wind-down period to allow for divestment. In particular, U.S. persons must divest CCMC securities (held as of January. 11, 2021) by November. 11, 2021. ([FAQ 872](#)). For future listed CCMCs, investors must divest within one year of the date of listing ([GL No. 2](#)).

In response to the new order, the New York Stock Exchange announced it would de-list shares in three Chinese telecom companies: China Telecom Corp Ltd, China Mobile Ltd, and China Unicom Hong Kong Ltd. Despite OFAC’s efforts to explain the restrictions, significant ambiguity remains as to which entities are subject to the ban, and the timelines by which market participants must comply. Moreover, as with much of the Trump Administration’s sanctions regime, it is unclear whether President Biden will maintain these prohibitions, walk them back, or even escalate the restrictions on CCMCs.

Outgoing Trump Administration Issues Executive Order Addressing Data Collection by Chinese Applications

In an effort to curb the proliferation of Chinese technology in the U.S. market, the outgoing Trump Administration issued Executive Order 13971 on January 5, 2021 to prohibit transactions with several Chinese connected software applications. The new order builds on the broad foundations set forth in Executive Order 13873, from May 2019, which sought to prohibit information and communication technology transactions involving foreign adversaries. The new order specifically targets Chinese software designed to collect, process, or transmit data via the internet. The order highlights the historical collection of personally identifiable information and private information of U.S. citizens by Chinese government-connected agents, including in the well-publicized data breaches of Anthem and Equifax. The order is scheduled to take effect in February 2021.

Just before his term ended, President Trump issued a second executive order, titled “Steps to Address the National Emergency with Respect to Significant Malicious Cyber-Enabled Activities” that amends E.O. 13694 to

address the use of United States Infrastructure as a Services (IaaS) products by foreign malicious cyber-actors. IaaS products enable persons to engage in anonymous activity on the internet, which make it difficult for the government to monitor, track, and address potential wrongdoing by cyber-actors. If implemented, the Order would require IaaS providers to verify and document the identity of foreign nationals that use U.S. IaaS services. The Order also authorizes the Commerce Department to prohibit or impose conditions on IaaS accounts engaged in malicious activity. Although not specifically aimed at China, the Order creates an enforcement mechanism for taking actions against any “foreign jurisdiction [that] has any significant number of foreign persons offering U.S. IaaS products that are used for malicious cyber-enabled activities.”

PRC Officials Designated for Undermining Hong Kong’s Autonomy

The PRC’s actions with respect to Hong Kong continued to draw scrutiny this quarter. The U.S. twice took action to target senior PRC officials involved in implementing the Hong Kong national security law, which the U.S. claims is being used to curb democratic dissent. On November 9, OFAC and the State Department jointly sanctioned four officials in Hong Kong’s governing and security establishment: **Deng Zhonghua**, deputy director of the Hong Kong and Macau Affairs Office; **Edwina Lau**, deputy commissioner of police in Hong Kong; and **Li Jiangzhou** and **Li Kwai-wah**, two officials at the newly established national security office in Hong Kong. In early December, the State Department designated fourteen members of the National People’s Congress Standing Committee (NPCSC), which voted to adopt the national security law. Six more officials were targeted on January 15, 2021 for their alleged roles in the mass-arrest of pro-democratic activists: **You Quan**, Vice Chairman of the Central Leading Group on Hong Kong and Macau Affairs; **Sun Wenqing**, Deputy Director of the Office for Safeguarding National Security; **Tam Yiu-Chung**, Hong Kong delegate to the National People’s Congress Standing Committee; and Hong Kong police officials **Frederic Choi Chin-Pang**, **Kelvin Kong Hok Lai**, and **Andrew Kan Kai Yan**.

Financial Institutions Spared Secondary Sanctions under HKAA

As we previously reported, President Trump signed into law the Hong Kong Autonomy Act of 2020, legislation that authorized, in part, mandatory sanctions on foreign financial institutions who do business with persons determined to have assisted in undermining Hong Kong’s autonomy. Two provisions set forth the process for imposing such sanctions. First, Section 5(a) of the HKAA requires the Secretary of State to submit a report to Congress identifying foreign persons who have (or who have attempted) to materially contribute to the failure of the Government of China to meet its obligations under the Sino-British Joint Declaration and Hong Kong’s Basic Law. Section 5(b), in turn, requires the Treasury Secretary to submit a report identifying foreign financial institutions that knowingly conduct “significant” transactions with a person identified in the Section 5(a) report. On December 11, the Treasury Department issued its initial report pursuant to Section 5(b), stating that the agency has not identified any foreign financial institution at risk for secondary sanctions under the HKAA. Although its first report under Section 5(b) named no FFIs for sanctions, the Treasury Department noted that it will continue to monitor activity and could update its report at any time.

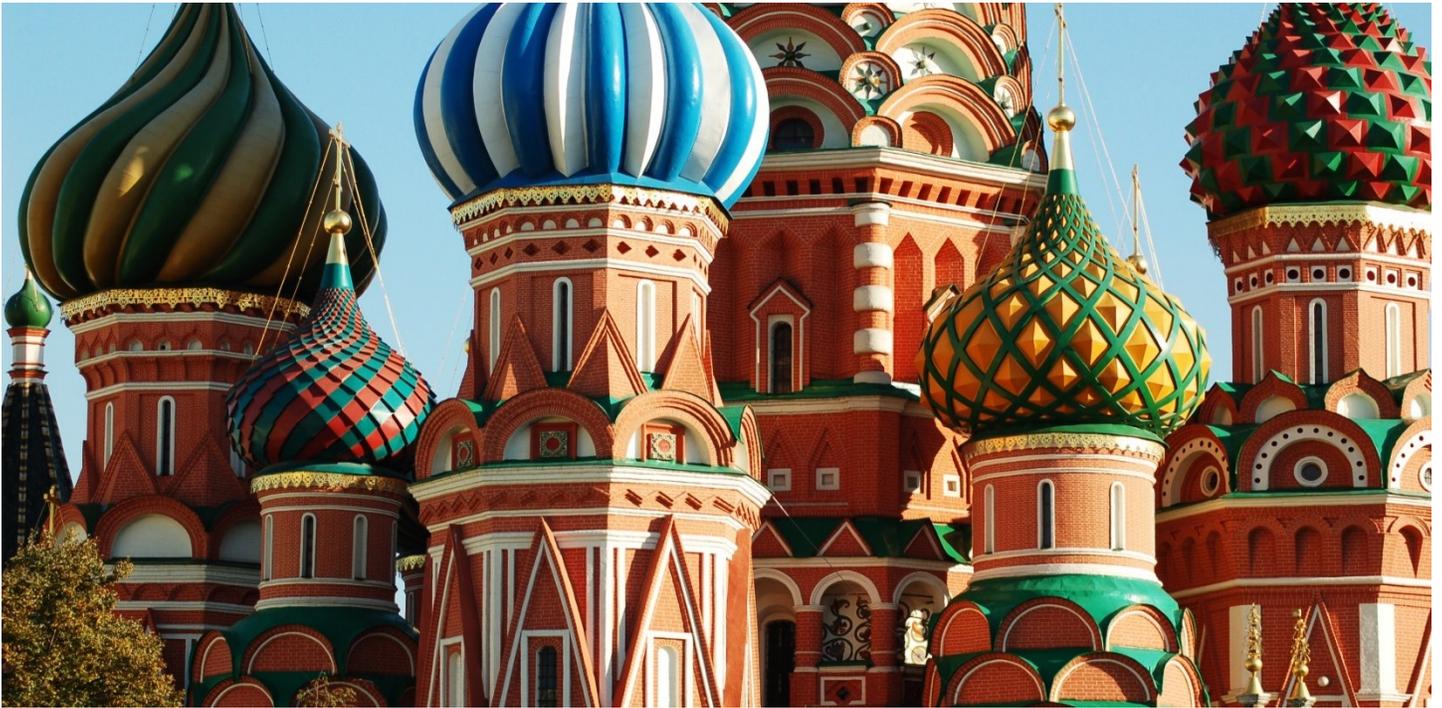
Commerce Department Issues List of Military End-Users

In late December, and in response to public request, the Bureau of Industry and Security at the U.S. Department of Commerce amended the Export Administration Regulations to add a new Military End User (MEU) List of entities that pose an unacceptable risk of diversion to armed services in China, Venezuela, and Russia. The MEU List helps to clarify earlier changes to the EAR in April 2020 that broadened the scope of U.S. export controls to cover any U.S.-origin item that supports or contributes to the operation, installation, maintenance, repair, overhaul, refurbishing, development, or production of military items. As the April rule did not originally identify which specific entities posed a known risk for military end-use, the final rule seeks to provide clarity regarding license requirements for export to a company with ties to a military end user. The final rule specifies 102 entities, 58 of which are Chinese. The Commerce Department anticipates the MEU List will ease companies’ compliance burden, but the list, which included 57 Chinese and 45 Russian entities in its initial publication, is non-exhaustive, and parties not listed may not necessarily be exempt from MEU regulatory prohibitions—which means due diligence practices in place before the publication of the MEU List will likely need to continue.

China Enacts Legislation to Shield Its Companies from Economic Sanctions

The Chinese State Council passed legislation on January 9, 2021 that seeks to limit the impact of foreign sanctions on Chinese companies and other companies operating in the country. Titled “Measures for Blocking the Improper Extraterritorial Application of Foreign Laws and Measures,” the legislation permits Chinese courts to penalize global companies that comply with “unjustified” foreign sanctions and sets guidelines for the Ministry of Commerce to determine which foreign sanctions are unjustified under the new rules. Such a determination would be based on whether the sanctions violate international law, the impact on Chinese sovereignty, and the impact on the economic rights of Chinese entities. At its core, the legislation aims to limit the use of secondary sanctions, including by the U.S. government, as a tactic to influence behavior without a clear US nexus. Significantly, as an enforcement mechanism, the new rules also permit parties harmed by another party’s compliance with prohibited foreign sanctions to bring a case for damages.

RUSSIA



Last quarter, U.S. authorities acted pursuant to existing and new authorities to counteract the expansion of Russia's influence with European and NATO allies. After months of threats, the Trump Administration announced targeted sanctions against Turkey over its purchase and installation of the S-400 missile defense system. Meanwhile, the U.S. Congress expanded legislative sanctions against the Nordstream 2 and Turkstream pipelines, prompting European leaders to contemplate countermeasures.

US Congress Expands Sanctions on NS2 Pipeline Actors

The U.S. Congress escalated measures against those involved in completing construction of the controversial Nordstream 2 and Turkstream pipelines, which would provide natural gas between Russia and Europe. Section 1242 of the National Defense Authorization Act for 2021, passed over President Trump's veto, provides for penalties on parties involved in a wider range of pipe-laying activities than previously authorized. Under Section 1242, the definition of "pipe-laying activities" was broadened to include "activities that facilitate pipe-laying, including site preparation, trenching, surveying, placing rocks, backfilling, stringing, bending, welding, coating, and lowering of pipe." In addition, Section 1242 authorizes sanctions on foreign persons that support the expanded definition of pipe-laying activities, such as by providing underwriting services, insurance, or reinsurance for vessels engaged in pipe-laying activities for the two pipelines.

CAATSA-Related Sanctions Imposed in Response to Variety of Russian Activity

Pursuant to Section 224 of the Countering America's Adversaries Through Sanctions Act, on October 23 OFAC sanctioned **State Research Center of the Russian Federation FGUP Central Scientific Research Institute of Chemistry and Mechanics**, a Russian government research institution connected to the malware known as "Triton." CAATSA Section 224 authorizes sanctions on persons who knowingly engage in activities that undermine cybersecurity on behalf of the Government of the Russian Federation. The Triton malware—also known also as TRISIS and HatMan—was designed specifically to target and manipulate industrial safety systems protecting critical infrastructure facilities. Among recent deployments of the Triton malware was a 2017 operation that targeted a petrochemical facility in the Middle East.

The Trump Administration at long last imposed sanctions on Turkey, a NATO ally, for its purchase of the S-400 missile defense system from Russia. Specifically, on December 14, the U.S. acted pursuant to Section 231 of the

CAATSA to sanction Turkey's **Presidency of Defense Industries (SSB)** for knowingly engaging in a significant transaction with Russian's defense industry. The sanctions were imposed in connection with Turkey's purchase of the S-400 surface-to-air missile system from with Rosoboronexport, Russia's main arms export entity. From a menu of sanctions available pursuant to Section 231, the U.S. imposed a ban on all U.S. export licenses and authorizations to SSB, as well as asset freezes and visa restrictions on SSB's president and other officers. The action comes after numerous warnings issued by the U.S. to Turkey that the S-400 system posed a national security threat to the U.S., and that Turkey could face sanctions if it followed through with the purchase, receipt, and testing of the missile system. President Trump's move pursuant to CAATSA appeared designed to pre-empt certain provisions of the 2021 NDAA, which mandated that the President impose at least five out of a possible twelve sanctions measures in response to Turkey's S-400 purchase.

Finally, on the final full day of the Trump Administration, the State Department sanctioned Russia-based entity **KVT-RUS** and identified the vessel **Fortuna** as blocked property. KVT-RUS was sanctioned pursuant to Section 232 of CAATSA for knowingly selling, leasing, or providing to the Russian Federation goods, services, technology, information, or support for the construction of Russian energy export pipelines.

OFAC Targets Attempted Interference in US Elections

On January 11, 2021, OFAC designated seven individuals and four entities associated with Russian intelligence agent Andrii Derkach, who was previously sanctioned pursuant to E.O. 13848 for his attempt to influence the 2020 U.S. presidential election. Specifically, OFAC targeted former Ukrainian government officials **Konstantin Kulyk**, **Oleksandr Onyshchenko**, **Andriy Telizhenko** and current Ukraine Member of Parliament **Oleksandr Dubinsky**, who allegedly coordinated with Derkach to disseminate false information about then-candidate Joe Biden and other U.S. political candidates, accusing him of corrupt dealings with respect to Ukraine. In addition, OFAC designated Derkach's "disinformation apparatus" responsible for pushing out the disinformation to U.S. media outlets, including media front companies **NabuLeaks** and **Era-Media TOV** media team members **Dmytro Kovalchuk**, **Anton Simonenko**, and **Petro Zhuravel** and two of Zhuravel's companies, **Only News** and **Skeptik TOV**.

NORTH KOREA



OFAC Targets North Korea's Export of Human and Natural Resources

This quarter OFAC continued to target North Korea's export revenues. First, on November 19, OFAC designated two entities for their alleged role in exporting workers from North Korea to work in Russia. Acting pursuant to E.O. 13722, which authorizes sanctions on those engaged in the exportation of forced labor from North Korea, OFAC designated **Mokran LLC**, a Russian construction company, and **Korea Cholsan General Trading Corporation**, a North Korean company operating in Russia.

In December, OFAC targeted six entities and identified four vessels allegedly engaged in the transport of coal from North Korean ports to places such as Vietnam. The designations were taken pursuant to E.O.s 13687, 13722, and 13810, which target the Worker's Party of North Korea and those operating in North Korea's transportation industry. OFAC further noted that the transport of coal, a key revenue generator to the North Korean regime, is in violation of United Nations Security Council resolution 2371. The designated entities include China-based **Weihai Huijiang Trade Ltd**, along with **Always Smooth Ltd**, and **Good Siblings Ltd**; Hong Kong-based **Silver Bridge Shipping Co-HKG**; North Korea-based **Korea Daizin Trading Corporation**; and Vietnam-based **Thin Cuong Co Ltd**. The identified vessels include **Calm Bridge**, **Asia Bridge**, **Lucky Star**, and **Star 18**.

IRAN



In a seeming final effort to entrench its maximum-pressure policy against Iran, the Trump Administration announced a host of new sanctions measures last quarter. U.S. authorities applied new sanctions to Iran’s financial sector and designated several non-Iranian companies for supporting Iran’s petrochemical and steel sectors. The Administration’s entrenchment efforts notably also included deliberate action to re-designate a host of Iranian individuals and entities under its counterterrorism authorities (discussed further below). The move appears designed specifically to make it more difficult for the Biden Administration to ease sanctions against Iran by making removal from U.S. sanctions lists politically more difficult.

OFAC Sanctions Key Actors Iran’s Financial & Steel Sectors

On October 8, OFAC and the State Department announced that Iran’s financial sector would be added to the list of sectors of Iranian economy subject to the restrictions contained in Executive Order 13902. That order previously authorized the imposition of primary and secondary sanctions against persons operating in Iran’s construction, mining, manufacturing, and textiles sectors. The addition of the financial sector means that sanctions may now be imposed on (i) persons operating in Iran’s financial sector; (ii) persons who have knowingly engaged in a “significant transaction” in connection with Iran’s financial sector; and (iii) persons who materially assist, sponsor, or support any person designated under E.O. 13902 for operating in Iran’s financial sector.

Simultaneously with the announcement, OFAC designated eighteen new Iranian financial institutions, including: **Amin Investment Bank, Bank Keshavarzi Iran, Bank Maskan, Bank Refah Kargaran, Bank-E Shahr, Eghtesad Novin Bank, Gharzolhasaneh Resalat Bank, Hekmat Iranian Bank, Iran Zamin Bank, Islamic Regional Cooperation Bank, Karafarin Bank, Khavarmianeh Bank, Mehr Iran Credit Union Bank, Pasargad Bank, Saman Bank, Sarmayeh Bank, Tosee Taavon Bank and Tourism Bank.**

On January 5, 2021, OFAC and the State Department jointly designated thirteen entities with varying roles in the country’s steel sector pursuant to E.O. 13871. Most notably, OFAC targeted **Kaifeng Pingmei New Carbon Materials Technology Co., Ltd. (KFCC)**, a China-based supplier of carbon materials essential for steel production, for fulfilling orders on behalf of Iranian manufacturers. OFAC also designated an additional twelve

entities, including Iranian steel companies and their foreign based sales agents. Concurrently, the State Department sanctioned **KFCC, Hafez Darya Arya Shipping Company**, a subsidiary of Islamic Republic of Iran Shipping Lines, and one of its principal executives, **Majid Sajdeh**. The State Department's designations were imposed pursuant to the Iran Freedom and Counter-Proliferation Act of 2012 for having knowingly sold, supplied, or transferred, directly or indirectly, graphite to or from Iran, and such graphite was sold, supplied, or transferred to or from an Iranian person on the SDN List.

Finally, the State Department on January 15 announced the designation pursuant to the IFCA of seven entities and two individuals in response to the transfer of grain-oriented electrical steel to Iran. Among the entities targeted were Iran-based **Islamic Republic of Iran Shipping Lines**; China-based supplier **Jiangyin Mascot Special Steel Co., LTD**; and UAE-based **Accenture Building Materials**.

Secondary Sanctions Imposed for Dealings with Iranian Petrochemical Company

OFAC acted twice this quarter to disrupt the commercial activities of Iran-based Triliance Petrochemical Co. Ltd., which was itself designated as an SDN in January 2020 pursuant to E.O. 13846 (authorizing sanctions on Iran's petrochemical sector). OFAC targeted a total of twelve entities across the world for their involvement in the sale and purchase of Iranian petrochemicals connected to Triliance. In its first action, OFAC targeted entities located in China, Iran, and Singapore for engaging in transactions facilitated by Triliance, or otherwise assisting Triliance's efforts to process and move funds generated by the sale of petrochemical products. Those designated include **Morvarid Petrochemical; Arya Sasol Polymer Company; Jiaxiang Energy Holding PTE. LTD; Binrin Limited; Elfo Energy Holding Limited; Glory Advanced Limited; Jane Shang Co. Limited; and Sibshur Limited**. In December, OFAC designated China-based **Donghai International Ship Management Limited** and **Petrochem South East Limited**, and UAE-based entities **Alpha Tech Trading FZE** and **Petroliance Trading FZE** for providing Triliance with shipping services and conducting financial transactions on its behalf.

Cyber-Enabled Election Interference Effort Prompts Sanctions

On October 22, OFAC designated five Iranian entities for their alleged attempt to influence the November 2020 U.S. presidential election. Those designated include the **Islamic Revolutionary Guard Corps, the IRGC-Qods Force, Bayan Rasaneh Gostar Institute, the Iranian Islamic Radio and Television Union and International Union of Virtual Media**. According to OFAC, the malign operations targeted readers via social media platforms and messaging applications and sought to sow discord using disinformation. The designations were made pursuant to E.O. 13848 for having directly or indirectly engaged in, sponsored, concealed, or otherwise been complicit in foreign interference in the 2020 U.S. presidential election.

OFAC Takes Aim at Conventional Arms and WMD Proliferators

Amid reports that Iran will continue to enrich its uranium stockpile beyond the limits imposed under the JCPOA, OFAC acted twice this quarter to target proliferators of weapons of mass destruction and their supporters. OFAC first acted on November 10 to designate a network of six companies and four individuals that allegedly facilitated the procurement of sensitive goods, including U.S.-origin electronic components, for Iran Communication Industries, a U.S. and EU-sanctioned Iranian military firm owned or controlled by Iran's Ministry of Defense and Armed Forces Logistics. ICI produces defense and military-related items, including military communication systems, avionics, electronic warfare, and missile launchers. The network of designated individuals and entities include **Hoda Trading, Proma Industry Co., Ltd., DES International Co., Ltd., Naz Technology Co., Ltd., Soltech Industry Co., Ltd., Artin San'at Tabaan Company, Shih Mei (Amber) Sun, Chin-Hua (Jinee) Huang, Mohammad Banihashemi and Mohammad Soltanmohammadi**. The U.S. Attorney's Office for the District of Columbia also filed a criminal complaint against two entities and one individual involved in the network. The complaint contained allegations that the parties engaged in a conspiracy to violate U.S. sanctions and export control laws.

In another action, OFAC designated chemical weapons research firm **Shahid Meisami Group** and its director, **Mehran Babri**. Shahid Meisami Group, a subordinate to the OFAC-sanctioned Iranian Organization of Defensive Innovation and Research (SPND), allegedly is responsible for several WMD-related projects that include testing and producing incapacitation agents and optimizing their effectiveness and toxicity.

The State Department built upon Executive Order 13949, issued last quarter on September 21, 2020, to impose sanctions on those who assist Iran's conventional weapons procurement. In this action, the State Department targeted three entities who allegedly manufacture weapons employed by Iran to further its malign regional operations. Specifically, the State Department sanctioned Iran's **Marine Industries Organization, Aerospace Industries Organization, and Iran Aviation Industries Organization** for engaging in activities that materially contribute to the supply of Iran with military arms, including attack boats, missiles, and combat drones. The weapons manufactured by these three entities are used by Iran's military, including the Islamic Revolutionary Guards Corps. MIO, AIO, and IAIO were all previously sanctioned pursuant to the U.S.'s WMD counterproliferation authority.

Supreme Leader's Patronage Network Faces Sanctions

On November 18, OFAC targeted the **Islamic Revolution Mostazafan Foundation**, a vast patronage network of the Supreme Leader of Iran. The Foundation comprises 160 holdings that do business in key sectors of Iran's economy, including finance, energy, construction, and mining. A total of 50 of the Foundation's subsidiaries were targeted, in addition to sanctioning members of the Foundation's leadership (some of whom are also alleged to have ties to the IRGC). Acting pursuant to E.O. 13876, which targets Iran's Supreme Leader and the Supreme Leader's Office, as well as their affiliates, OFAC alleges that Iran's Supreme Leader expropriates the Foundation's holdings to enrich himself and his allies, despite its purported charitable mission.

VENEZUELA



This quarter, OFAC continued to sanction allies of the Maduro regime, targeting, among others, a Venezuelan supplier of election voting machines and a Chinese technology firm alleged to be supplying the Maduro government with surveillance and censorship tools.

Chinese Tech Firm Sanctioned over Maduro Ties

On November 30, OFAC designated Chinese technology company **CEIEC** (a.k.a. China National Electronic Import-Export Company) as an SDN pursuant to E.O. 13692 for its support of the Maduro regime and its alleged efforts to undermine democracy in Venezuela. According to OFAC, CEIEC's surveillance tools have helped the regime engage in internet service restrictions, digital surveillance, and cyber operations against political opponents. CEIEC has also provided technical training and support for Venezuelan government officials and agencies, including the state-run telecom and internet provider Venezuelan National Telephone Company (CANTV). CEIEC's technology allowed CANTV, for example, to restrict access to websites and other screening tools that permit censorship. Concurrent with the designation, OFAC issued a general license that, for forty-five days, authorizes all transactions and activities prohibited by E.O. 13692 that are ordinarily incident and necessary to the wind-down of transactions involving CEIEC.

Efforts to Corrupt Parliamentary Elections Spark Sanctions

Last quarter, OFAC acted twice to punish individuals allegedly involved with Maduro-led schemes to undermine democracy in Venezuela by corrupting Venezuela's parliamentary elections. In December, OFAC designated Venezuelan-registered biotechnology company **Ex-Cle Soluciones Biometricas C.A.**, as well as two of its executives, **Guillermo Carlos San Agustin** and **Marcos Javier Machado Requena**, for allegedly supporting the Maduro regime in its scheme to rig the outcome of the country's recent parliamentary elections. Since 2016, **Ex-Cle C.A.** has served as the electoral hardware and software vendor to the Maduro regime, including the regime's indirect purchase of voting machines from vendors subject to OFAC sanctions.

OFAC Sanctions Judge and Prosecutor of “CITGO 6”

On December 30, OFAC announced the SDN designations of Venezuelan judge **Lorena Carolina Cornielles Ruiz** and prosecutor **Ramon Antonio Torres Espinoza**, for their involvement in prosecuting and sentencing the so-called “Citgo Six,” a group of six U.S. persons, all former oil executives, convicted on corruption charges in 2017. In designating the Venezuelan judge and prosecutor, OFAC stated that the executives were lured to Caracas under false pretenses, unjustly detained, and sentenced after a trial that lacked fair trial guarantees.

US. Continues to Target Venezuelan Oil Exports

On January 19, 2021, OFAC and the State Department designated three individuals, fourteen entities, and six vessels allegedly involved in the illicit sale of Venezuelan oil. The sanctions evasion scheme, OFAC noted, is tied to a broader network orchestrated by the Maduro regime, state-owned oil company PdVSA, and sanctioned individual Alex Nain Saab Moran to facilitate the sale, brokering, and transport of oil. Chief among those designated in this action were **Alessandro Bazzoni, Francisco Javier D’Agostino Casado, Philipp Paul Vartan Apikian, Elemento Ltd, and Swissoil Trading SA**. OFAC alleges that Bazzoni and D’Agostino orchestrated the lifting and sale of Venezuelan oil to third parties by Elemento, as well as the transport of oil cargos to customers in Asia by Swissoil.

Chevron and oil-service providers Halliburton Co., Schlumberger Ltd., Baker Hughes Co. and Weatherford International Plc received another extension to carry out transactions that are essential to preserve their assets in Venezuela, keep employees safe, and pay contractors. General License 8G, issued on November 17, extends the authorization for these limited activities until June 3, 2021. GL 8G still does not allow these companies to engage in drilling activities, nor can they sell, buy, or transport oil products. Beset by low production volumes, Venezuela is seeking ways to increase petroleum outputs which have been reduced further by crippling sanctions. In January 2021, PdVSA reportedly warned foreign oil companies with whom it has joint venture projects to either increase production volumes or be subject to having their license to operate in the country reviewed.

COUNTERTERRORISM DESIGNATIONS



The Trump Administration's aggressive posture towards Cuba culminated on January 11, 2021 when the State Department designated Cuba as a state sponsor of terrorism, adding the island nation to a list that includes only Syria, Iran, and North Korea. The move reverses an Obama era policy that removed Cuba from the list nearly five years ago. Secretary of State Mike Pompeo stated that Cuba repeatedly provid[es] support for acts of international terrorism in granting safe harbor to terrorists. The move is more than symbolic, as it carries with it a host of potential punitive measures, including restrictions on U.S. foreign assistance; a ban on defense exports and sales; certain controls over exports of dual use items; and other financial restrictions. The move also makes it more difficult for the Biden Administration to roll-back the Trump Administration's reversal of the Obama Administration's opening of relations with Cuba. In addition to domestic political considerations, removal requires a formal State Department review, a presidential certification to Congress, and a forty-five day waiting period during which Congress can object to the removal.

On October 19, 2020, pursuant to E.O. 13224, OFAC designated **Ahmed Luqman Talib** as specially designated global terrorist and **Talib and Sons** as being owned, controlled, or directed by him. According to OFAC, Talib, who is based in Australia, assisted and supported AL-Qa'ida's global terrorist activities. He allegedly helped move individuals and funds in respect of the organization's objectives. Additionally, Talib allegedly provided critical financial and technological support to AL-Qa'ida's operations in Brazil, Colombia, Sri Lanka, Tanzania, Turkey, and the Gulf.

On October 22, 2020, OFAC designated **Nabil Qaouk** and **Hassan Al-Baghdadi** for their alleged leadership roles in Hizballah. According to OFAC, Qaouk served on Hizballah's Executive Council and its Central Council and delivered speeches on behalf of the organization to commemorate deceased Hizballah members. Baghdadi allegedly also participated in political events and delivered speeches on behalf of Hizballah, defending the organization's targeting of American citizens.

On the same day, OFAC also designed the Iranian Ambassador to Iraq, **Iraj Masjedi** for overseeing a program to train and support Iraqi militia groups, which the agency alleges are responsible for attacks on U.S. and coalition forces in Iraq. Masjedi allegedly facilitated financial transfers on behalf of Iran's Islamic Revolutionary

Guard Corps-Qods Force (IRGC) and obtained tens of billions of dinars on behalf of IRGC in Iraq. Likewise on October 22, 2020, OFAC designated three Iranian entities for attempting to influence U.S. elections, naming **Bayan Rasaneh Gostar Institute, International Union of Virtual Media, and Islamic Radio and Television Union** for their alleged role in the Iranian disinformation effort during the presidential election cycle.

On October 26, 2020, pursuant to E.O. 13224, OFAC designated eleven entities and eight individuals as a part of its global crackdown on the illicit sale of Iranian oil and petroleum products, including sales to fund the Maduro regime in Venezuela and the Assad regime in Syria. OFAC designated **Atlantic Ship Management Company, Atlas Ship Management, Imam Khomeini Shazand Oil Refining Company, Iranian Oil Pipelines and Telecommunication Co., Mobin Holding Limited, Mobin International Limited, National Iranian Oil Engineering and Construction Company, National Iranian Oil Products Distribution Company, National Iranian Oil Refining and Distribution Company** and **Oman Fuel Trading Ltd** in connection with these efforts, as well as the Iranian government's **Ministry of Petroleum**. The designation efforts extend also to the following individuals, designated for their role in the transport and sale of oil products in contravention of U.S. sanctions: **Masoud Karbasian, Mahmoud Madanipour, Behzad Mohammadi, Ali Akbar Purebrahim, Alireza Sadiqabadi, Nasrollah Sardashti, Bijan Zanganeh** and **Viyan Zanganeh**. Relatedly, OFAC also designated the vessels **Longbox Lake** and **Wu Xian** as property of the National Iranian Oil Company.

On November 17, 2020, OFAC designated two senior leaders of al-Shabaab, **Abdullahi Osman Mohamed** and **Maalim Ayman** for their alleged involvement in the Somalia-based group's terrorist activities. OFAC alleges that Osman Mohamed served as an explosives expert and is responsible for al-Shabaab's explosives operations. Maalim Ayman allegedly leads Jaysh Ayman, an al-Shabaab unit responsible for terrorist attacks in Kenya and Somalia, including an attack that killed several Americans in Kenya in January 2020.

On December 8, 2020, OFAC acted pursuant to E.O. 13224 to curtail the activities of **Al-Mustafa International University** as a recruiting ground for the IRGC. The university allegedly develops exchanges with foreign universities to indoctrinate and recruit foreign sources and collect intelligence. Recruits of the university have allegedly been sent to Syria to fight on behalf of IRGC-led militias. Relatedly, OFAC also designated Pakistani national **Yousef Ali Muraj** for his involvement in IRGC's efforts to coordinate operations in the Middle East and the U.S. and **Hasan Irlu**, an official in the Revolutionary Guard and Iranian envoy to the Houthi rebels in Yemen, for his alleged role in providing weapons and training to the Houthis on behalf of IRGC.

On December 11, 2020, OFAC designated **Ashraf al-Qizani** for his alleged role as the emir of Jund al-Khilafah, an ISIS affiliate in Tunisia. According to OFAC, Jund al-Khilafah, an organization that pledged its allegiance to ISIS in 2014, carried out a number of attacks in Tunisia under the leadership of al-Qizani.

As part of a busy final few weeks for the outgoing Administration, on January 12, 2021, pursuant to E.O. 13224, OFAC designated **Muhammad Abbatay, Isma'il Fu'ad Rasul Ahmed, Sultan Yusuf Hasan al-'Arif, Fuad Ahmad Nuri Ali al-Shakhan**, and **Niamat Hama Rahim Hama Sharif** as specially designated global terrorists. According to OFAC, Abbatay and al-'Arif, both based in Iran, serve in al-Qa'ida's senior leadership. OFAC also alleges that Ahmed, al-Shakhan, and Sharif serve as leaders of the al-Qa'ida Kurdish Battalions, an al-Qa'ida-linked group situated on the border between Iran and Iraq.

On January 13, 2021, OFAC designated **Ahmad Marvi** and **Mohammad Mokhber** for their alleged leadership roles in organizations connected to the Iranian Supreme Leader Ali Khamenei. According to OFAC, Mokhber serves as head of the Execution of Imam Khomeini's Order (EIKO), which had previously been designated by OFAC and which operates in nearly every economic sector to bolster the financial interests of the Iranian government. Marvi allegedly leads the **Astan Quds Razavi (AQR)**, a charitable organization overseeing the operations of a shrine in Mashhad, Iran and designated for its vast economic interests in several sectors, including logistics, mining, energy, manufacturing, and financial services, on behalf of the Supreme Leader. OFAC designated other entities for their direct financial link to (1) EIKO: **Tadbir Drilling and Development Company, Abadan Power Generation Company, Iran Mobin Electronic Development Company** and **Barkat Ventures** and (2) AQR: **Razavi Economic Organization, Shahab Khodro Co., Iran Combine Manufacturing Co., Quds Razavi Housing and Construction Co., Quds Razavi Mines Co., Quds Razavi Traditional Tile Co., Razavi**

Brokerage Firm, Razavi Oil and Gas Development Co., Razavi Supply Chain Management Co., Razavi Information and Communication Technology Co., and Mofidrahbar Audit Firm.

On the same day, OFAC designated **Abd al-Aziz Malluh Mirjirash al-Muhammadawi** for his alleged role as the former secretary general of Kata'ib Hizballah, an Iran-backed terrorist organization operating in Iraq. The group allegedly orchestrated attacks on peaceful protesters and activists in Iraq and other terrorists related to the group abducted hundreds of men from areas liberated from ISIS control.

On the next day, January 14, 2021, pursuant to E.O. 13224, OFAC designated **Alaa Ali Ali Mohammed al-Samahi** and **Yahya al-Sayyid Ibrahim Musa** for their leadership roles in Harakat Sawa'd Misr, a Foreign Terrorist Organization active in Egypt. According to OFAC, Musa and al-Samahi are Turkey-based leaders of the group and participated in planning terrorist attacks on an embassy and hospital in Cairo.

OFAC TARGETS HUMAN RIGHTS ABUSERS AND CORRUPT ACTORS



Last quarter, OFAC announced a number of sanctions pursuant to E.O. 13818, which builds upon and implements the Global Magnitsky Human Rights Accountability Act to sanction alleged human rights abusers:

- On November 6, OFAC announced the designation of **Gibran Bassil**, the President of the Free Patriotic Movement political party and Member of Parliament in Lebanon. OFAC alleges that Bassil has long been at the forefront of systemic corruption that pervades the Lebanese government. In particular, Bassil is alleged to have used his high-ranking positions in the Lebanese government to appoint personal allies to government positions and misuse public funds.
- On December 9, OFAC targeted a host of corrupt actors in Africa and Asia. For corrupt acts in Liberia, OFAC designated prominent lawyer and public official **Harry Varney Gboto-Nambi Sherman**, who allegedly offered bribes to judges associated with his trial for a 2010 bribery scheme. OFAC further alleges that Sherman had an undisclosed conflict of interest with the judge who ultimately returned a not guilty verdict in connection with a July 2019 trial alleging bribery. For his participation in a customs scheme that laundered at least \$700 million from the Kyrgyz Republic, OFAC designated **Raimbek Matraimov**. According to OFAC, Matraimov worked on behalf of a company to clear through customs expensive products as low value goods and would distribute bribes to ensure that cash and goods would pass through the borders of the Kyrgyz Republic. Lastly, OFAC designated **Wan Kuok Koi**, also known as “**Broken Tooth**,” as well as three entities under his control. Broken Tooth is a leader of the Chinese criminal organization called 14K Triad. According to OFAC, 14K Triad engages in, among other criminal activities, drug trafficking, illegal gambling, racketeering, and human trafficking.
- On December 10, OFAC designated alleged human right abusers in Haiti, Yemen, and Russia. Among those designated were **Jimmy Cherizier**, **Fednel Monchery**, and **Joseph Pierre Richard Duplan**, all of whom are alleged to be involved in the planning and carrying out of the 2018 La Saline attack in Haiti, during which at least 71 people were killed and over 400 houses were destroyed. In Yemen, OFAC designated numerous officials of three security and intelligence agencies, the National Security Bureau,

the Political Security Organization, and the Criminal Investigation Department for engaging in human rights abuses, including arbitrary detention and torture. Finally, in Russia, OFAC targeted **Ramzan Kadyrov**, the Head of the Chechen Republic and an organization called the Kadyrovtsy. According to OFAC, the Kadyrovtsy were involved in the murder of Putin-opposed politician named Boris Nemtsov.

- Finally, on January 15, 2021, OFAC sanctioned Cuba's **Ministry of Interior** and **General Lazaro Alberto Álvarez Casas**, the Minister of Interior, for alleged serious human rights abuses in Cuba. Specialized units within the Ministry of Interior are responsible for monitoring political activity and target dissident individuals for arrest by Cuba's police. As just one example, the State Department highlighted the arrest and physical abuse of dissident Joe Daniel Ferrer, who was allegedly held in isolation and beaten, and offered no medical attention.

U.S. officials also targeted specific actors for alleged human rights abuses in Iran. On November 18, OFAC designated Iran's Minister of Intelligence and Security **Mahmoud Alavi**, pursuant to E.O. 13553 for his alleged role in human rights abuses against Iranian citizens who engaged in protests. In a related action, the U.S. State Department sanctioned IRGC military officials under Section 7031(c) Department of State, Foreign Operations, and Related Programs Appropriations Act of 2020 for their involvement in gross violations of human rights. The State Department alleges that Brigadier General **Heidar Abbaszadeh** and IRGC Colonel **Reza Papi** were involved in the killing of nearly 150 individuals in the city of Mahshahr during anti-regime protests in November 2019.

On December 14, the State Department imposed sanctions on two Iranian intelligence officers allegedly involved in the March 2007 abduction of Robert ("Bob") Levinson. Specifically, **Mohammad Baseri** and **Ahmad Khazai** were designated for acting in their capacity as officers of designated entity Ministry of Intelligence and Security. OFAC alleges that these officers were involved in the abduction, detention, and probable death of Mr. Levinson. Both were designated pursuant to E.O. 13553 for acting for or on behalf of MOIS.

On January 15, 2021, the Trump Administration eased sanctions against Dan Gertler, the Israeli billionaire sanctioned in 2017 for alleged corruption in the Democratic Republic of the Congo. Although Mr. Gertler was not removed from OFAC's SDN list, OFAC issued a license which authorized, through January 2022, U.S. institutions to lift asset freezes and conduct transactions on behalf of Mr. Gertler and the companies he owns. Mr. Gertler was twice sanctioned by OFAC for leveraging his friendship with former-DRC president Joseph Kabila to secure hugely lucrative mining contracts. Acting as a "middleman for mining asset sales" in the DRC, OFAC at the time alleged that Gertler realized over a billion dollars in revenues from the underpricing of mining assets that were sold to companies linked to Gertler.

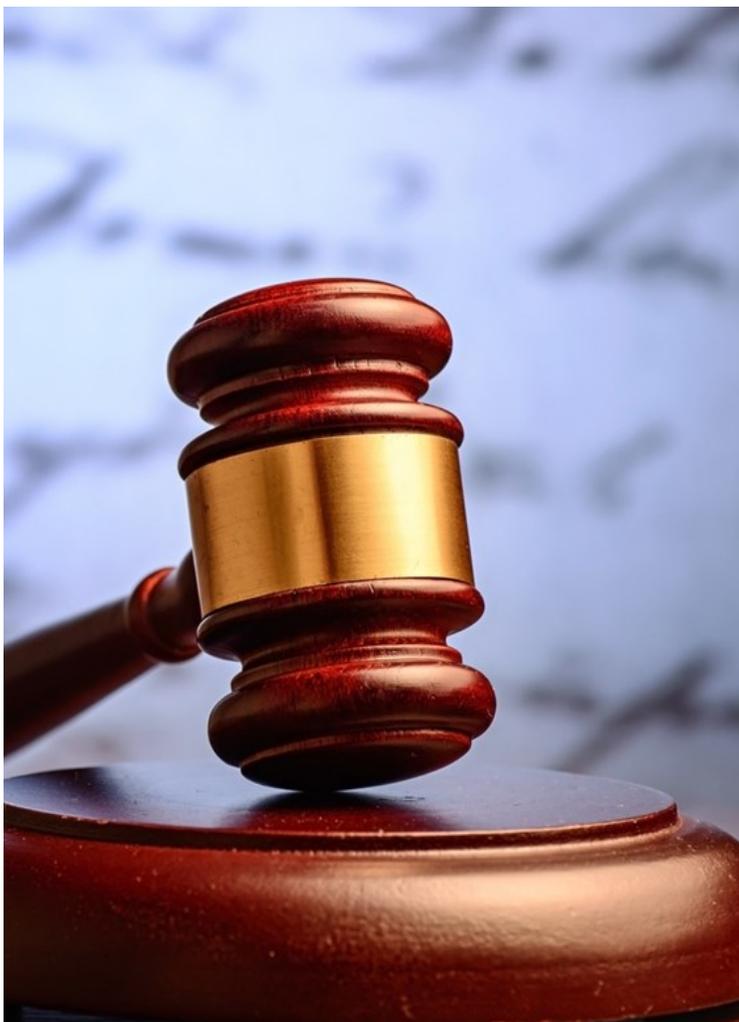
OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS



Pursuant to the Kingpin Act, on December 1, 2020, OFAC designated four Colombian individuals, **Jhon Fredy Zapata Garzon**, **Tatiana Marguerid Zapata Garzon**, **Euclides Correa Salas**, and **Einer Murillo Palacios**, for their alleged involvement in a cocaine trafficking organization known as the Clan del Golfo (also known as Los Urabeños). Los Urabeños was designated as a narcotics trafficker in 2013 and has since evolved into the largest armed criminal organization in Colombia with operations in Colombia, Panama, and other Central American countries. In connection with these individual designations, OFAC also designated four companies, **Las Ingenierias S.A.S.**, **Fresno Home S.A.S.**, **Districor S.A.S.**, and **Multioperaciones de Occidente S.A.S.**, as owned or controlled by the four associates listed above. The companies are allegedly used to facilitate movement of cocaine and illicit drugs and to launder the proceeds of the drug trafficking operation.

On December 2, 2020, OFAC designated Mexican national **Lucia Rodriguez Serrano** for his work on behalf of Rafael Caro Quintero, a Mexican narcotics trafficker allegedly responsible for the death of DEA agent Enrique Camarena in 1985. According to OFAC, Rodriguez Serrano has helped Caro Quintero, who remains on the FBI's list of Ten Most Wanted Fugitives, evade capture by U.S. authorities

ENFORCEMENT ACTIONS



On October 20, **Berkshire Hathaway, Inc.**, the Nebraska-based holding company, and its foreign subsidiary in Turkey, **Iscar Kesici Takim Ticareti ve Imalati Limited Sirket** (“**Iscar Turkey**”), agreed to pay \$4,144,651 to settle potential civil liability arising from 144 apparent violations of Iran sanctions. Between December 2012 and January 2016, Iscar Turkey allegedly exported 144 shipments of cutting tools and related inserts to two third-party distributors knowing that the shipments were destined for end-users in Iran. Iscar Turkey also purchased goods produced by other Berkshire subsidiaries to fulfill orders destined for Iranian end-users. According to OFAC, at the time of the apparent violations, managers at Iscar Turkey believed that U.S. and EU sanctions on Iran would be lifted. In an effort to position Iscar Turkey for that possibility, the managers established a small commercial relationship with an Iranian distributor and used techniques designed to conceal its plans with the Iranian distributor. These techniques included using private email addresses and false names to bypass corporate controls, as well as providing false assurances to compliance inquiries. In setting the penalty amount, OFAC determined that Berkshire voluntarily disclosed the conduct and that the apparent violations constituted an egregious case.

On December 28, Saudi Arabia-headquartered **National Commercial Bank** agreed to settle its potential civil liability for thirteen apparent violations of the Sudanese Sanctions Regulations and the Syrian Sanctions Regulations. Between November 2011 and August 2014, OFAC alleges that NCB processed thirteen U.S. dollar transactions to the benefit of Sudanese and Syrian counterparties. According to OFAC, none of those counterparties was an actual customer of NCB. In determining the \$653,347 penalty, OFAC noted that NCB has undertaken efforts to modernize its compliance controls, and that the transactions constituted a non-egregious case.

On December 30, OFAC announced a settlement agreement with U.S.-based **BitGo, Inc.**, a technology company that specializes in security and management services for digital currencies. For 183 apparent violations of multiple sanctions programs, BitGo agreed to pay \$98,830 to settle its potential civil liability. According to OFAC, between March 2015 and December 2019, BitGo processed transactions on behalf of numerous persons in sanctioned jurisdictions, including the Crimea region of Ukraine, Cuba, Iran, Sudan, or Syria that were using BitGo’s non-custodial secure digital wallet management service. OFAC stated that BitGo had reasons to believe that its users were located in sanctioned jurisdictions but that its sanctions compliance program did not have controls designed to prevent such user from accessing its “hot wallet” and digital currency trading platform. Specifically, while BitGo had in place a mechanism to track IP addresses to see where their customers logged into their accounts, BitGo did not use this mechanism as a sanctions screening tool. As a result, users in prohibited countries were able to access and trade digital currencies despite BitGo having the knowledge sufficient to prevent such access.

On January 14, 2021, Indonesian paper manufacturer **PT Bukit Muria Jaya** agreed to settle its potential civil liability for twenty-eight apparent violations of the North Korea Sanctions Regulations between March 2016 and May 2018. According to the settlement agreement, BMJ exported cigarette papers to entities in the Democratic Republic of North Korea and to an entity in China for the benefit of a person blocked by U.S. sanctions. Payments for these sales were then directed by BMJ to an account held at a non-U.S. financial institution. Because the non-U.S. account was maintained in U.S. dollars, however, BMJ caused U.S. banks to clear wire transfers related to the paper exports. In determining the \$1,016,000 penalty, OFAC noted that BMJ voluntarily disclosed the apparent violations and that they constituted a non-egregious case.

French Bank Fined for Internal USD Transfers on Behalf of Syrian Client

OFAC entered into a settlement with **Union de Banques Arabes et Françaises** on January 4, 2021 for apparent violations of the U.S. government's Syrian sanctions program related to financial services provided to a sanctioned entity in Syria. For several of the transactions in question, the bank conducted an internal foreign exchange transfer with the sanctioned entity on its own books, in which it debited the entity's account in one currency and credited the same account in another currency. To balance its foreign currency reserves, UBAF then completed U.S.-cleared foreign exchanges with a non-sanctioned third party. Importantly, although those U.S.-cleared transactions (which correlate to OFAC's jurisdictional hook) were not consummated with a sanctioned entity, OFAC nonetheless viewed the transactions as being made on behalf of the sanctioned Syrian client and thus prohibited. Of note, the bank also processed U.S. dollar transfers between a non-sanctioned client and a sanctioned client, and then processed transfers on behalf of the non-sanctioned client through the U.S. banking system—a step removed but still in apparent violation of OFAC sanctions.

Given the number (and value) of transactions, the statutory maximum penalty for the conduct amounted to over four billion dollars. Significantly, as UBAF had a compliance program in place at the time of the apparent violations and as it voluntarily self-disclosed the conduct to OFAC, the agency assessed only \$8,527,500 in civil penalties to resolve the conduct—roughly half of the base penalty amount of \$15,870,000.

This settlement again highlights that even an attenuated connection is sufficient for OFAC enforcement and the carefulness with which financial institutions must operate when conducting U.S. dollar transactions. In this case, USD transactions to balance the foreign exchange obligations of the bank in respect of its prior internal transfers on behalf of a sanctioned entity qualified as apparent violations of U.S. sanctions. Similarly, U.S.-cleared transactions on behalf of a non-sanctioned client may also be subject to sanction if those transactions closely correlate to (and follow) internal transfers with sanctioned entities.

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