

# Locke Lord QuickStudy: OFAC Oil Price Cap Alert, OPC Violations, and Russian Diamond Ban

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On February 1, 2024 the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") issued a comprehensive "Oil Price Cap Compliance and Enforcement Alert" (the "Alert") to bolster enforcement of the Russian oil price cap ("OPC"); the OPC was issued in December 2022 by the Oil Price Cap Coalition ("PCC") to prohibit the use of PCC member services to transport Russian oil at prices above the OPC. On February 8, 2024, OFAC announced its second price cap enforcement action of 2024.

Also on February 8, 2024, OFAC issued General License ("GL") 87 ("Authorizing Limited Safety and Environmental Transactions Involving Certain Persons or Vessels Blocked on February 8, 2024") and two determinations ("Prohibitions Related to Imports of Diamond Jewelry and Unsorted Diamonds of Russian Federation Origin and Diamond Jewelry and Unsorted Diamonds Exported From the Russian Federation" and "Prohibitions Related to Imports of Certain Categories of Diamonds") imposing phased restrictions on the importation of Russian diamonds.

## The Alert

The Alert builds upon the "Coalition Statement on Price Cap Rule Updates" issued on December 20, 2023 and prior guidance from the PCC, including the "Price Cap Coalition Advisory for the Maritime Oil Industry and Related Sectors" published on October 12, 2023, "Possible Evasion of the Russian Oil Price Cap" alert issued on April 17, 2023, "Guidance on Implementation on the Price Cap Policy" issued on February 3, 2023, and revised on December 20, 2023, and other various alerts from the UK and the EU.

The Alert reinforces OFAC and the PCC's commitment to safeguarding global energy security while curbing funds that could support Russia's war against Ukraine. The Alert emphasizes the significance of complete and accurate OPC attestations, highlighting the potential misuse of falsified documents to disguise the true price and origin of Russian oil. Companies are urged to adopt appropriate due diligence measures, conduct risk assessments, and verify documentation to mitigate OPC violations. The Alert underscores the manipulation of shipping costs to obfuscate oil prices above the cap. With revised compliance measures, including attestations and transparent ancillary cost sharing, companies are encouraged to scrutinize billing practices and report any potential OPC evasion linked to shipping and ancillary costs.

The Alert highlights tactics that shippers may be using to evade the OPC by employing third-country intermediaries and complex finance structures. Shippers are advised to conduct enhanced due diligence to identify risks and illegitimate practices, emphasizing the importance of regular reviews of entities engaged in Russian oil

trade. Shippers are encouraged to collaborate and share information, and conduct enhanced compliance and KYC checks for vessels using suspicious activities.

The Alert also highlights the growing use of older vessels, known as the “shadow” fleet, to evade OPC requirements. Companies are advised to undertake enhanced due diligence for vessels fitting this description and report evidence of tanker sales contributing to the shadow fleet.

Please see our prior QuickStudies regarding the OPC: (i) OFAC Sanctions New Russian Price Cap Violator and Publishes General Licenses and FAQ, January 2024; (ii) OFAC Targets Maritime Companies & Vessels for Violating Russian Oil Price Cap & Issues Related General Licenses, January 2024; (iii) Oil Price Cap Violations & New OFAC GL for Crew Health and Safety and Safety of Blocked Vessels, November 2023; (iv) Russian Oil Price Cap Advisory and Violation & Issuance of Russia-Related General License, October 2023; (v) OFAC Russia Related Sanctions Update: November 29, 2022 Relating to the Extension of GL 13 and the Russian Oil Price Cap; and (vi) G7 Coordinated Effort to Implement a Price Cap on Russian Oil and Petroleum Products: September 27, 2022

### **Enforcement Action**

OFAC sanctioned four entities and certain vessels involved in OPC violation schemes that occurred in late 2023. Zeenit Supply and Trading DMCC, and Talassa Shipping DMCC, both based in the United Arab Emirates, were caught shipping multiple cargoes of Russian Urals crude oil in violation of the OPC. These entities shared a business manager and were founded within a week of each other in July 2022, indicating a coordinated effort.

The Liberia-registered NS Leader Shipping Incorporated (“NS Leader Shipping”, whose vessel NS Leader called in five Russian ports in 2023, was implicated in the violation and sanctioned by OFAC. Oil Tankers SCF Mgmt FZCO (“SCF MGMT FZCO”), managing vessels beneficially owned by the Government of the Russian Federation, was also sanctioned for its role in being instrumental in facilitating crude oil exports in violation of the price cap.

### **GL**

GL 87 authorizes, through May 8, 2024, transactions that are ordinarily incident and necessary to the following limited activities involving the SCF MGMT FZCO, NS Leader Shipping, and their controlled subsidiaries (collectively, “Blocked Persons”): (1) ensuring the secure docking and anchoring of, or any part of any vessels in which any Blocked Person has a property interest (“Blocked Vessels”); (2) safeguarding the health or safety of the crew of any of the Blocked Vessels; or (3) conducting emergency repairs of any of the Blocked Vessels, or carrying out environmental mitigation or protection activities linked to any of the Blocked Vessels. However, any payments to the Blocked Vessels or Blocked Persons must be made into a blocked account.

### **Determinations**

OFAC issued two determinations to implement G7 commitments made in December 2023, to restrict Russian diamond trade by prohibiting the importation of certain categories of diamonds mined in Russia and diamond jewelry and unsorted diamonds of Russian Federation origin or exported from Russia. These prohibitions are

intended to reduce Russian revenue derived from the diamond trade.

In accordance with Executive Order (“EO”) 14068 of March 11, 2022, as amended by EO 14114 of December 22, 2023, the importation and entry into the United States of diamond jewelry and unsorted diamonds originating from the Russian Federation are prohibited, effective from March 1, 2024 for non-industrial diamonds with a weight of 1.0 carat or greater, and September 1, 2024 for non-industrial diamonds with a weight of 0.5 carats or greater. There are limited exceptions granted by law or with authorization from OFAC.

Additionally, effective March 1, 2024, the second directive, based on EO 14068 as amended by EO 14114, imposes prohibitions on importing diamond jewelry and unsorted diamonds from the Russian Federation into the United States. The restrictions apply to products of Russian Federation origin, including those exported from Russia. Exceptions may be allowed by law or with authorization from OFAC.

OFAC’s recent sanctions mark an increased scope and intensity of enforcement. The inclusion of diamond-related prohibitions demonstrates a broader commitment to curbing Russian revenue across multiple sectors. This comprehensive approach aligns with the evolving landscape of geopolitical challenges, requiring multifaceted responses to address diverse revenue streams supporting Russia’s war on Ukraine and other illicit activities.

OFAC’s recent moves also demonstrates its commitment to international cooperation by coordinating sanctions with other nations such as the OPC with the PCC and ban on Russian diamonds with the G7. OFAC’s actions continue to be aligned with its broader diplomatic initiatives and efforts to curb activities contrary to U.S. foreign policy objectives.

## **Conclusion**

This paper is intended as a guide only and is not a substitute for specific legal or tax advice. Please reach out to the authors for any specific questions. We expect to continue to monitor the topics addressed in this paper and provide future client updates when useful.

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