

Locke Lord QuickStudy: U.S. Sanctions Persons Supplying Russia's Military-Industrial Base and Issues New Related General Licenses

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On December 12, 2023, the Department of the Treasury's Office of Foreign Assets Control ("OFAC") and the U.S. Department of State ("DOS") sanctioned more than 250 individuals and entities by adding them to the List of Specially Designated Nationals and Blocked Persons ("SDNs"). Specifically, these persons have assisted Russia in its war against Ukraine by aiding Russia to obtain U.S. goods in violation of U.S. sanctions and export controls. As Russia's efforts to enlist third parties to assist in the evasion of U.S. sanctions increase, the U.S. is ramping up its efforts to identify and sanction those who assist Russia's war against Ukraine.

OFAC concurrently issued [General Licenses \("GL"\) 79](#) and [GL 80](#) related to the [Russian Harmful Foreign Activities Sanctions Regulations](#), 31 CFR part 587 (the "RuHSR") to allow for the wind-down of existing transactions with these persons.

SDN Designations

OFAC has designated over 150 individuals and entities domiciled in China, Hong Kong, Türkiye, Pakistan, Switzerland, Singapore, Russia, and the UAE as SDNs. These entities have been sanctioned for their involvement to facilitate the transfer of critical technology, equipment, and materials to support Russia's military-industrial base. A substantial number of these items are classified as "common high priority items," which Russia actively seeks for its weapons programs.

Common High Priority Items break down into a four-tier list as follows:

- Tier 1: Items of the highest concern due to their critical role in the production of advanced Russian precision-guided weapons systems, Russia's lack of domestic production, and limited global manufacturers.
- Tier 2: Additional electronics items for which Russia may have some domestic production capability but a preference to source from the United States and its partners and allies.
- Tier 3.A: Further electronic components used in Russian weapons systems, with a broader range of suppliers.
- Tier 3.B: Mechanical and other components utilized in Russian weapons systems.
- Tier 4: Manufacturing, production and quality testing equipment for electric components, circuit boards and modules.

Additionally, the sanctions extend to Russia-based entities engaged in the importation, production, modification, and the sale of defense-related and industrial technology. This includes unmanned aerial vehicles, machinery

parts, inputs, and components. The aim is to curtail the activities of these entities contributing to Russia's military capabilities. Furthermore, in an effort to disrupt Russia's connection to the global financial system, OFAC has also sanctioned various Russian financial institutions operating within the financial services sector of the Russian economy. This measure is intended to limit Russia's access to international financial resources and curb its financial support for military endeavors.

Simultaneously, the DOS [sanctioned](#) more than 100 entities and individuals who were also involved in assisting Russia to evade sanctions, thereby enhancing Russia's capability to carry out its warfare against Ukraine and bolstering Russia's future energy production and export capacity. As a component of this initiative, the DOS has specifically identified entities participating in the proliferation of military equipment and munitions from North Korea to Russia.

As a result of the actions of OFAC and the DOS, all property and interest of the designated persons or in the possession or control of U.S. persons are blocked and must be reported to OFAC. In addition, any entities that are owned, directly or indirectly, individually or in the aggregate, 50% or more by one or more of these blocked persons are also blocked. Unless granted explicit authorization through a specific or general license, U.S. persons are generally restricted from engaging in transactions with any SDN.

GLs

[GL 79](#) authorizes the wind-down of any transaction involving any of the following blocked entities ("GL 79 Blocked Entities") through March 11, 2024, provided that any payment to a blocked person is made into a blocked account: (1) Limited Liability Company Kyiv Square; (2) Highland Gold Mining Limited; (3) Limited Liability Company Kismet Capital Group; or (4) any entity in which GL 79 Blocked Entities own, directly or indirectly, a 50% or greater interest.

We note that OFAC has issued guidance that requires U.S. persons to "wind-down" transactions with SDNs in a metered, reducing manner. In other words, U.S. persons' transactions with SDNs during a wind-down cannot stay consistent with prior trade, nor increase in frequency or quantity, or "stock-up," in advance of the closing of the term.

[GL 80](#) authorizes U.S. persons, until March 11, 2024, to transfer, divest or facilitate the divestment or transfer of debt or equity ("Covered Debt or Equity") to a non-U.S. person of Highland Gold Mining Limited ("Highland Gold"), or any entity in which Highland Gold owns, directly or indirectly, a 50% or greater interest ("GL 80 Blocked Entities"); provided the Covered Debt or Equity was purchased prior to December 12, 2023 and any payments to GL 80 Blocked Entities are made into a blocked account. All transactions prohibited by [Executive Order 14024](#) that are ordinarily incident and necessary to facilitate, process and settle trades of Covered Debt or Equity placed prior to 4:00 p.m. eastern daylight time on December 12, 2023, are also authorized through March 11, 2024. Furthermore, GL 80 permits through March 11, 2024, transactions ordinarily incident and necessary to the wind down of derivative contracts entered into prior to 4:00 p.m. eastern standard time on December 12, 2023, which involve a GL 80 Blocked Entities or are associated with Covered Debt or Equity, provided that any payments to a blocked person are made into a blocked account.

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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