U.S. imposes new sanctions and export controls against Russia

24 June 2024

On June 12, 2024, the U.S. Department of Treasury (Treasury), U.S. Department of State (State), and U.S. Department of Commerce (Commerce) announced another round of sanctions and export controls targeting Russia. In this alert, we provide an overview of these measures and key takeaways.

Additional blocking sanctions

Treasury and State imposed blocking sanctions on over 300 individuals and entities both inside and outside Russia, including in Asia, the Middle East, Europe, Africa, Central Asia, and the Caribbean. These sanctions target:

- Russia's financial infrastructure, including the Moscow Exchange (MOEX) and its subsidiaries;
- individuals, entities, and networks engaged in sanctions evasion, circumvention, and backfill (e.g., those that help facilitate Russia's acquisition of technology and equipment from abroad);
- Russia's domestic war economy, including more than 100 entities that operate or have operated in the defense and related materiel, manufacturing, technology, transportation, or financial services sectors of the Russian economy;
- entities involved in liquefied natural gas and oil development projects that Russia hopes to bring online in the future; and
- entities based in the People's Republic of China, Belarus, and other third countries that have been supporting Russia's war effort.

As a result of the Treasury and State designations, all property and interests in property of these individuals and entities must be blocked when in the United States or in the possession or control of a U.S. person. In addition, the new sanctions prohibit all transactions or dealings by U.S. persons (or by non-U.S. persons with a nexus to the United States) involving blocked persons or their property or interests in property, including:

- the making of any contribution or provision of funds, goods, or services by, to, or for the benefit of any blocked persons; and
- the receipt of any contribution or provision of funds, goods, or services from any such persons.

Pursuant to the so-called 50 Percent Rule, blocking sanctions extend to any entities owned 50% or more, directly or indirectly, by one or more blocked persons. Treasury also has the authority to impose sanctions on non-U.S. persons for providing material support or assistance to blocked persons.

Expanded secondary sanctions risk for non-U.S. financial institutions

Treasury expanded the scope of activities that could expose non-U.S. financial institutions to secondary sanctions risk under Executive Order 14024, as amended by Executive Order 14114 (EO 14024). Specifically, Treasury broadened the definition of Russia's military-industrial base to include all persons blocked pursuant to EO 14024. As a result, non-U.S. financial institutions now risk being sanctioned for conducting or facilitating significant transactions, or providing any service, involving such persons. This includes services provided to designated Russian financial institutions such as VTB Bank, Sberbank, and others.

Measures targeting IT and cloud-based services and related software

Treasury, in consultation with State, issued a new determination pursuant to Executive Order 14071 (EO 14071), which prohibits the exportation, re-exportation, sale, or supply, directly or indirectly, from the United States or by a U.S. person, of (i) IT consultancy and design services, and (ii) IT support services and cloud-based services for enterprise management software and design and manufacturing software, to any person located in the Russian Federation. This new determination, effective September 12, 2024, is subject to certain limited exclusions, including an exclusion for any service for software that does not require a license to export, re-export, or transfer such software to or within Russia.

Separately from, but related to, the determination under EO 14071, Commerce imposed a new license requirement for certain software when destined for Russia. A license is now required to export, re-export, or transfer to or within Russia the following types of U.S.-origin software:

- enterprise resource planning (ERP);
- customer relationship management (CRM);
- business intelligence (BI);
- supply chain management (SCM);
- enterprise data warehouse (EDW);
- computerized maintenance management system (CMMS);
- product lifecycle management (PLM);
- building information modelling (BIM);
- computer-aided design (CAD);
- computer-aided manufacturing (CAM); and
- engineering to order (ETO).

This license requirement, effective September 16, 2024, also extends to software updates of the software described above.

New export controls on additional items destined for Russia

Commerce added controls on more than 500 additional six-digit Harmonized Tariff Schedule (HTS) codes. As a result, a license from Commerce is required to export, re-export, or transfer items classified under these HTS codes to or within Russia. With this rule, the vast majority of U.S.-origin items are now controlled for export to Russia, and most remaining trade is limited to the agricultural and medical sectors.

Entity List additions

Commerce added five entities in Russia and China to the Entity List for various reasons related to their activities in support of Russia's war effort. Commerce also added eight addresses in Hong Kong to the Entity List in an effort to target shell companies that can easily change their names or use multiple corporate identities.

The Entity List identifies non-U.S. persons "reasonably believed to be involved, or to pose a significant risk of being or becoming involved, in activities contrary to the national security or foreign policy interests of the United States." Companies, both U.S. and non-U.S., may not, without prior authorization from Commerce, export, re-export, or transfer certain technology, commodities, and software to listed persons. Commerce also considers transactions of any nature with listed persons to carry a “red flag” and recommends that companies proceed with caution when engaging in such transactions.

Other export control measures

In addition to the measures described above, Commerce also:

• limited the availability of certain license exceptions for exports, re-exports, and transfers of consumer goods to or within Russia;

• issued temporary denial orders against two Russian procurement networks facilitating exports of aircraft parts to Russia through third countries in violation of U.S. export controls; and

• announced that it recently informed over 130 U.S. distributors of additional restrictions on shipments to known suppliers to Russia and that it would continue to target non-U.S. companies who supply U.S.-branded products to Russia through Entity List additions and other related actions.

Key takeaways

This latest round of sanctions and export controls demonstrates that the U.S. government is committed to intensifying the pressure on Russia and using all of the economic tools at its disposal to counter the Russian war effort in Ukraine. Companies and financial institutions that continue to do business involving Russia, both directly and indirectly, must exercise particular caution and conduct heightened due diligence to navigate the increasingly complex U.S. – and global – regulatory landscape with respect to Russia.

For more information, please contact the authors or your usual contact within our Global Sanctions Group.