

July 9, 2014

Sanctions Round-Up: Second Quarter 2014

If you wish to receive more information on the topics covered in this publication, you may contact your regular Shearman & Sterling contact person or any of the following:

Contacts

Philip Urofsky
Washington, DC
+1.202.508.8060
philip.urofsky@shearman.com

Danforth Newcomb
New York
+1.212.848.4184
dnewcomb@shearman.com

Stephen Fishbein
New York
+1.212.848.4424
sfishbein@shearman.com

Richard J.B. Price
London
+44.20.7655.5097
rprice@shearman.com

Brian G. Burke
Hong Kong
+852.2978.8040
brian.burke@shearman.com

Christopher L. LaVigne
New York
+1.212.848.4432
christopher.lavigne@shearman.com

Barnabas W.B. Reynolds
London
+44.20.7655.5528
barney.reynolds@shearman.com

SHEARMAN.COM

The headline for the second quarter is, of course, the United States' enforcement action against Bank BNP Paribas and its breathtaking penalty of \$8.9 billion, tied to the allegedly intentional evasion of the US sanctions programs for Sudan and, to a lesser extent, Iran and Cuba. This settlement capped off a series of enforcement actions by US authorities against a variety of actors stemming from violations of all sizes.

Otherwise, most of the action in the past quarter involved the increasingly tense situation in Ukraine, with the United States and Europe implementing targeted and escalated sanctions against actors in Russia and Ukraine in response to ongoing aggression by separatists in the region. As this quarter drew to a close, both the United States and European Union were reportedly threatening sector-based sanctions. With respect to other sanctions programs, the quarter was largely marked by what has come to be viewed as routine activity, with the United States continuing to make limited designations under sanctions targeting Iran's proliferation of nuclear weapons, foreign terrorist organization operations, and international narcotics traffickers.

US Authorities End Quarter Full of Enforcement Actions with \$8.9 Billion BNP Settlement

On June 30, the Federal Reserve, the Department of Justice, the New York District Attorney, the New York Department of Financial Services (NY-DFS), and the Treasury Department's Office of Foreign Assets Control announced their long-awaited settlements with BNP over violations of US sanctions regimes targeting Sudan, Cuba, Iran, and Myanmar. BNP is to pay a total of \$8.9 billion for processing thousands of prohibited transactions with an aggregate value of more than \$8.8 billion through US financial institutions between 2002 and 2012, including at least \$4.3 billion in transactions that involved Specially Designated Nationals. While these practices were followed at multiple branches and subsidiaries of the bank, the overwhelming majority of apparent violations were conducted by BNP's subsidiary in Geneva and its branch in Paris in relation to the bank's extensive ties with Sudanese banks. Each agency's respective press releases emphasize numerous aggravating factors in BNP's

behavior during the relevant time period, including (i) the systematic nature of the practices utilized by the bank to conceal or omit the interests of sanctioned parties from transactions; (ii) the knowledge and apparent approval of such practices by senior compliance and business managers at multiple BNP entities; and (iii) the continued use of such practices after specific inquiries by US authorities concerning the Sudan business.

In addition to the civil penalties imposed by each agency, BNP will be subject to certain restrictions on its business going forward, including ongoing evaluation of its sanctions compliance by an independent monitor at its New York branch. NY-DFS has ordered the termination of 13 employees, including the co-chief operating officer, the former head of compliance, the former head of structured finance for the corporate investment bank, and the head of ethics and compliance for North America. NY-DFS has also suspended certain of BNP's US\$ clearing services for one year, beginning January 1, 2015. A joint cease-and-desist order issued by the Federal Reserve and BNP's home country supervisor, the *Autorité de Contrôle et de Prudenciel et de Résolution*, requires BNP to submit within 90 days an acceptable compliance program, including the names of key managers and a timetable for implementation. A second cease-and-desist order issued by the Federal Reserve prohibits the bank from re-employing or otherwise engaging 11 individuals involved in the actions that resulted in the violation of US sanctions laws. US authorities are reportedly pursuing separate enforcement actions against these individuals, which could include fines and orders prohibiting them from participating in the banking business going forward.

Although significantly less substantial in terms of fines imposed and scope of the alleged violations, the United States announced a number of other sanctions enforcement actions this quarter, ranging from a \$29,000 OFAC penalty against an individual to a \$50 million global settlement between a Dutch aerospace service company and various US authorities. Notably, in an action clearly demonstrating that European companies with US owners remain subject to sanctions targeting Cuba, OFAC announced a \$5,990,490 settlement in April with Carlson Wagonlit Travel B.V., a Netherlands-based company, over violations of the Cuban Assets Control Regulations stemming from travel services provided from August 2006 and through November 2012. OFAC claimed jurisdiction over the Dutch company due to the company being majority owned by US persons. The fine was one of the largest ever imposed on a travel agency for violating US sanctions on Cuba.

On May 6, OFAC announced that Decolar.com, Inc., a Delaware company with headquarters in Buenos Aires, agreed to pay \$2,809,800 to settle potential civil liability for apparent violations of the Cuban Assets Control Regulations. From March 2, 2009 through March 31, 2012, Decolar made travel arrangements, including flight and hotel reservations, for 17,836 persons without authorization from OFAC. On June 27, OFAC announced that Red Bull North America, Inc. agreed to pay \$89,775 to settle potential civil liability for alleged violations of the Cuban Assets Control Regulations that occurred in June 2009 when company representatives traveled to Cuba to film a documentary without authorization. On May 8, OFAC announced that New York-based American International Group, Inc., an international insurance and financial services organization, would remit \$279,038 to settle potential civil liability for 3,560 apparent violations of the Cuban Assets Control Regulations. Between January 2006 and March 2009, two AIG subsidiaries in Canada issued or renewed three types of property and casualty insurance policies that insured Cuban risks of a Canadian corporate entity. One of the AIG subsidiaries in Canada also maintained a policy that insured certain directors and officers of three Cuban joint venture partners of a Canadian corporation between January 1, 2006 and October 4, 2006. Separately, from March 17, 2006 through September 30, 2008, Travel Guard Canada—an AIG subsidiary in Canada—sold, renewed, or maintained in force 3,446 individual or annual multi-trip travel insurance policies in which the insured identified Cuba as the travel destination.

In another settlement demonstrating the seriousness with which OFAC treats active attempts to circumvent US sanctions, on June 5, Fokker Services BV, a Dutch aerospace services company, agreed to pay \$50.9 million as part of a global settlement with OFAC, the Department of Commerce's Bureau of Industry, and the US Attorney's Office for the District of Columbia for allegedly conspiring to violate sanctions against Iran, Sudan, and Myanmar. Fokker Services pleaded guilty to providing customers in those countries with aircraft parts, technology, and services on more than 1,100 occasions from late 2005 through late 2010. US authorities emphasized that Fokker Services used a number of schemes to evade US sanctions and export laws—internally described as “work-arounds”—while continuing to do business with customers in sanctioned countries. These included withholding or providing false tail numbers to US-based repair shops and avoiding transactions with US companies known to be vigilant about export controls. Fokker Services' gross revenue for the shipments in violation of US laws amounted to approximately \$21 million.

OFAC announced throughout this quarter a series of enforcement actions that also stemmed from prohibited exports to sanctioned countries. On June 25, Network Hardware Resale LLC agreed to pay \$64,758 to settle potential civil liability for apparent violations of the Sudanese Sanctions Regulations and the Iranian Transactions and Sanctions Regulations that occurred between April 14, 2008 and January 6, 2011, when NHR exported multiple shipments of networking equipment and related accessories from the United States to Sudan and Iran. Similarly, on May 6, OFAC announced that an individual from the state of Washington agreed to pay \$29,340 to settle potential civil liability for alleged violations of the Iranian Transactions and Sanctions Regulations. From May 2007 to November 2009, that individual allegedly exported, sold, and/or supplied unlicensed medical goods and/or related financial services from the United States to Iran in nineteen separate transactions. On April 2, OFAC announced an \$85,113 settlement with California-based Sea Tel Inc. for apparent violations of the Iranian Transactions and Sanctions Regulations that occurred between November 2007 and February 2009 when Sea Tel exported sixteen orders of marine antenna systems to its South Korean distributor with knowledge or reason to know that the antenna systems were intended specifically for re-exportation, directly or indirectly, to Iran. Finally, in an indictment unsealed on May 28, the United States charged Chinese company Shandong Sheenrun Electronics Co. and two officials with violating sanctions targeting Iran by shipping fifteen infrared cameras to the country.

US and EU Make Numerous Ukraine-Related Designations as Separatist Aggression Continues

Responding to ongoing separatist activity in Ukraine, seen as heavily supported by Russia, both the United States and the European Union have continued to target Russian and Ukrainian business and political figures and to threaten the issuance of sector-wide sanctions if Russia fails to seek diplomatic solutions with Ukraine. Such sanctions would likely include Russia's energy sector and its banking industries. Still, the European Union indicated that it would stop short of such measures for now as it considered issuing additional sanctions targeting specific people or companies at the end of this quarter.

On April 3, President Obama signed into law the “Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014,” which, amongst other provisions, codified Q1 2014 executive branch sanctions aimed at Russian business and political leaders and their financiers and authorized the President to impose further sanctions. Shortly thereafter, on April 11, OFAC sanctioned six Crimean separatist leaders, a former vice speaker of Ukraine's parliament, and a Crimea-based gas company pursuant to E.O. 13660 for contributing to the ongoing crisis in Ukraine. On April 28, OFAC designated an additional seven individuals, including two members of Russia's inner leadership circle and seventeen entities pursuant to E.O. 13661, which authorizes sanctions on, amongst others, officials of the Russian government and persons providing material support to senior Russian government officials. In doing so, OFAC

emphasized that Russia had agreed to take concrete steps to deescalate the situation in Ukraine in an April 17 Geneva Joint Statement but had not yet begun to do so. On June 20, OFAC sanctioned seven persons in Ukraine under E.O. 13660, which targets those complicit in threatening the peace, security, stability, sovereignty, or territorial integrity of Ukraine. The newly sanctioned persons include the acting governor of Sevastopol in Crimea and separatist leaders in the Luhansk and Donetsk regions.

Russian Prime Minister Dmitry Medvedev announced in June that Russia has filed a complaint at the World Trade Organization over sanctions imposed by the United States following Russia's annexation of Crimea, claiming the measures violate WTO rules for providing financial services.

On May 8, OFAC issued the new Ukraine-related Sanctions Regulations, 31 C.F.R. 589, to implement E.O. 13660 of March 6, 2014 ("Blocking Property of Certain Persons Contributing to the Situation in Ukraine"), Executive Order 13661 of March 17, 2014 ("Blocking Property of Additional Persons Contributing to the Situation in Ukraine"), and Executive Order 13662 of March 20, 2014 ("Blocking Property of Additional Persons Contributing to the Situation in Ukraine"). OFAC indicated that it plans to later supplement part 589 with a more comprehensive set of regulations, which may include additional interpretive and definitional guidance and additional general licenses and statements of licensing policy.

In a measure closely related to OFAC's sanctions activities, on April 28 the US State Department announced that it will deny pending applications for export or re-export of any high technology defense articles or services regulated under the US Munitions List that could contribute to military capabilities to Russia or occupied Crimea. The State Department will also take action to revoke any such existing export licenses. Likewise, the US Commerce Department announced that it will deny pending applications and revoke existing export licenses for export or re-export of any high technology item subject to the Export Administration Regulations (E.A.R.). The Commerce Department then placed a total of fourteen entities on its "Entity List" based on a determination that they were involved or pose a significant risk of becoming involved in activities contrary to the national security and foreign policy interests of the United States. US exporters must receive a special license to ship goods subject to the E.A.R. to foreign recipients appearing on the Entity List, subject to a presumption of denial.

While US and EU sanctions targeting the situation in Ukraine are not perfectly aligned, the European Union has also continued to update its Ukraine-related sanctions lists throughout the second quarter. The European Union added four Ukrainians to its blacklist on April 14 and an additional fifteen individuals on April 28. Shortly thereafter, on May 12 the European Union targeted thirteen people, including Russian Deputy Premier Dmitry Kozak and several pro-Russian separatist leaders, for their alleged roles in destabilizing Ukraine. The European Union also blacklisted two companies that were expropriated after Russia annexed Crimea, including oil and natural-gas producer Chernomorneftegaz.

US Demonstrates Commitment to Enforcing Iran Sanctions Despite Ongoing Negotiations Toward Final Nuclear Agreement

OFAC continued to target Iranian persons under its non-suspended sanctions programs throughout this quarter, even as the Western negotiating bloc of the P5+1 continued talks with Iran aimed at reaching a final nuclear agreement. With less than a month to go before the July 20 deadline, the parties reported reaching a tentative first draft of such an agreement, with negotiations to continue through to the deadline. Although there has been no formal announcement, it is widely expected that the temporary suspension of certain US and EU sanctions will be extended in the event that a final agreement is not reached on time.

In the meantime, the United States demonstrated this quarter that it would abide by its commitments under the interim nuclear agreement with Iran. Accordingly, on April 4 Boeing, the world's biggest airplane manufacturer, and engine maker General Electric announced they had received licenses from the Treasury Department to export certain spare parts for commercial aircraft to Iran under the temporary sanctions relief deal that began in January.

Further, on April 7 OFAC issued updated answers to Frequently Asked Questions regarding Iran-related General Licenses, specifically those pertaining to a final rule that amended the Iranian Transactions and Sanctions Regulations to authorize under a general license the exportation of a broader category of agricultural commodities and certain replacement parts for medical devices. Amongst other points, OFAC clarified that if an export or re-export is not authorized by general license, any US person or US-owned or -controlled foreign entity may still apply for a specific license.

Still, showing the seriousness with which it continues to treat Iran's nuclear efforts and its attempts to avoid existing sanctions, on April 29 OFAC sanctioned numerous individuals and entities pursuant to E.O. 13382, which targets, amongst other things, proliferators of weapons of mass destruction and their support networks. The designations specifically targeted a network of eight China-based front companies for acting on behalf of proliferator Karl Lee in aiding Iran in its ballistic missile procurement and its evasion of oil sector sanctions. Karl Lee was previously blacklisted in April 2009 for the procurement of ballistic missile parts for Iran in his role as commercial manager of LIMMT Economic and Trade Company Ltd.; LIMMT was itself designated in June 2006 for the provision of material support to Iran's ballistic missile program. To circumvent the limitations created by these sanctions, Karl Lee reportedly directed companies with which LIMMT had Iran-related contracts to send funds to these newly established front companies; Iranian entities were similarly directed to remit funds to these front companies for the purchase of goods orchestrated by LIMMT. Also on April 29, Karl Lee was indicted in federal court in New York on charges of violating the International Emergency Economic Powers Act by using US-based financial institutions to engage in millions of dollars of US\$ transactions in violation of economic sanctions, along with charges of conspiring to commit wire and bank fraud. OFAC also designated two individuals—Saeed Al Aqili and Anwar Kamal Nizami—and the related Al Aqili Group LLC pursuant to E.O. 13645 for providing support in connection with deceptive oil deals for Iran, including the arrangement of oil sales for the Islamic Revolutionary Guard Corps and the circumvention of oil sanctions by disguising the oil's origin. Saeed Al Aqili has also allegedly provided assistance to Seyed Seyyedi's group of front companies, which were designated pursuant to E.O. 13599 in September 2013 for providing support to the Government of Iran. Anwar Kamal Nizami is a Dubai-based Pakistani financial facilitator for KASB International LLC, an Al Aqili Group subsidiary company, who allegedly manages the banking relationships and overall finances of KASB International, an organization affiliated both with Saeed Al Aqili and with Seyyedi's oil evasion network.

US and EU Issue Additional Syria Sanctions

Both the United States and European Union targeted additional persons under Syria-related sanctions this quarter as Syrian President Bashar al-Assad won a third term in office in June's widely dismissed presidential election. OFAC's May 8 designations of Moscow-based Tempbank and Tempbank senior executive Mikhail Gagloev pursuant to E.O. 13582 marked the first US actions targeting Syria in nearly a year and the first time that the United States sanctioned Russian actors in relation to the Syrian conflict. Tempbank allegedly has provided millions of dollars in cash to the Syrian government and has facilitated financial services for both Assad's regime and Sytrol, a Syrian state oil company targeted by US and EU sanctions. Mr. Gagloev, chairman of the Tempbank management committee, was designated for acting on Tempbank's behalf and for personally traveling to Damascus to make deals with the Syrian regime for the bank. The same

day, the United States also designated six senior Syrian government officials, including Brigadier General Bassam Al-Hassan, a commander of the Syrian Republican Guard; the Syrian public works minister; the agriculture minister; finance minister; labor minister; and social affairs minister. Lastly, OFAC identified two oil refinery companies as part of the Syrian government, meaning they are now subject to sanctions under E.O. 13582, which was issued in August 2011 to block the property of the Government of Syria.

On May 2, OFAC published a final rule in the Federal Register to amend and reissue in their entirety the Syrian Sanctions Regulations. The reissued Regulations implement the blocking prohibitions contained in a series of executive orders issued by President Obama and add sections on prohibitions, definitions, interpretations, and licensing provisions stemming from existing sanctions targeting Syria.

In the European Union, on May 29 sanctions against nearly all targets blacklisted in relation to Syria—179 people and 53 entities—were extended through June 1, 2015; however, sanctions on Syria International Islamic Bank and London-based businessman Sulieman Maarouf were lifted, apparently due to a lack of strong evidence linking them to the Assad regime. On June 24, in an action similar to that taken by the United States, the European Union imposed a travel ban and asset freeze on an additional twelve Syrian government ministers, including the head of Syria's national relief commission and the ministers of finance; economy and foreign trade; oil; industry; and labor, over their alleged responsibility for serious human rights violations.

US Issues Targeted Sanctions to Address Violence in South Sudan

In response to an outbreak of violence in South Sudan between government and rebel forces, on April 3 President Obama signed E.O. 13664, "Blocking Property of Certain Persons With Respect to South Sudan," to authorize targeted sanctions on persons, including South Sudanese officials, who threaten the peace, stability, or security of South Sudan; commit human rights abuses against persons in South Sudan; expand or extend the conflict in South Sudan; obstruct reconciliation or peace talks or processes; or undermine democratic processes or institutions in South Sudan. Pursuant to that executive order, OFAC sanctioned two individuals, one from each side of the conflict, on May 6. Marial Chanuong, commander of the government's presidential guard force, was sanctioned for allegedly leading attacks against civilians in and around Juba. Rebel leader Peter Gadet was targeted over an April assault that killed more than 200 civilians. South Sudanese President Salva Kiir and rebel leader Riek Machar agreed in mid-June to form a transitional government within the next sixty days, committing to ceasing all military operations during that time. The United States has said that it will consider more individual sanctions if warranted against those found to be thwarting these efforts to resolve the South Sudan crisis.

On June 2, OFAC published an answer to a frequently asked question regarding payments to or transactions with non-designated persons in South Sudan. OFAC clarified that entities commanded or controlled by individuals designated under E.O. 13664 are not considered blocked by operation of law, and as such, payments made to non-designated persons under the command or control of an SDN who was listed under E.O. 13664 are not prohibited. OFAC emphasized, however, that US persons should employ due diligence to ensure that an SDN is not benefitting from any such transactions.

US Utilizes Sanctions to Target Worldwide Human Rights and Democracy Abuses

In a set of lower-profile and limited sanctions, the United States targeted various human rights abuses and threats to democracy, drawing attention to oft-overlooked countries in crisis in the process.

On May 13, President Obama issued E.O. 13667 to declare a national emergency and block the property of certain persons contributing to conflict in the Central African Republic, citing a breakdown of law and order, widespread atrocities, and the forced use of child soldiers. Violence in the C.A.R. dates back to March 2013, when an alliance of Muslim rebel groups known as the Seleka overthrew the country's president. An armed Christian movement known as the anti-Balaka retaliated several months later, leading to sectarian violence throughout the country. The same day, OFAC targeted five of the country's political figures, including two of the country's former presidents, pursuant to E.O. 13667 for their roles in sectarian violence in the country; three of these individuals were already targeted by the United Nations pursuant to a Security Council resolution adopted in January 2014. The sanctions target members of both the Muslim Seleka and the Christian anti-Balaka groups.

On April 17, OFAC targeted three individuals and a Zimbabwe-based entity with sanctions pursuant to E.O. 13469 for their roles in undermining Zimbabwe's democracy and facilitating public corruption. Tobaiwa Mudede, a senior government official, oversaw key elements of Zimbabwe's July 2013 presidential and parliamentary elections, which have been criticized for various flaws and irregularities. Sam Pa, an Angolan businessman, was sanctioned for providing financial and logistical support to the Government of Zimbabwe, including financing used in programs aimed at pre-election intimidation. Jimmy Zerenie, a Singaporean attorney based in Zimbabwe, was designated as a business associate of Sam Pa involved in illicit diamond deals between Sam Pa and senior Zimbabwean officials. Zerenie is also director of Sino Zim Development Ltd., which was blacklisted for being owned or controlled by both Zerenie and a senior official of the Zimbabwean government.

On May 20, OFAC sanctioned twelve Russians for human rights abuses under a 2012 law named for US lawyer Sergei Magnitsky, who died in detention in Russia in 2009. The law requires that sanctions be imposed on individuals determined to be responsible for the detention, abuse, or death of Magnitsky or to have been involved in the criminal conspiracy that he uncovered. The law also requires sanctions on individuals determined to be involved in extrajudicial killings, torture, or other gross violations of human rights against individuals seeking to expose illegal activity conducted by Russian officials or seeking to promote human rights and freedoms in Russia. Ten of the newly designated individuals were designated in relation to Magnitsky, while two were designated for their roles in extrajudicial killings of persons working to expose wrongdoing by Russian government officials. The United States last imposed sanctions under the Magnitsky Act in April 2013. Persons on the Magnitsky List are ineligible to receive visas and to be admitted into the United States. Their property within US jurisdiction is also blocked, and transactions with US persons are prohibited.

On May 23 OFAC sanctioned Morteza Tammaddon under E.O. 13628, which targets those who engage in censorship or other activities that limit the freedom of expression or assembly of the Iranian people. Tammaddon, who currently heads the Tehran Provincial Public Security Council, is alleged to have used his authority while serving as governor-general of Tehran Province to cut off mobile communications to limit Iranians protesting the 2009 elections and to have publicly threatened protestors in 2012.

US Amends Iraq Sanctions

On May 27, President Obama signed an executive order to terminate the prohibitions contained in E.O. 13303 of May 22, 2003, as amended, on any attachment, judgment, decree, lien, execution, garnishment, or other judicial process with respect to the Development Fund for Iraq and Iraqi petroleum and petroleum products and the accounts, assets, investments, and other property of the Central Bank of Iraq. The executive order does not otherwise affect the national emergency declared in E.O. 13303, which remains in place and continues as the basis for certain sanctions on the former

Iraqi regime, its senior officials and their family members, and designated persons who threaten stabilization efforts in Iraq.

US Continues to Update Sanctions Targeting Terrorist Activity

The United States continued to add members of foreign terrorist groups to the SDN List this quarter, amending previously issued sanctions as necessary to reflect changes in the structure or affiliations of such groups. For instance, on May 14 OFAC designated two leaders of Syrian jihadist groups, naming Abd Al-Rahman Muhammad Zafir Al-Dubaysi Al-Juhni and 'Abd Al-Rahman Mustafa Al-Qaduli as Specially Designated Global Terrorists pursuant to E.O. 13224. Al-Juhni is part of a group of senior al-Qaida members in Syria formed in mid-2013 to conduct external operations against Western targets and to mediate tensions between Al-Nusra Front and ISIL. Al-Qaduli is a senior ISIL official who reintegrated himself into ISIL following his release from prison in early 2012, at which time he traveled to Syria to work in a Syria-based ISIL network. The same day, the State Department announced the amendment of the designation of al-Qaida in Iraq (AQI) as a Foreign Terrorist Organization under Section 219 of the Immigration and Nationality Act and as a Specially Designated Global Terrorist entity under section 1(b) of E.O. 13224 to add the alias Islamic State of Iraq and the Levant (ISIL) as its primary name and to remove all aliases associated with Al-Nusra Front; the State Department then separately designated Al-Nusra Front as a standalone Foreign Terrorist Organization and a Specially Designated Global Terrorist entity.

On June 25, OFAC designated two senior members of the Pakistani militant group Lashkar-e-Taiba, which was itself designated as a terrorist group by the State Department in 2001. The United States currently offers a \$10 million reward for information leading to the arrest of the group's leader, Hafiz Saeed, in relation to the 2008 Mumbai attacks that killed at least 163 people. The new designations target Mr. Saeed's close aid, Nazir Ahmad Chaudhry, and the group's finance chief, Muhammad Hussein Gill, as Specially Designated Global Terrorists, pursuant to E.O. 13224, which targets terrorists and supports of terrorist operations. The State Department simultaneously took steps to maintain Lashkar's designation as a Foreign Terrorist Organization and to designate the group's charity wing, Jamaat-ud-Dawa, as a front organization, along with the groups Al-Anfal Trust, Tehrik-e-Hurmat-e-Rasool, and Tehrik-e-Tahafuz Qibla Awwal.

On June 17, the State Department designated Shawki Ali Ahmed al-Badani as a Specially Designated Global Terrorist under E.O. 13224. Al-Badani is a leader and operative for al-Qaida in the Arabian Peninsula (AQAP) and is alleged to have long been involved in terrorist activity as a member of the group. AQAP was designated as a Foreign Terrorist Organization and Specially Designated Terrorist entity in January 2010. In 2012, al-Badani reportedly assigned an AQAP operative to target the US Embassy in Sanaa, Yemen and is alleged to have played a key role in a plan for a major attack in summer 2013 that led the United States to close 19 diplomatic posts across the Middle East and Africa.

As a result of these designations, any assets that designated persons may hold within US jurisdiction are now frozen, and US persons are prohibited from conducting any transactions with them. Further, the Foreign Terrorist Organization and Specially Designated Global Terrorist designations include a prohibition against knowingly providing, or attempting or conspiring to provide, material support or resources to, or engaging in transactions with, these organizations and the freezing of all property and interests in property of the organizations that is in the United States or that come within the United States or the control of US persons.

In June, OFAC released its Calendar Year 2013 Annual Report on Assets in the United States of Terrorist Countries and International Terrorism Program Designees. This mandatory annual report to Congress details the nature and extent of assets held in the United States by terrorism-supporting countries and organizations engaged in international terrorism.

US Makes Additional Kingpin Act Designations, plus One Major Deletion

OFAC continues to designate foreign narcotics traffickers belonging to or acting on behalf of previously designated persons and groups, emphasizing the involvement of such persons in a variety of illegal activities with potentially international repercussions. For instance, on May 1 OFAC designated Afghan national Atiqullah Ahmady Mohammad Din as a specially designated narcotics trafficker under the Kingpin Act for his significant role in international narcotics trafficking. OFAC also designated his brother, Sadiq Ahmady, and four entities in Afghanistan and the U.A.E. that act for or on behalf of Mohammad Din and provide support to his narcotics trafficking activities. Mohammad Din's heroin trafficking business allegedly began during the Taliban regime, and he continues to maintain contact with the Taliban in southern Afghanistan.

Similarly, on June 26 OFAC sanctioned the Medellin, Colombia-based criminal group La Oficina de Envigado under the Kingpin Act for its role in international drug trafficking. OFAC noted that in addition to its direct involvement in narcotics trafficking, La Oficina de Envigado is complicit in money laundering, extortion, and murder for hire. OFAC has previously designated several individuals and entities tied to La Oficina for their involvement in other organizations, including the group's original leader, Diego Fernando Murillo Bejarano, who was sanctioned in February 2004 for his role in the Autodefensas Unidas de Colombia.

On April 10, OFAC designated ten entities and five individuals with ties to the Sanchez Garza family pursuant to the Kingpin Act. The Sanchez Garza family is a money laundering organization based in Guadalajara, Mexico that began operating on behalf of major Mexican narcotics traffickers in the 1980s. OFAC previously designated multiple members of the Sanchez Garza network in June 2013. On April 9, OFAC designated Carlos Arnoldo Lobo pursuant to the Kingpin Act for his alleged role in working with Colombian suppliers to transport multi-ton loads of cocaine north for Mexican, Guatemalan, and Honduran drug kingpins and organizations, including the Sinaloa Cartel. OFAC noted that it has been collaborating with US and Honduran counterparts to target Lobo and his assets since 2011. Lobo has been indicted on US drug trafficking charges in the Southern District of Florida. On May 15, OFAC designated Mexican national Heriberto Zazueta Godoy (aka Capi Beto) for his material support to the narcotics trafficking activities of the Sinaloa Cartel, pursuant to the Kingpin Act. Two other individuals and three entities linked to Zazueta Godoy were also designated. Zazueta is currently a fugitive from US criminal charges, having been indicted on drug trafficking and money laundering charges in the Northern District of Illinois in February 2014. The Sinaloa Cartel was identified as a significant foreign narcotics trafficker pursuant to the Kingpin Act in 2009. OFAC noted that this action was part of a larger effort to sanction Mexican drug trafficking organizations in collaboration with Mexican authorities.

On May 14, OFAC designated eight individuals and twenty entities connected to Jorge Fadlallah Cheaitelly, specially designated narcotics traffickers pursuant to the Kingpin Act. Cheaitelly, the leader of a Panama-based drug trafficking and money laundering organization, was arrested in Costa Rica in 2011 and extradited to the United States in 2012. Among those designated are a prominent Panamanian attorney, several Panamanian associates who facilitate the laundering of narcotics proceeds through Panamanian shell companies, and Cheaitelly's father. The targeted companies include import-export companies, a non-profit foundation, restaurants, and shell companies, all registered to associates of Fadlallah Cheaitelly or various front persons.

In an action touted as a huge victory for OFAC and its targeted sanctions programs, on June 19 OFAC removed 78 individuals and 230 entities associated with the Cali cartel from the SDN List, marking the largest delisting in OFAC history. The leaders of the Cali cartel, Miguel and Gilberto Rodriguez Orejuela, were captured and extradited to the United States in 2006 and ultimately pled guilty to numerous drug-trafficking charges. The brothers were each sentenced

to 30 years and forfeited more than \$2.1 billion in assets worldwide. OFAC credited the use of targeted sanctions as the force behind the destruction of the Rodriguez Orejuela brothers' business empire. The only Cali cartel members still currently subject to OFAC sanctions are the Rodriguez brothers themselves.

All US property of persons sanctioned under the Kingpin Act is blocked, and US persons are generally prohibited in engaging in transactions with them.

OFAC Upgrades Search Tool

OFAC updated its SDN Search tool this quarter. The "Sanctions List Search" function now allows users to search for a name on the SDN List, the Foreign Sanctions Evaders (FSE) List, or both lists simultaneously. The upgraded tool also makes use of character, string, and phonetic matching algorithms to search for potential name matches.

OFAC Issues Licensing Activity Report

On June 27, OFAC released a Biennial Report of Licensing Activities pursuant to Section 906(c) of the Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA), covering activities undertaken by OFAC from October 2010 through September 2012 under Section 906(a)(1) of the TSRA. Under the procedures established in its TSRA-related regulations, OFAC processes license applications requesting authorization to export agricultural commodities, medicine, and medical devices to Iran and Sudan. The report announced the receipt of 3,191 licensing applications between October 2010 and September 2012, with OFAC issuing licensing determinations on 94.7% of those applications, resulting in a total of 2,286 licenses and 434 license amendments.

ABU DHABI | BEIJING | BRUSSELS | FRANKFURT | HONG KONG | LONDON | MILAN | NEW YORK | PALO ALTO
PARIS | ROME | SAN FRANCISCO | SÃO PAULO | SHANGHAI | SINGAPORE | TOKYO | TORONTO | WASHINGTON, DC

This memorandum is intended only as a general discussion of these issues. It should not be regarded as legal advice. We would be pleased to provide additional details or advice about specific situations if desired.

599 LEXINGTON AVENUE | NEW YORK | NY | 10022-6069

Copyright © 2014 Shearman & Sterling LLP. Shearman & Sterling LLP is a limited liability partnership organized under the laws of the State of Delaware, with an affiliated limited liability partnership organized for the practice of law in the United Kingdom and Italy and an affiliated partnership organized for the practice of law in Hong Kong.