



DECEMBER 23, 2014

CIRCULAR NO. 38/14

TO MEMBERS OF THE ASSOCIATION

Dear Member:

ADDITIONAL US ECONOMIC SANCTIONS AGAINST RUSSIA/RUSSIAN ENTITIES

Background

On December 18, 2014, President Obama signed into law the Ukraine Freedom Support Act of 2014 (UFSA). UFSA gives the US administration legal authority for additional sanctions that could be imposed against Russia and certain Russian entities if circumstances warrant.

UFSA authorizes (or requires) the imposition of additional U.S sanctions against Russia and the Russian energy and defense sectors. UFSA also authorizes (or requires) the imposition of sanctions against non-US financial institutions and other foreign persons who facilitate or support certain transactions with Russian sanctions targets. Foreign financial institutions engaging in significant transactions with Russian entities and individuals who have been designated by the US as 'Specially Designated Nationals' (SDNs) may also face sanctions under UFSA.

On December 19, 2014, the US President issued an Executive Order (December 19 Executive Order) imposing additional sanctions with respect to the Crimea region of Ukraine.

UFSA summary

The Russian defense sector

UFSA requires the President to impose three or more of the sanctions described in UFSA on Rosoboronexport, the Russian state agency responsible for the import and export of defense and dual-use products, technology and services.

UFSA also requires the President to impose UFSA sanctions with respect to:

- Any Russian entity (owned or controlled by the government of the Russian Federation or controlled by Russian nationals and companies) that:
 - knowingly manufactures or sells defense articles transferred into Syria or into the territory of a specified country (Ukraine, Georgia, Moldova, and any other countries designated as such) without the consent of the government of that country,
 - transfers defense articles into Syria or into the territory of a specified country without the consent of the government of that country, or
 - brokers or otherwise assists in the transfer of defense articles into Syria or into the territory of a specified country without the consent of the government of that country.

- Any foreign entity which knowingly assists, sponsors, or provides financial, material, or technological support for, or goods or services to or in support of a Russian entity, with respect to the activities described above.

Members should note that providing insurance/reinsurance and transportation services in connection with or for the above activities could potentially trigger the imposition of sanctions against foreign insurers/reinsurers, foreign vessels and foreign vessel owners/managers.

Facilitation of transactions with Russian SDNs

UFSA also authorizes the imposition of sanctions on foreign financial institutions that ‘facilitate’ certain types of transactions, or engage in ‘significant transactions’ with Russian SDNs.

It should be noted that insurers and reinsurers fall outside the definition of foreign financial institutions under UFSA.

The Russian energy sector

UFSA authorizes the President to impose UFSA sanctions with respect to a foreign person if it is determined that it knowingly makes a significant investment in a project intended to extract crude oil from Russia’s exclusive economic zone in waters more than 500 feet deep; Russian Arctic offshore locations; or shale formations located in Russia.

It also requires the imposition of sanctions on Gazprom if it is determined that Gazprom is withholding significant natural gas supplies from NATO member countries, Ukraine, Georgia or Moldova.

Facilitation of certain defense and energy-related transactions

UFSA also enables the President to impose sanctions on a foreign financial institution if it is determined that the institution knowingly engages in significant transactions involving sanctionable activities under the defense and energy sector sanctions.

Additionally, the President may impose sanctions on a foreign financial institution if it is determined that the institution has, on or after the date that is 180 days after the date of the enactment of UFSA, knowingly facilitated a significant financial transaction with a Russian SDN.

The array of potential sanctions

The array of sanctions that could be imposed under UFSA is as follows:

- Denial of US Export-Import bank assistance
- A ban on the US government procuring goods or services from the foreign person
- A prohibition on the exportation or provision by sale, lease or loan, grant or other means, directly or indirectly, of any defense article or defense service to the foreign person

- A prohibition on issuing any license (or suspension of existing licenses) for the transfer to the foreign person of any 'dual-use' export items
- A restriction on the acquisition, holding, withholding, using, transferring, withdrawing, transporting or exporting of any property that is subject to US jurisdiction and with respect to which the foreign person has any interest (blocking of property, exclusion from conducting business with the United States), a restriction on dealing in or exercising any right, power or privilege with respect to such property, and a restriction on conducting any transaction involving such property
- A prohibition on transfers of credit or payments between financial institutions or by, through or to any financial institution, to the extent that such transfers or payments are subject to US jurisdiction and involve any interest of the foreign person
- Prohibition on investment in equity or debt of sanctions person
- A prohibition on any US person from transacting in, providing financing for or otherwise dealing in or equity of a foreign person
- Exclusion from the US and revocation of visas for individuals
- The right to apply available and relevant sanctions to principal executive officers of the entity, where the foreign person is an entity

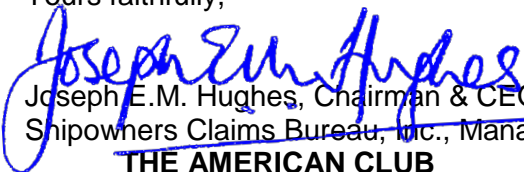
The December 19 Executive Order

In summary, the December 19 Executive Order applies to US persons and:

- Prohibits new investment in Crimea,
- Prohibits trade (imports, exports, reexports, supplies) between Crimea and US persons and the United States,
- Prohibits facilitation of prohibited investment and trade,
- Blocks the property of and prohibits transactions with additional SDNs (sanctions targets), and
- Excludes the entry of additional SDNs into the United States

Should Members have any questions in regard to the above, or generally, they are invited to contact Charles J. Cuccia, Senior Vice President – Compliance & Enterprise Risk Management, ph +1 212 847 4539, mob +1 917 215 2883, charles.cuccia@american-club.com.

Yours faithfully,


Joseph E.M. Hughes, Chairman & CEO
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THE AMERICAN CLUB