



POLICY ALERT // AUGUST 6, 2019

## U.S. Imposes Sanctions on Russia For Chemical Weapons Attack in U.K.

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**The United States on August 2, 2019, announced that it is imposing three new sanctions on Russia for the nerve agent attack that Russia carried out against Sergei Skripal and his daughter Yulia Skripal in the United Kingdom in 2018.<sup>1</sup>**

The new sanctions will take effect August 26, 2019, amid mounting domestic pressure on the Trump Administration to enforce sanctions on Russia for the Skripal attack,<sup>2</sup> and add to the extensive sanctions already imposed by the United States on Russia.

- ▶ The U.S. government will oppose loans or other assistance to Russia by the World Bank, the International Monetary Fund, and other international financial institutions.<sup>3</sup> Licenses for exports to Russia of dual-use chemical and biological items controlled by the U.S. Commerce Department will be subject to a presumption of denial.<sup>4</sup>
- ▶ The United States also will prohibit U.S. entities from lending to the Russian government in currencies other than rubles or participating in the primary market for Russian government bonds denominated in currencies other than rubles.<sup>5</sup>
- ▶ The prohibition on lending will not apply to ruble-denominated loans or bonds, and it will not affect U.S. participation in secondary markets for Russian government debt.<sup>6</sup> The financial sanctions will not apply to Russian state-owned enterprises.<sup>7</sup>

**The new sanctions are likely to have little effect on non-U.S. banks' sanctions enforcement risk exposure, because the new lending prohibitions apply only to U.S. entities and because, unlike other U.S. sanctions authorities targeting Russia, the statute under which these sanctions were imposed lacks a secondary sanctions provision.** As implemented, the sanctions that the Trump Administration chose to impose were among the softest that it could have selected under the Chemical and Biological Weapons (CBW) Act. Sanctions under the CBW Act could have included a full trade embargo, a downgrade in diplomatic relations, and harsher sovereign debt restrictions.<sup>8</sup>

- ▶ The Treasury Department said on August 3, 2019, that the new lending prohibitions only applied to U.S. entities.<sup>9</sup> The sanctions, authorized under the CBW Act appear to fall outside the scope of the secondary sanctions program created by the Countering America's Adversaries Through Sanctions Act (CAATSA).<sup>10</sup> The Treasury Department was silent on whether CAATSA's



secondary sanctions apply to the CBW sanctions program.<sup>11</sup>

- ▶ Non-U.S. banks should manage their enforcement exposure by guarding against facilitating transactions for U.S. entities related to non-ruble loans to the Russian government and for U.S. entities related to primary markets for non-ruble Russian bonds. Such transactions would fall under U.S. jurisdiction and expose the non-U.S. bank to enforcement actions.<sup>12</sup>
- ▶ Russia almost certainly can satisfy its near-term borrowing needs without issuing bonds denominated in euros or dollars and has no need to use its state-owned enterprises to evade the lending sanctions unless it becomes credit constrained. Russia's March 2019 eurobond and dollar eurobond offerings both were oversubscribed, with strong demand from non-U.S. investors.<sup>13</sup>



## Endnotes

- 1 State Department, "Imposition of a Second Round of Sanctions on Russia under the Chemical and Biological Weapons Control and Warfare Elimination Act," Aug. 2, 2019, <https://www.state.gov/imposition-of-a-second-round-of-sanctions-on-russia-under-the-chemical-and-biological-weapons-control-and-warfare-elimination-act/>.
- 2 House of Representatives Foreign Affairs Committee, letter from chair and ranking member to the President admonishing the President to discharge his obligations under the Chemical and Biological Weapons Act, July 25, 2019, [https://foreignaffairs.house.gov/\\_cache/files/4/4/4429d-7fc-0378-4841-8465-f155d2570fd-c/29DDD1C202F4B8A9CC0E29D46C442A0B.ele-mccaui-letter-to-president-trump-on-cbw-act.pdf](https://foreignaffairs.house.gov/_cache/files/4/4/4429d-7fc-0378-4841-8465-f155d2570fd-c/29DDD1C202F4B8A9CC0E29D46C442A0B.ele-mccaui-letter-to-president-trump-on-cbw-act.pdf).
- 3 State Department, "Imposition of a Second Round of Sanctions on Russia under the Chemical and Biological Weapons Control and Warfare Elimination Act," Aug. 2, 2019, <https://www.state.gov/imposition-of-a-second-round-of-sanctions-on-russia-under-the-chemical-and-biological-weapons-control-and-warfare-elimination-act/>.
- 4 State Department, "Imposition of a Second Round of Sanctions on Russia under the Chemical and Biological Weapons Control and Warfare Elimination Act," Aug. 2, 2019, <https://www.state.gov/imposition-of-a-second-round-of-sanctions-on-russia-under-the-chemical-and-biological-weapons-control-and-warfare-elimination-act/>.
- 5 Treasury Department, "Russia-Related Directive Under Executive Order of Aug. 1, 2019 ("CBW Act Directive)," Aug. 3, 2019, [https://www.treasury.gov/resource-center/sanctions/Programs/Documents/20190803\\_cbw\\_directive.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/20190803_cbw_directive.pdf).
- 6 Treasury Department, "Russia-Related Directive Under Executive Order of Aug. 1, 2019 ("CBW Act Directive)," Aug. 3, 2019, [https://www.treasury.gov/resource-center/sanctions/Programs/Documents/20190803\\_cbw\\_directive.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/20190803_cbw_directive.pdf).
- 7 Treasury Department, "Russia-Related Directive Under Executive Order of Aug. 1, 2019 ("CBW Act Directive)," Aug. 3, 2019, [https://www.treasury.gov/resource-center/sanctions/Programs/Documents/20190803\\_cbw\\_directive.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/20190803_cbw_directive.pdf).
- 8 22 U.S.C. 5404-5606.
- 9 Treasury Department, "Frequently Asked Questions No. 675," Aug. 3, 2019, [https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq\\_other.aspx#673](https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq_other.aspx#673).
- 10 "Countering America's Adversaries Through Sanctions Act," PL 115-44, Sec. 228, Aug. 2, 2018, <https://www.congress.gov/bill/115th-congress/house-bill/3364/text>.
- 11 Treasury Department, "Frequently Asked Questions No. 675," Aug. 3, 2019, [https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq\\_other.aspx#673](https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq_other.aspx#673).
- 12 Treasury Department, "Russia-Related Directive Under Executive Order of Aug. 1, 2019 ("CBW Act Directive)," Aug. 3, 2019, [https://www.treasury.gov/resource-center/sanctions/Programs/Documents/20190803\\_cbw\\_directive.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/20190803_cbw_directive.pdf).
- 13 Reuters, "UPDATE 3-Russia issues new dollar Eurobond, tops up euro issue," March 21, 2019, <https://www.reuters.com/article/russia-euro-bond-guidance/update-2-russia-issues-new-dollar-eurobond-tops-up-euro-issue-source-idUSL8N2182G4>.