Russia's Energy, Financial and Defense Sectors Are the Focus of the Last Round of Sanctions Under Biden

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In the days before former President Joe Biden left office, the U.S. announced two new rounds of sanctions against Russia, including expansive new sanctions against Russia's energy sector. According to its press release, the energy-focused actions by the U.S. Department of the Treasury's (Treasury's) Office of Foreign Assets Control (OFAC) were designed to "substantially increase the sanctions risk associated with the Russian oil trade."

- On January 10, 2025, OFAC added dozens of entities and individuals to the Specially Designated Nationals and Blocked Persons List (SDN List), including prominent Russian oil producers and exporters.
- OFAC also imposed a broad-based prohibition on the provision of "petroleum services" to Russia, effective February 27, 2025, and authorized future sanctions against persons operating in the "energy sector" of the Russian economy.
- On January 15, 2025, OFAC followed these actions with additional Russia-related sanctions targeting cross-border sanctions evasion and Russia's military industrial base, including the redesignation of nearly 100 previously sanctioned entities.

These rounds of sanctions — the last Russia-focused sanctions to be adopted by the Biden administration — add new layers of restrictions on Russia's energy sector as well as its financial and defense sectors, each already subject to extensive restrictions.[1]

Such restrictions include, in the energy sector context:

- A prohibition on provision of services with respect to specified energy projects.
- An import ban on energy products of Russian origin.
- A price cap on crude oil and petroleum products of Russian origin.
- The imposition of sanctions on a substantial number of individuals and entities operating in Russia's energy sector.

Early statements from President Donald Trump and Scott Bessent, his nominee for secretary of the Treasury, appear to indicate that the Trump administration may continue to impose sanctions on Russia in an effort to bring Russia to the negotiating table to end the war in Ukraine.

New Blocking Sanctions Targeting Russia's Energy Sector

Treasury, in consultation with the U.S. Department of State (State), issued a determination pursuant to Executive Order 14024 (EO 14024 Determination), to authorize the imposition of sanctions on any person determined to operate or have operated in the "energy sector" of the Russian economy.

According to the provisional definition OFAC set out in its Frequently Asked Questions (FAQs), the term "energy sector" with respect to the Russian economy is expected to be interpreted broadly to include:

[1] This client alert is for informational purposes only and does not constitute legal advice. Complex assessments often have to be made as to which sanctions regime applies in any given instance, given the multinational touch points of many entities and individuals. In that regard, given the complex and dynamic nature of these sanctions regimes, there may be developments not captured in this summary. Moreover, while the summary was accurate when written, it may become inaccurate over time given developments. For all of these reasons, you should consult with a qualified attorney before making any judgments relating to sanctions, as there are potentially severe consequences of failing to adhere fully to sanctions restrictions.

activities such as the procurement, exploration, extraction, drilling, mining, harvesting, production, refinement, liquefaction, gasification, regasification, conversion, enrichment, fabrication, manufacturing, testing, financing, distribution, purchase or transport to, from, or involving the Russian Federation, of petroleum, including crude oil, lease condensates, unfinished oils, natural gas, liquefied natural gas, natural gas liquids, or petroleum products, or other products capable of producing energy, such as coal, wood, or agricultural products used to manufacture biofuels; the development, production, testing, generation, transmission, financing, or exchange of power, through any means, including nuclear, electrical, thermal, and renewable, to, from, or involving the Russian Federation; and any related activities, including the provision or receipt of goods, services, or technology to, from, or involving the energy sector of the Russian Federation economy.

Concurrently with and in reliance on the EO 14024 Determination, OFAC made significant additions to the SDN List under EO 14024. Notably, OFAC designated, in coordination with the United Kingdom's Office of Financial Sanctions Implementation (OFSI), two major Russia-based, vertically integrated oil companies: Public Joint Stock Company Gazprom Neft and Surgutneftegas. In addition, OFAC designated more than two dozen of their respective subsidiaries.

OFAC also sanctioned over 180 vessels it identified as associated with Russia's "shadow fleet," mostly oil tankers that have shipped Russian and Iranian oil, and two Russia-based maritime insurance providers. Traders in Russian oil, oilfield service providers, and Russian energy officials and executives were also targeted.

State also designated numerous entities pursuant to EO 14024, including liquefied natural gas and Russian oil projects, as well as the CEO and members of the management board of State Atomic Energy Corporation Rosatom.

On January 15, 2025, OFAC newly designated certain financial institutions and other actors under EO 14024 for various sanctions evasion schemes and redesignated dozens of entities in the energy, financial, and defense sectors under EO 13662. State designated over 150 entities tied to Russia's military industrial base including a number of individuals and entities located outside of Russia, with a particular focus on China.

Secondary Sanctions Considerations

The EO 14024 Determination creates a new authority to impose sanctions against parties operating in Russia's energy sector. While preexisting authorities — including EO 13662 — already authorized OFAC to add companies operating in Russia's energy sectors to the SDN List, the EO 14024 Determination confirms that the energy sector will be an area of continued focus for U.S. sanctions implementation.

These redesignations under EO 13662 have further secondary sanctions implications and add a potential layer of review before certain sanctions can be removed.

The new designations and redesignations carry the secondary sanctions risk attendant to any designations pursuant to EO 13662 and/or EO 14024. EO 14024 has been the main Russia sanctions designation authority over the past two years. It was amended by EO 14114, which introduced the possibility that secondary sanctions could be imposed on financial institutions that, with or without knowledge, facilitate "significant transactions" with or provide services to the Russian military industrial base.

Subsequent OFAC guidance clarified that any person blocked under EO 14024 is to be considered part of Russia's military industrial base. This means that, even without any U.S. jurisdictional nexus, foreign financial institutions that facilitate transactions with or offer services to persons designated under EO 14024 — or to persons who may be designated in the future — may face the risk of becoming the subject of U.S. sanctions, up to and including addition to the SDN List.

The redesignations under EO 13662 carry additional secondary sanctions implications on top of those under EO 14024. Under the Countering America's Adversaries Through Sanctions Act (CAATSA), foreign persons — including (but not limited to) foreign financial institutions — risk sanctions for knowingly facilitating "significant transactions" with Russian parties sanctioned under qualifying authorities, including EO 13662.

Therefore, the EO 13662 redesignations result in secondary sanctions risk for any foreign persons — whether foreign financial institutions or other companies or individuals — if they engage in transactions with such sanctioned parties.

Finally, the redesignations under EO 13662 also create a layer of administrative hurdles, should the new administration wish to lift sanctions in the future. CAATSA gave Congress enhanced oversight authority over certain designations, including pursuant to EO 13662. Consequently, the redesignation under EO 13662 could hinder the executive branch's ability to unliterally and quickly lift sanctions on at least some of the newly redesignated parties.

Wind-Down and General Licenses

In addition to the EO 14024 Determination and attendant designations, Treasury also published a suite of new and revised General Licenses. Notably, General License (GL) 8L effectively converts into a wind-down license the GL that previously authorized certain dealings with specified blocked financial institutions and their subsidiaries relating to energy.

GL 8L now authorizes only transactions ordinarily incident and necessary to wind down such previously authorized transactions related to energy through March 12, 2025. By phasing out the prior authorization, Treasury seeks to further diminish Russia's ability to leverage its energy sector in its war against Ukraine.

Additionally, GLs 117 and 118 authorize, respectively:

- Wind-down activities involving Gazprom Neft, Surgutneftegas and certain other entities blocked on January 10, 2025.
- The divestment or transfer, or the facilitation of the divestment or transfer, of debt or equity issued by Gazprom Neft, Surgutneftegas and other specified entities to non-U.S. persons.

Both GLs are in effect until February 27, 2025.

Additional new GLs authorize other activities, including certain transactions related to:

- Civil nuclear energy (GL 115A).
- The official business of diplomatic or consular missions located outside of Russia that involve Gazprom Neft or its subsidiaries (GL 119).
- Limited safety and environmental transactions and the unloading of cargo involving specified blocked entities and vessels (GL 120).
- Certain blocked entities (GL 122).

Many of the GLs only authorize these activities for limited periods of time.

Prohibition on Providing US Petroleum Services to Russia

Also on January 10, 2025, OFAC issued a separate determination — pursuant to EO 14071 — prohibiting the exportation, reexportation, sale or supply, directly or indirectly, from the U.S., or by a U.S. Person to any person located in Russia of "petroleum services" (EO 14071 Determination). The prohibition takes effect on February 27, 2025.

OFAC stated that it expects to issue regulations defining the term "petroleum services" to include:

services related to the exploration, drilling, well completion, production, refining, processing, storage, maintenance, transportation, purchase, acquisition, testing, inspection, transfer, sale, trade, distribution, or marketing of petroleum, including crude oil and petroleum products, as well as any activities that contribute to Russia's ability to develop its domestic petroleum resources, or the maintenance or expansion of Russia's domestic production and refining.

Despite this broad definition, certain key services are excluded from the prohibition.

First, so-called "covered services" related to the maritime transport of crude oil and petroleum products of Russian origin are excluded from the Determination, and thus, without more, are not prohibited, provided that such crude oil or petroleum products are purchased at or below the relevant determined price caps. These "covered services" are described in OFAC's 2023 Guidance on Implementation of the Price Cap Policy.

These "covered services" include:

- Shipping and freight services.
- Maritime insurance and reinsurance.
- Brokerage services.
- Financing.
- Trade facilitation.
- Customs clearance services.
- Technical services.
- Certification and inspection services.

Second, petroleum services related to isotopes derived from petroleum manufacturing that are used for medical, agricultural or environmental purposes, such as Carbon-13, are also excluded.

Third, and consistent with similar determinations under EO 14071, any service in connection with the wind-down or divestiture of an entity located in Russia that is not owned or controlled, directly or indirectly, by a Russian person are also excluded.

Finally, OFAC also issued GL 121, which specifically authorizes until June 28, 2025, the provision of petroleum services that are related to the operations of the Caspian Pipeline Consortium, Sakhalin-2 or Tengizchevroil projects.

Final Thoughts

These measures, the last round of sanctions targeting Russia before the incoming Trump administration was sworn in, adopt an even more aggressive posture vis-à-vis the Russian energy sector and persons engaged in or supporting it.

The designations of prominent Russian oil majors and adjacent service providers, as well as the new ban on provision of petroleum services, have already had an impact on energy markets and are likely to create further pressure on Russia's energy sector.

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