

Sanctions Matter

An introduction to economic sanctions

February 2024



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What are economic sanctions?

What is the purpose of economic sanctions?

Who administers sanctions?

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About the Speaker

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Mixologist

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What are economic sanctions?

U.S. DEPARTMENT OF THE TREASURY
Treasury Targets Price Cap Violation-Linked Shipping Company
January 18, 2024
WASHINGTON — (OFAC) is taking its first oil price cap enforcement action of 2024, targeting a shipping company linked to a price cap violation. “Today’s actions once again demonstrate that anyone who violates the price cap will face the consequences,” said Deputy Secretary of the Treasury Wally Adeyemo. “No one should doubt our coalition’s commitment to stopping those who help the Kremlin.”

Key definition

Sanctions are measures or actions taken against a target to influence its behavior, policy, or actions

Sanctions consist of three components

- Economic action
- Imposed against a target (e.g., a state, class of persons, an individual person, or even a sector of an economy)
- To influence the target’s actions or induce a change in behavior

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What is the purpose of economic sanctions?



Sanctions can provide an **alternative to the use of force**. They are an extension of a nation's foreign policy to bring about another nation's change in behavior or foreign policy.

In relation to changing a nation's behavior, sanctions may be used for:

- **Deterrence**
- **Prevention** (war, nuclear/WMD proliferation)
- **Punishment** (human rights abusers; drug traffickers)
- *Promoting* democratic values

Sanctions can target geography or activities.

Sanctions can also target cross-cutting thematic issues, as in the case of counter-narcotics.

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Who are the key bodies who administer economic sanctions?



Office of Foreign Assets Control (OFAC)

US OFAC Mission Statement

The Office of Foreign Assets Control (OFAC) of the US Department of the Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States.



Office of Financial Sanctions Implementation (OFSI)

UK OFSI Mission Statement

The Office of Financial Sanctions Implementation (OFSI) helps to ensure that financial sanctions are properly understood, implemented and enforced in the United Kingdom.

OFSI, which is a part of HM Treasury, enables financial sanctions to make the fullest possible contribution to the UK's foreign policy and national security goals. It also helps to maintain the integrity of, and confidence, in the UK financial services sector.



European Commission

EU Sanctions Mission Statement

Restrictive measures, or sanctions, are one of the EU's tools to promote the objectives of the Common Foreign and Security Policy (CFSP).

These include safe-guarding the EU's values, its fundamental interests and security; consolidating and supporting democracy, the rule of law, human rights and the principles of international law; preserving peace; preventing conflicts and strengthening international security.

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Who is subject to economic sanctions?



Individuals

Any citizen and/or permanent residents wherever located, including inside or outside the given jurisdiction.



Branches/Affiliates

All branches of US companies and other entities throughout the world



Companies

Companies and other entities organized under the specific jurisdictions law, including companies who are HQ in US but have operations in EU/UK.



Extend to onboard in international waters

On board any aircraft or any vessel under the jurisdiction of a Member State



Organizations

All people and organizations, whatever their origin, physically in the jurisdiction specified.



Extend to persons within jurisdictions airspace

Within the territory of the jurisdiction, including its airspace

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What are examples of different types of sanctions?

Type	Sanctions description	Examples/Use Case
<p>Comprehensive sanctions</p> 	<p>Comprehensive sanctions aim to prevent all transactions between a sanctioning country and the sanctioned country. Comprehensive sanctions nonetheless generally allow for exemptions for humanitarian and medical purposes under a general license. However, outside of those exemptions, there can be no imports, exports, provision of financing, exchange or distribution of technology, or any other financial or trade activity.</p>	<p>Iran, Syria, Cuba, North Korea</p>
<p>Targeted Sanctions</p> 	<p>Prohibit dealings with specific individuals or entities, wherever located, e.g., certain oligarchs, corrupt officials, etc. Targeted sanctions, sometimes called “smart sanctions,” allow for greater discrimination in imposing sanctions, especially considering that a particular geographic location can contain many different ethnicities, minorities, and other groups.</p>	<p>Terrorist organizations, corrupt officials, certain oligarchs, etc</p>
<p>Sectoral Sanctions</p> 	<p>Sectoral sanctions restrict dealings within a specific sector or industry of the target country’s economy. Sectoral sanctions target key entities as well as sectors of a country’s economy. These sanctions are meant to be highly tailored.</p>	<p>China’s military-industrial complex companies (CMICs), oil and gas (pre-2022), Oil/gas/gold of Venezuela</p>

What are examples of different types of sanctions?




Type	Sanctions description	Level of screening performed
 Travel Bans	Travel bans are sanctions that limit where an individual can travel. They often come in the form of denying visas to individuals, such as political and military leaders of the sanctioned country. These travel bans can undermine leaders' legitimacy, illustrate moral resolve, and also cut off these individuals from accounts that they may hold overseas.	Cuba
 Trade-based Sanctions	Embargoes are trade sanctions that intend to limit the targeted country's imports and exports. Trade sanctions in the form of limits on a country's exports aim at reducing its foreign sales and its foreign exchange. Trade sanctions in the form of limits on a country's imports (or the sanctioning country's exports to the target country) aim to deny the targeted country critical goods.	Cuba, OPEC Oil embargo, North Korea
 Financial Sanctions	Governments may impose financial sanctions by prohibiting government loans and intergovernmental loans to targeted countries, or they may interrupt their commercial finance by labeling them as non-cooperative or of primary money laundering concern. This hurts the economy by causing the target country to pay higher interest rates and also by drying up their funding, as creditors avoid the additional credit risk or the risk of being sanctioned themselves	China investment restriction

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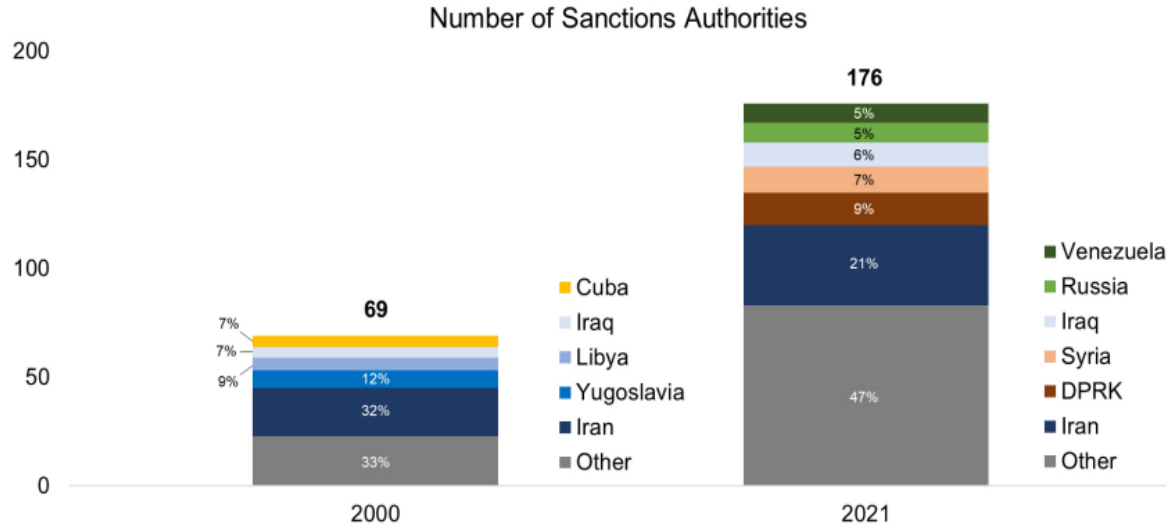
Who is subject to sanctions?

What are the sanctions types?

Why do sanctions matter?

How do companies cope with sanctions?

So what? Who cares? Why do sanctions matter?



High penalties for the business

Companies face \$368,136 per violation even if the violation is inadvertent.

Use of sanctions is increasing:

Recent geopolitical shocks, such as the Russian invasion of Ukraine, have added new layers to the global sanctions environment

With increasing international tensions, it is possible that this trend may continue in the years ahead

Fifty-percent rule:

Any entity controlled or owned by 50% or more by a sanctioned person is subject to the same restrictions and prohibitions. Firms are prohibited from engaging directly or indirectly with these entities.

Secondary sanctions

Secondary sanctions apply to non-US persons who are involved in transactions with individuals and entities in other countries. For example, the US may sanction foreign financial institutions for providing services to Russia.

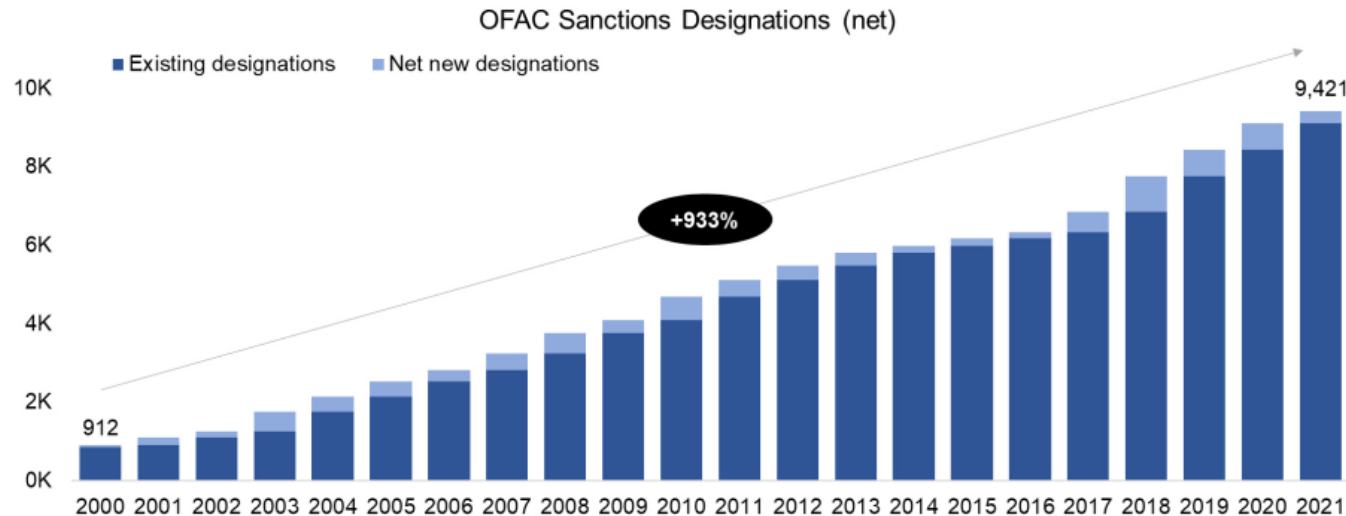


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How do companies cope with the rising use of sanctions?



Name // Transaction // Payment // Trade Screening



Sanctions screening is one of the key controls of an effective sanctions compliance program. Screening involves checking information obtained about a person, entity, goods, or services against sanctions lists that prohibit making funds or financial services available and/or restrict or prohibit trade in certain goods or services.

When screening generates an alert, the data is reviewed and assessed and escalated if needed. Typically, this process is automated and conducted by a third-party data provider.



Contractual Guardrails // Carve-Outs // Attestations

Contractual guardrails, carve outs, and attestations represent controls whereby an organization asks the counterparty to agree that they will not transfer any benefits to a sanctions party, whether directly and/or indirectly.



Geo-blocking // IP Blocking

Geo-blocking or IP blocking is an important internal control that is increasingly becoming one of the key areas that regulators like OFAC are paying attention to.

It refers to the process of blocking certain users from certain jurisdictions from accessing internet content. For instance, an organization might block IP addresses from North Korea and/or Syria to ensure they are not inadvertently providing services to these comprehensively sanctioned jurisdictions.



Due Diligence

Know your customer (KYC) / Customer due diligence (CDD) is a set of internal controls that enable an organization to understand a client's identity. This may be done by collecting specific information on the client or conducting open-source research to uncover the beneficial ownership of the client.