

## US Government Halts Licensing for Key Exports to Russia in Response to Events in Ukraine

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In a further sign of the broadening of U.S. restrictions relating to Russia because of the situation in Ukraine, the United States has taken steps to limit trade with Russia in U.S.-origin goods and services that are controlled for national security reasons. This latest step is in addition to the economic sanctions already announced.<sup>1</sup>

Specifically, on March 26, 2014, the U.S. State Department, Directorate of Defense Trade Controls (DDTC) publicly confirmed that as of March 24, 2014, it had halted licensing of exports of defense articles and defense services to Russia. This action is highly significant for U.S. companies across the defense and aerospace sectors doing business with Russia and Russian companies because U.S. law generally prohibits the export, re-export and transfer of goods and services in these sectors without a license from DDTC. Moreover, DDTC's suspension of licensing likely will affect overseas subsidiaries, subcontractors, joint venture partners, licensees, agents and brokers of U.S. companies that do defense-related business with Russia and Russian companies, since all of these entities can be subject to DDTC's licensing jurisdiction.

The U.S. Commerce Department, Bureau of Industry and Security (BIS) also has now publicly announced that since March 1, 2014, it has suspended licensing of exports of U.S.-origin "dual-use" items (*i.e.*, items that have both civilian and military applications) to Russia. This step has the potential to have an even greater impact than the action taken by DDTC because of the broad base of U.S. industries that export dual-use items to Russia (either directly or indirectly through overseas partners and distributors). Indeed, the scope of dual-use items BIS regulates includes goods, software and technology in such diverse fields as aeronautics, materials processing, telecommunications, chemicals and information security. According to BIS statistics, U.S. exports to Russia of goods, technology, and software subject to BIS's jurisdiction totaled nearly \$1.5 billion in 2013.

U.S. companies and their overseas affiliates that deal in U.S.-origin defense articles and services and dual-use items will need to factor these latest developments into their business planning and current contractual obligations. Given the potentially severe civil and criminal penalties for violations of U.S. export licensing requirements — not to mention the costs that could arise from stalled license applications and other resulting delays — companies should exercise caution and institute timely preventative action and careful contingency planning.

Skadden's U.S. export controls and economic sanctions team continues to monitor the situation closely. We encourage you to contact any of the attorneys listed here or your regular Skadden contact with any questions specific to your situation or business.

<sup>1</sup> See "An Update on Economic Sanctions Related to Events in Ukraine" (March 26, 2014), available at <http://www.skadden.com/insights/an-update-on-economic-sanctions-related-to-events-ukraine-march-26-2014>.