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State Touts Increased Arms Sales

Write it down, make it happen. Or to quote a classic movie: "If you build it, they will come." State Nov. 8 highlighted its progress in implementing a new Conventional Arms Transfer (CAT) export policy to make it easier to export conventional arms. At the same time, the department touted the fact that in fiscal year (FY) 2018, authorized arms exports rose 13% to $192.3 billion.

> "To date, the Administration has made great progress in developing strategies to compete against strategic and economic rivals, has revised numerous policies to increase U.S. competitiveness, has reduced costs, is on track to streamline regulations and improve processes, among other accomplishments," State said in a fact sheet. State outlined its "implementation plan" for the CAT policy in July (see **WTTL**, July 23, page 5).

Specifically, the growth includes a 33% increase in foreign military sales, to $55.66 billion in FY18 from FY17. In addition, direct commercial sales totaled $136.6 billion in FY18, a 6.6% increase from FY17, State noted. "Current year numbers are not predictive of future year sales, which may increase or decrease due to several factors, including fluctuating foreign defense budgets, regional security issues, and ongoing changes to defense trade licensing jurisdiction with changes in technology," the department said.

Nonprofit groups sounded an alarm over the increased sales. "The continued focus on more and faster arms sales, without a concurrent commitment to transparency that enables greater responsibility, is dangerous," Jeff Abramson, senior fellow, Arms Control Association, tweeted.

Treasury Designates More Russians over Crimea

Despite the president's claim that the annexation of Crimea had nothing to do with his administration, Treasury's Office of Foreign Assets Control (OFAC) Nov. 8 designated

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nine entities and three individuals for "supporting Russia's attempts to integrate Crimea through private investment and major privatization projects," as well as "those engaging in serious human rights abuses in furtherance of Russia's occupation or control over parts of Ukraine," the agency said.

The sanctioned entities are the Ministry of State Security of so-called Luhansk People's Republic (LPR), Mriya Resort and Spa, Limited Liability Company Garant-SV, Limited Liability Company Infrastructure Projects Management Company (LLC UKIP), Joint Stock Company Sanatorium AY-Petri, Joint Stock Company Dyulber, Joint Stock Company Sanatorium Miskhor, KRIMTETS, AO, and Limited Liability Company Southern Project.

The sanctioned individuals are Andriy Volodymyrovych Sushko, an officer in the Russian Federal Security Service (FSB); Aleksandr Basov, the deputy minister of state security of LPR; and LLC UKIP registered founder and owner Vladimir Nikolaevich Zaritsky. OFAC designated LPR leader Yuriy Ivakin among others in March 2015 (see **WTTL**, March 16, 2015, page 4).

For one, the Mriya Resort and Spa is the venue for the Yalta International Economic Forum (YIEF), which is "an annual business event held in the so-called 'Republic of Crimea' that is the main Russian platform for showcasing investment opportunities in Crimea." Treasury said.

"Treasury remains committed to targeting Russian-backed entities that seek to profit from Russia's illegal annexation and occupation of Crimea. Our sanctions are a clear reminder that efforts seeking to normalize investment and economic relationships with those operating in Crimea will not be tolerated and are subject to U.S. and EU sanctions authorities," Sigal Mandelker, Treasury under secretary for terrorism and financial intelligence, said in a statement.

At a White House press conference the day before the sanctions announcement, the president acknowledged he discussed the annexation with President Putin in Helsinki; the two discussed Ukraine, "about the fact that President Obama allowed a very large part of Ukraine to be taken," he said. "It was President Obama that allowed it to happen. It had nothing to do with me," the president added.

Separately, House Foreign Affairs Committee Chairman Ed Royce (R-Calif.) Nov. 6 questioned the administration's response to Russia's missed deadline in complying with requirements of the Chemical and Biological Weapons (CBW) Act (see **WTTL**, Aug. 13, page 3). "It is unacceptable that the administration lacks a plan – or even a timeline – for action on the second round of mandatory sanctions required by U.S. law," Royce said.

Assistant Secretary of State Manisha Singh made that commitment at a September committee hearing. "We are looking at this November deadline and absolutely we plan to impose a very severe second round of sanctions under the CBW," she told the committee. "We have indicated to them that they can…make themselves not subject to these sanctions if they allow the onsite inspections, … if they give us a verifiable assurance that they will not use these nerve agents against their own people again; they have not done so so far."

Midterm Election Brings Mixed Bag for Trade

Although trade was not a top issue in voters' minds in the midterm, the election results could have real consequences on policy and legislation that will come before Congress. The trade agenda will include a vote on the new NAFTA, a farm bill, and down the road, perhaps deals with the European Union (EU) and the United Kingdom (UK).

> The updated NAFTA, now called the U.S.-Mexico-Canada (USMCA) trade agreement, was not a done deal in the old Congress, and might be even more difficult in the new one. "The USMCA's chances were already far from assured before the Democrats took the House. Now its failure is very likely," Steven Pressman, a Colorado State University economics professor, wrote in a blog post.

Soon after the election results were in, the American Soybean Association (ASA) urged the lame-duck Congress to pass a five-year Farm Bill. "Agriculture has always depended on support from both sides of the aisle, and now that the midterm elections are over, the [ASA] expects that longstanding bipartisan cooperation to be renewed," the organization said in a statement Nov. 7. "ASA remains positive that Members of the House and Senate Agriculture Committees can resolve differences between their respective bills and agree on a compromise version in December," it added.

The bill currently under discussion includes an amendment that would allow farmers to use trade promotion funds to finance certain agricultural exports to Cuba (see **WTTL**, Sept. 10, page 3). That amendment was co-authored by Sens. Heidi Heitkamp (D-N.D), who lost her reelection.

Like Heitkamp, the two other Democratic senators that lost their seats in agricultural, red states – Sens. Claire McCaskill (D-Mo.) and Joe Donnelly (D-Ind.) -- all had argued against the Section 301 tariffs against China. Again, that might not have had a bearing on their electoral fate; many pundits thought their days were numbered even before the administration imposed a single tariff.

Did tariffs affect the House midterm election? Perhaps. Dan Ikenson of the Cato Institute correlated the number of steel and aluminum tariff exclusion requests with the election results. He cited the 30 districts that "represent the most steel tariff exclusion requests (proxy for tariff pain). 3 of top 5 districts flipped blue," he tweeted Nov. 8. Those three districts -- Illinois' 6th, Texas' 7th and Michigan's 11th -- account for almost 6,000 exclusion requests, Ikenson noted.

Iranian Banks, Aircraft, Shippers Return to Sanctions List

Six months after the president announced the U.S. withdrawal from the Joint Comprehensive Plan of Action (JCPOA), the reimposed sanctions went into effect Nov. 5. With the wind-down period ended on Iran sanctions, industry is trying to figure out what this means for businesses with international subsidiaries and partners.

Treasury Secretary Steven Mnuchin called the designation of 700 individuals, entities, aircraft and vessels "Treasury's largest ever single day action targeting Iran" at a joint press briefing Nov. 5. "Our actions include the identification of more than 400 targets, including over 200 persons and vessels in Iran's shipping and energy sector; Iran Air, the national airline of Iran, and more than 65 aircraft; the placement of nearly 250 persons in associated block properties on the Specially Designated Nationals [SDN] list; the Atomic Energy Organization of Iran," Mnuchin said.

> The sanctions also include the designation of 50 Iranian banks and their foreign and domestic subsidiaries, according to a Treasury fact sheet. This list includes Bank Melli "for assisting in, sponsoring, or providing financial, material, or technological support for, or financial or other services to or in support of, the IRGC-QF." Among those in Iran's shipping sector placed on the SDN List are Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines (IRISL), and oil transport giant National Iranian Tanker Company (NITC).

At the same time, the U.S. will grant exemptions to China, India, Italy, Greece, Japan, South Korea, Taiwan and Turkey for reducing their purchase of Iranian oil. At a briefing Nov. 5, Secretary of State Mike Pompeo said, "Each of those countries has already demonstrated significant reductions of the purchase of Iranian crude over the past six months, and indeed two of those eight have already completely ended imports of Iranian crude and will not resume as long as the sanctions regime remains in place. We continue negotiations to get all of the nations to zero." Pompeo had announced the waivers a few days earlier, without revealing the specifics (see **WTTL**, Nov. 5, page 1).

At the same time, the International Atomic Energy Agency (IAEA) continues to verify and monitor Iran's compliance with its JCPOA. "Iran is implementing its nuclear-related commitments under the JCPOA. It is essential that Iran continues to fully implement those commitments," IAEA Director General Yukiya Amano told the UN General Assembly Nov. 9.

Lawmakers who opposed the Iran nuclear deal applauded the reimposed sanctions. "The Trump administration deserves credit for re-imposing sanctions and dramatically reducing Iran's oil exports and revenues," said Sen. Bob Corker (R-Tenn.) in a statement. "I support the administration in its pursuit of a better Iran deal – one without the sunset provisions that ultimately would have enabled Iran to achieve a nuclear weapons capability – and believe that imposing maximal economic pressure on Iran is vital for getting Iran back to the table."

Representative Eliot L. Engel denounced the sanctions waivers in particular. “Countries are free to conduct sanctionable activity that lines Iran’s coffers, which could allow the regime to continue its support for terrorism and other destabilizing behavior across the region. We do need to be tough on Iran, but we’ve given up the assurances that Iran will abide by the limits and strict monitoring of the nuclear agreement,” he said in a statement.

As soon as the sanctions went into effect, trade lawyers were ready to advise companies on adapting to the new sanctions. “U.S. parent companies must strengthen their oversight of the operations of separately-incorporated overseas subsidiaries to prevent inadvertent violations of the renewed Iranian sanctions. To the extent that foreign subsidiaries of U.S. companies were permitted to transact with Iran under authorizations pursuant to the JCPOA, U.S. companies must now ensure those transactions have ceased or remain eligible under OFAC general or specific authorizations,” wrote Nelson Dong, a senior partner at law firm Dorsey & Whitney, in an email to WTTL.

* * * Briefs * * *

STEEL FITTINGS: In 5-0 final vote Nov. 8, ITC found U.S. industry is materially injured by dumped imports of forged steel fittings from China and Italy and subsidized imports from China.

SILICOMANGANESE: In “sunset” votes Nov. 2, ITC said revoking antidumping duty orders on imports of silicomanganese from China and Ukraine would renew injury to U.S. industry. Vote on Ukraine was 5-0; China was 4-1. Commissioner Meredith Broadbent voted no.

ALUMINUM WIRE AND CABLE: In 5-0 preliminary vote Nov. 2, ITC found U.S. industry may be injured by allegedly dumped and subsidized imports of aluminum wire and cable from China.

STEEL KEGS: In 5-0 preliminary votes Nov. 2, ITC found U.S. industry may be injured by allegedly dumped imports of refillable stainless steel kegs from China, Germany, and Mexico and subsidized imports from China.

AGOA: Administration will terminate Mauritania’s AGOA eligibility as of Jan. 1, 2019, due to forced labor practices, in particular “the scourge of hereditary slavery,” USTR announced Nov. 2. In addition, Mauritania “continues to restrict the ability of civil society to work freely to address anti-slavery issues,” it added. U.S. “will continue to monitor whether Mauritania is making continual progress,” release said.

EXPORT ENFORCEMENT: Iranian citizen Arash Sepehri pleaded guilty Nov. 7 in D.C. U.S. District Court for his role in conspiracy to export controlled goods and technology to Iran via Hong Kong without Commerce or OFAC licenses. Sepehri was owner and managing director of Iranian company, Tajhiz Sanat Shayan (TSS). He pleaded guilty to violating International Emergency Economic Powers Act and Iran sanctions. Sentencing is scheduled for Jan. 16, 2019. He was arrested in June and remains in custody. Indictment was unsealed in June 2018. Items included Side Scan Sonar System, manufactured by Massachusetts company, which was classified under Export Control Classification Number (ECCN) 6A991, controlled for anti-terrorism purposes.

SUDAN: U.S. is “prepared to initiate the process of rescinding Sudan’s designation as a State Sponsor of Terrorism” if country makes progress on six key areas of mutual concern, State

Spokesperson Heather Nauert said in press statement after bilateral meeting Nov. 7. Key areas include: counterterrorism cooperation; human rights protections and practices, including freedoms of religion and press, humanitarian access; ceasing internal hostilities and creating a more conducive environment for progress in Sudan's peace process; taking steps to address certain outstanding terrorism-related claims, and adhering to UN Security Council resolutions on North Korea. Administration in October 2017 revoked certain sanctions on Sudan, but did not remove designation (see **WTTL**, Oct. 9, 2017, page 9).

RUSSIA: OFAC Nov. 9 issued general license (GL) 13G, extending previous GL that expanded sanctions relief for certain designated firms. Specifically, OFAC extended GL expiration date for certain firms to Jan. 7, 2019, from Dec. 12. OFAC also issued GLs 14C, 15B and 16C extending authorization for transactions related to GAZ Group, EN+ Group PLC, RUSAL and other companies until same date.

TRADE DEALS: USTR Nov. 9 requested ITC reports on "probable economical effect of providing duty-free treatment for imports of currently dutiable products" from UK and EU "on (I) industries in the United States producing like or directly competitive products, and (ii) consumers." USTR requested similar report on Japan in October after administration announced trade talks with all three partners (see **WTTL**, Nov. 5, page 7).