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Sanctions: Will the Trump administration stay the course?

President Trump made many statements during the campaign regarding actions he plans to take to reverse Obama administration sanctions policies.[1] These included revisiting the agreement to ease sanctions on Iran, rolling back the sanctions program against Russia, and reversing the Obama administration's policy of easing sanctions on Cuba. However, we believe that reversing course on these policies is much easier said than done.

For example, several of the Obama administration's sanctions policies – including those involving Iran and Russia – were part of multilateral actions rather than unilateral sanctions programs, so breaking from such agreements will be difficult. Iran and the other parties to the Iran agreement have signaled their unwillingness to renegotiate, and the EU is unlikely to reverse sanctions against Russia without a change in Russian policy regarding Crimea. Additionally, recent concerns regarding alleged Russian hacking have led to bipartisan support from Congress to block any scaling back of sanctions on Russia.

While President Trump criticized the Obama administration's policy of easing sanctions on Cuba during the campaign, the popularity of the policy as well as its positive effects on Cuba's economy will make reimposing sanctions a low priority for the President. Similarly, the Trump administration has little incentive to reverse Obama's policies of easing sanctions on Myanmar[2] and Sudan unless either country changes their behavior (e.g., promoting democratic reforms, or cooperating with US intelligence).

This **financial crimes observer** provides our perspective on what to expect in the sanctions landscape this year.

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[1] For our view on how the Trump administration will impact financial regulations, including sanctions and anti-money laundering regulations, see PwC's *First take, Donald Trump's victory: Ten key points* (November 2016).

[2] See PwC's *Financial crimes observer, Sanctions: Myanmar restrictions lifted* (December 2016).

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The sanctions landscape

Despite campaign rhetoric around reversing many of the Obama administration's sanctions policies, we believe the Trump administration will largely stay the course.

Iran

Although President Trump had been vocal during his campaign against the easing of sanctions on Iran, the Trump administration is unlikely to reverse the deal. The sanctions relief occurred under the Joint Comprehensive Plan of Action (JCPOA), a multilateral agreement between Iran, the European Union, Germany, and the five permanent members of the UN Security Council.[3] Because the other parties to the JCPOA have signaled their unwillingness to renegotiate the agreement, it will be difficult for the Trump administration to alter the deal.

While we do not expect the JCPOA to be reversed, financial institutions should be aware that US institutions remain largely prohibited from transacting with Iran. Additionally, the US Treasury's Office of Foreign Assets Control (OFAC) just added several Iranian individuals and entities deemed connected to recent missile tests to the Specially Designated Nationals (SDN) list.[4] While these new designations do not involve or alter the JCPOA, they create additional complexities for those both inside and outside the US when considering transactions with an Iranian nexus.

An additional risk for financial institutions is that the JCPOA contains a "snapback" provision, which would restore all lifted sanctions if Iran violates any provision of the agreement. Additionally, Iran's launch of a ballistic missile earlier this week could potentially be found to violate UN weapons prohibitions, which would give the Trump administration broader international support to discuss restoring sanctions. Therefore, EU firms doing business with Iran should seek to enter into shorter term agreements with Iranian counterparties or include escape provisions in long term agreements.

Finally, US firms risk becoming indirectly involved in prohibited transactions through an EU counterparty dealing with Iran. Therefore, US firms should closely monitor their activities for any involvement with Iranian parties, as impermissible transactions may be nestled within seemingly permissible ones.

Russia

Throughout the campaign, President Trump often advocated strengthening US ties with Russia and discussed revisiting the sanctions issued against many Russian political leaders, banks, and companies.[5] Last week, Trump suggested that he is open to lifting sanctions on Russia, though he plans to keep them for "at least a period of time." However, we believe that rolling back the sanctions program against Russia will be unlikely for a number of reasons.

First, the Trump administration will face opposition from Congress if they attempt to lift sanctions on Russia. Recent concerns over alleged Russian hacking as well as lasting tensions over Russia's annexation of Crimea have prompted a bipartisan group of senators to support a bill that would block any moves to reduce such sanctions.

Additionally, the sanctions against Russia were issued in conjunction with the EU, which does not appear to have an appetite to change its sanctions program against Russia barring a significant development in Ukraine. The US's close relationship to its European allies makes it difficult for the US to turn its back on the EU regarding continued enforcement of sanctions on Russia.

Finally, the Trump administration would face significant public backlash if they were to take steps to lift sanctions against Russia, due to concern over Russia's alleged cyber attacks. Notably, President Trump spoke with Russian President Vladimir Putin last week, and the topic of sanctions was not raised during the call.

Cuba

President Trump has given mixed signals on the Obama administration's steps to ease sanctions against Cuba.[6] During his campaign, he made statements pledging to reverse the Obama administration's policies and close the US embassy in Havana. However, he has also claimed that he will not restore sanctions but will rather renegotiate the terms of the sanctions program.

Given the widely-held view that the Cuba sanctions program has been ineffective, the opportunities for US businesses to expand their presence in Cuba, public support behind the easing of sanctions on Cuba, and the positive effects that the easing of sanctions has had on Cuba and its economy, we believe that reversing the Obama administration's Cuba policy will not be a high priority for President Trump. Notably, in a break from

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[3] See PwC's *Financial crimes observer, Iran sanctions and beyond: Avoiding the rising fines* (February 2016).

[4] Individuals on the SDN list are prohibited from conducting any business dealings with the US.

[5] See PwC's *Regulatory brief, Sanctions: US and EU action on Ukraine* (March 2014).

[6] The US has gradually relaxed trade and business restrictions with Cuba beginning with Obama's December 2014 announcement of changes to the Cuba sanctions program. For additional information, see PwC's *Financial crimes observer, Sanctions: Cuba restrictions falling* (April 2016).

his past rhetoric, President Trump has appointed a proponent of closer ties with Cuba as his special representative for international negotiations.

While we do not expect significant changes to the Obama administration's policy of relaxing sanctions on Cuba, financial institutions should be aware that much of the general prohibitions on banking and trade are still in place. Last year, financial institutions reported an increase in blocked transactions due to misunderstandings regarding the permissibility of certain activities. For example, payments processors have mistakenly believed that facilitating a wide spectrum of payments for Cuban goods is now permitted, but OFAC has only authorized payments for a narrow list of independent Cuban entrepreneur-produced goods.

Sudan

Last month, President Obama issued an executive order that effectively lifted the embargo against Sudan and unblocked Sudanese government property currently held by US financial institutions.[7] The easing of sanctions, issued in exchange for the Sudanese government to improve access for aid groups and cooperate with US intelligence, will officially go into place on July 12, 2017. Unless Sudan fails to live up to its commitments, we do not expect the Trump administration to restore these sanctions.

However, financial institutions looking to conduct business with Sudan should be mindful that several Sudanese individuals and companies remain on OFAC's SDN list. Additionally, sanctions relating to the Darfur region remain in place.

Myanmar

Last year, the US government took a series of steps to lift sanctions against Myanmar, ending the longstanding sanctions program against the country. The relief was granted in response to Myanmar's recent moves toward democracy after decades of military rule. Because Myanmar has made these democratic reforms, there is no reason that the Trump Administration would reinstate sanctions.

The new sanctions relief lifts restrictions on banking and transacting with Myanmar, removes most Burmese individuals and entities from the SDN list, and removes the restrictions on importing Burmese jade and rubies into the US. However, concerns over the continued military involvement in the Burmese government as well as human rights abuses (e.g., those committed against the Rohingya minority) could result in a "snapback" of sanctions.

[7] OFAC requires that financial institutions "block" funds that have been impermissibly transferred under sanctions rules. When funds are blocked, they are held in an interest-bearing account and can only be released with permission from OFAC.

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