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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

JEFFREY WRASE, STAFF DIRECTOR AND CHIEF ECONOMIST
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July 31, 2018

Ms. Andrea M. Gacki
Acting Director
Office of Foreign Assets Control
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Acting Director Gacki:

I am writing to request more information about the Russian sanctions program. In particular, I am writing you to determine whether the Office of Foreign Assets Control (OFAC) has investigated the relationships between the sanctioned Russian state-owned arms manufacturing industry and what appear to be Russian-linked United States arms manufacturers, and I am seeking more information about OFAC's analysis of these relationships under your office's ownership and control analysis, as well as the "50 Percent Rule."

As you know, the Senate Finance Committee has historically been responsible for oversight of many Treasury programs. In October 2016, as Ranking Member of the Committee, I initiated oversight of the Syrian sanctions program in light of the then-administration's decision to suspend bilateral contact with Russia over the Syrian crisis.¹ As part of the administration's 11-page response to my initial inquiry, they noted that with regard to persons on OFAC's Specially Designated Nationals and Blocked Persons List (SDN List) "the property and interests in property of entities directly or indirectly owned 50 percent of more, individually or in the aggregate, by one or more persons are automatically considered blocked, whether or not such entities appear on SDN List or in the annex to an executive order. This rule (the "50 Percent Rule") is to account for the fact that a company majority-owned by a designated person is naturally the property of that person."² The letter went on to note that the 50 Percent Rule is merely one tool in evaluating sanctions evasion, and that OFAC conducts analysis of ownership and control prongs.

It has been widely reported that Russia may have targeted the National Rifle Association to exert influence in American politics in order to advance Russian interests. For example, on July 16, 2018, a criminal complaint was unsealed charging Russian national Maria Butina with infiltrating a U.S. organization promoting gun rights at the direction of a previously sanctioned high-level Russian official.³ The high-level Russian official referenced in DOJ filings strongly matches the description of Alexander Torshin, Deputy Governor of the Central Bank of the Russian Federation. In light of these allegations, the relationships between Mr. Torshin, other sanctioned Russian individuals and entities, and U.S.-based Russian-linked arms manufacturers merit further scrutiny, including an analysis of whether said companies are functionally managed, owned, or controlled by sanctioned persons.

¹ Letter from Ranking Member Wyden, October 24, 2016; www.finance.senate.gov/ranking-members-news/wyden-looks-to-tighten-sanctions-on-syria

² Letter from Secretary Lew to Ranking Member Wyden, December 13, 2016.

³ US Department of Justice Press Release, July 16, 2018; www.justice.gov/opa/pr/russian-national-charged-conspiracy-act-agent-russian-federation-within-united-states

Background

Executive Order 13661, authorizes sanctions on, among others, officials of the Russian Government and any individual or entity that is owned or controlled by, that has acted for or on behalf of, or that has provided material or other support to, a senior Russian government official. On April 28, 2014, in response to Russia's "illegitimate and unlawful actions in the Ukraine," the United States used this authority to authorize sanctions against a number of high-level Russian government officials and entities owned or controlled by senior government officials. Those sanctioned included Sergei Chemezov, CEO of Rostec, formally known as the State Corporation for Promoting Development, Manufacturing, and Export of Russian Technologies High-Tech Industrial Products.⁴

Later that year, in response to continued Russian efforts to destabilize eastern Ukraine, then-Treasury Secretary Lew expanded targeted sanctions to Russia's defense sector, including Rostec directly, as well as Rostec subsidiary Kalashnikov Concern, the largest firearms producer in Russia.⁵ On December 22, 2015, the United States added High Precision Systems, another Rostec subsidiary and holding company, to the Sectoral Sanctions Identifications (SSI) List.⁷ On October 27, 2017, the State Department determined through the implementation of Section 231 of the Countering America's Adversaries Through Sanctions Act of 2017 (CAATSA) that Rostec, NPO High Precision Systems JSC, and Kalashnikov Concern JSC were operating for or on behalf of the defense sector of the Russian Federation and thus, subject to certain additional sanctions.⁸ On April 6, 2018, the United States also designated Alexander Torshin, State Secretary – Deputy Governor of the Central Bank of the Russian Federation "pursuant to EO 13661 for being an official of the Government of the Russian Federation."⁹

The FBI and the FEC are reportedly investigating the possibility that Russia may have used the National Rifle Association as a conduit to funnel money into the 2016 presidential election in support of Donald Trump's campaign. I initiated my own inquiry into this matter earlier this year.¹⁰ According to NPR, Alexander Torshin, the recently sanctioned person allegedly referred to in the FBI investigation, "methodically cultivated ties with leaders of the National Rifle Association and documented efforts in real time over six years to leverage those connections and gain deeper access into American politics."¹²

As the deputy governor of the Central Bank of Russia, Mr. Torshin also has ties to state-owned Russian arms manufacturers Kalashnikov Concern and Tula Cartridge Plant. The Central Bank of Russia founded and retains a controlling interest in Sberbank, a sanctioned financial company, which is reportedly a

⁴ US Treasury Department Press Release, April 28, 2014; www.treasury.gov/press-center/press-releases/Pages/jl2369.aspx

⁵ US Treasury Department Press Release, September 12, 2014; www.treasury.gov/press-center/press-releases/Pages/jl2629.aspx

⁶ US Treasury Department Press Release, July 16, 2014; www.treasury.gov/press-center/press-releases/Pages/jl2572.aspx

⁷ US Treasury Department Press Release, December 22, 2015; www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20151222.aspx

⁸ US Department of State, October 27, 2017; www.state.gov/t/isn/caatsa/275116.htm

⁹ US Treasury Department Press Release, April 6, 2018; <https://home.treasury.gov/news/press-releases/sm0338>

¹⁰ *McClatchy*, January 18, 2018; www.mcclatchydc.com/news/nation-world/national/article195231139.html

¹¹ *Politico*, March 16, 2018; www.politico.com/story/2018/03/16/nra-russia-election-donations-fec-investigation-468661

¹² NPR, March 1, 2018; www.npr.org/2018/03/01/590076949/depth-of-russian-politicians-cultivation-of-nra-ties-revealed

“major lender to Rostec,” the state-owned holding company.¹³¹⁴¹⁵ According to Kalashnikov Concern’s latest annual report, Rostec owns 51% of the company. However, according to June 2018 Russian media reports, Rostec now maintains a roughly 25% stake in Kalashnikov Concern, after the state holding company made efforts to shift Kalashnikov into private ownership.¹⁶¹⁷ Finally, “Tula Cartridge Plant,” sometimes referred to “Tula Cartridge Works,” is also identified as a subsidiary of Rostec’s High Precision Systems NPO JSC on the company’s website.¹⁸

Kalashnikov USA and Kalashnikov Concern

Kalashnikov USA appears to be closely linked to Russian arms manufacturer Kalashnikov Concern. Kalashnikov USA has already been the subject of at least one Congressional inquiry to the Treasury Department for potentially violating sanctions on Russian arms manufacturers.¹⁹ According to public reporting, the company is the only known subsidiary of RWC Group LLC, a company founded in Pennsylvania in 2011.²⁰ RWC Group, short for “Russian Weapons Company,” is managed by Michael Tiraturian, who is also listed as Kalashnikov USA’s senior vice president and, according to public reporting, “a longtime business associate and friend of Alexey Krivoruchko, the chief executive officer and majority shareholder of Kalashnikov Concern in Russia.”²¹ Then-Deputy Prime Minister of the Russian Federation Dmitry Rogozin, who the United States sanctioned in 2014 for his role in the Russian government’s annexation of Crimea, approved Mr. Krivoruchko’s appointment as CEO of Kalashnikov Concern in 2014.²²²³ According to the Ministry of Defense of the Russian Federation, Alexey Krivoruchko is now the Country’s Deputy Minister of Defense.²⁴ Krivoruchko reportedly resigned from his position at Kalashnikov upon his appointment in June earlier this year.²⁵

According to the New York Times, “Until the crisis in Ukraine prompted the imposition of American sanctions, Kalashnikov had done a brisk business selling civilian rifles in the United States under the Baikal and Saiga brands. The United States is the world’s largest civilian firearms market, and

¹³ Sberbank website, accessed June 21, 2018; www.sberbank.ru/en/about/about_sberbank

¹⁴ Talking Points Memo, February 1, 2018; <https://talkingpointsmemo.com/muckraker/nra-russian-banker-went-to-bat-for-kalashnikov>

¹⁵ US Treasury Department Press Release, September 12, 2014; www.treasury.gov/press-center/press-releases/Pages/jl2629.aspx

¹⁶ *Vedomosti*, June 13, 2018; www.vedomosti.ru/business/articles/2018/06/13/772663-krivoruchko-oboroni

¹⁷ *New York Times*, November 13, 2017; www.nytimes.com/2017/11/13/business/dealbook/kalashnikov-ak47-sale.html

¹⁸ Rostec, accessed June 21, 2018; <https://rostec.ru/en/about/companies/142/>

¹⁹ *Bloomberg*, April 11, 2018; www.bloomberg.com/news/articles/2018-04-11/kalashnikov-usa-target-of-u-s-congressman-s-sanctions-probe

²⁰ *Bloomberg Businessweek*, March 8, 2018; www.bloomberg.com/news/articles/2018-03-08/this-florida-warehouse-is-producing-made-in-america-kalashnikovs

²¹ *Ibid.*

²² *Business Insider*, March 17, 2014; www.businessinsider.com/crimea-vote-referendum-sanctions-obama-putin-2014-3

²³ *Moscow Times*, February 3, 2014; <https://themoscowtimes.com/articles/former-aeroexpress-ceo-appointed-head-of-kalashnikov-31676>

²⁴ Ministry of Defense of the Russian Federation, accessed 6/21/18; http://eng.mil.ru/en/management/info.htm?id=12180610@SD_Employee

²⁵ *Vedomosti*, June 13, 2018; www.vedomosti.ru/business/articles/2018/06/13/772663-krivoruchko-oboroni

Kalashnikov was selling more rifles to the country's civilian market than to the Russian military before the sanctions were imposed.”²⁶

Public reports indicate that in 2014, as the Ukrainian crisis escalated and the United States responded with a series of sanctions announcements, Krivoruchko began transferring many of his assets in the United States to Mr. Tiraturian.²⁷ Furthermore, the Treasury Department determined in 2015 that with Krivoruchko as CEO, Kalashnikov Concern “engaged in serious and sustained sanctions evasion.” In 2016, your department determined that Kalashnikov Concern advised foreign companies to falsify invoices in order to circumvent US and EU sanctions.^{28,29}

Finally, according to the same Bloomberg report, Kalashnikov USA indicated to the state of Florida that it intended to continue its previously established business relationship with Kalashnikov Concern a full year after the United States had sanctioned the Russian arms manufacturer. I believe that the relationship between these entities merits further scrutiny from your office and request the following:

- 1.) Can you confirm whether OFAC has investigated the publicly reported business relationship between Kalashnikov USA and Mr. Tiraturian, and Kalashnikov Concern and Mr. Krivoruchko?
- 2.) If so, did the domestic Kalashnikov entity maintain a business relationship with the sanctioned arms manufacturer as indicated by public reporting?
- 3.) While Mr. Krivoruchko may not currently be a specially designated national and blocked person, does his recent position as CEO of a sanctioned foreign arms manufacturer, current position within the Russian Federation's Ministry of Defense, and affiliation to a domestic arms manufacturer with a prior and potentially existing business relationship raise additional concerns for your office?
- 4.) If your office has made a determination that Kalashnikov USA was not working for or on behalf of sanctioned Kalashnikov Concern, please explain the reasoning for that determination.

Tulammo USA, Tula Cartridge Works (aka Tula Cartridge Plant)

Tulammo USA appears to be closely linked to Russian manufacturer Tula Cartridge Works, sometimes referred to as Tula Cartridge Plant. Tula Cartridge Works appears to list the same physical address in Russia as the Tula Cartridge Plant. Both entities also share the same logo.^{30,31} Additionally, an older version of the website for Tula Cartridge Works appears to use “Tula Cartridge Works” and “Tula Cartridge Plant” interchangeably.³² Tula Cartridge Works is reportedly partially owned by Igor Rotenberg, who was sanctioned by the US in April 2018 “for operating in the energy sector of the Russian Federation economy. Rotenberg acquired significant assets from his father, Arkady Rotenberg,

²⁶ *New York Times*, November 13, 2017; www.nytimes.com/2017/11/13/business/dealbook/kalashnikov-ak47-sale.html

²⁷ *Bloomberg Businessweek*, March 8, 2018; www.bloomberg.com/news/articles/2018-03-08/this-florida-warehouse-is-producing-made-in-america-kalashnikovs

²⁸ US Treasury Department Press Release, December 22, 2015; www.treasury.gov/press-center/press-releases/Pages/jl0314.aspx

²⁹ US Treasury Department Press Release, June 20, 2017; www.treasury.gov/press-center/press-releases/Pages/sm0114.aspx

³⁰ Tulammo.ru, accessed July 27, 2018; <http://en.tulammo.ru/en/contact/>

³¹ High Precision Systems website, accessed July 27, 2018; www.npovk.ru/predpriyatiya-xoldinga_0_12.html

³² Tulammo.ru, accessed July 27, 2018; <http://old.tulammo.ru/>

after OFAC designated the latter in March 2014.”³³ According to ABC News, “after being hit with sanctions by the U.S. himself, [Igor] Rotenberg reduced his share in the factory to 20.23 percent, a move a manager from the factory told Vedomosti was intended to allow the company to keep exporting ammunition.”³⁴ According to at least one Russian media report, Rotenberg transferred partial ownership of Tula Cartridge Works to a holding company linked to his father.³⁵³⁶ Notwithstanding public reporting that indicates some level of private ownership by Igor Rotenberg, Rostec identifies “Tula Cartridge Plant PJSC” as a subsidiary of the High Precision Systems holding company.³⁷

Tulammo USA is a domestic ammunitions dealer that distributes ammunition for Tula Cartridge Works (aka Tula Cartridge Plant). Tula Cartridge Works identifies itself on its website, “www.TulAmmo.ru,” as one of the largest producers of small arms ammunition in the world and identifies “TulAmmoUSA” as the “exclusive distributor” of its products in the United States.³⁸ According to a recent ABC News report, the two entities have a relationship that “appears to be closer than the typical buyer-supplier relationship,” including sharing an identical corporate logo and at least one former officer, Alexey Solovov.³⁹ Solovov “appears to have also registered five patents for ammunition boxes, packages and clips on TulAmmo USA’s behalf between 2014 and 2016.”⁴⁰ In an interview with firearm enthusiast website “Lucky Gunner,” Solovov reportedly acknowledged, “The Tula and Ulyanovsk ammunition plants’ exports to the American market are now consolidated under the TulAmmo brand.”⁴¹

Taken together, Igor Rotenberg’s reported interest in Tula Cartridge Works, the reported transfer of ownership to a company linked to his father, Arkady Rotenberg, and apparent Russian state ownership in Tula Cartridge Works through High Precision Systems, this information raises serious questions whether the arms manufacturer should be subjected to sanctions in relation to OFAC’s ownership and control analysis or the 50 Percent Rule.⁴² In light of this information I am asking for the following from your office:

- 1) Has your office performed an analysis of whether Tula Cartridge Works and Tula Cartridge Plant are in fact, one entity under partial state control?
- 2) Can you confirm whether OFAC has considered sanctioning Tula Cartridge Works due to its apparent relationship with Rostec and sanctioned oligarch Igor Rotenberg?
- 3) If yes, please explain why the company has not been added to the Specially Designated Nationals List or Sectoral Sanctions Identifications List pursuant to OFAC guidance on the 50 Percent Rule?
- 4) If no, do the public facts cited above warrant an investigation? Please explain.

³³ United States Treasury Department Press Release, April 6, 2018; <https://home.treasury.gov/news/press-releases/sm0338>

³⁴ ABC News, May 4, 2018; <https://abcnews.go.com/Politics/nra-host-company-ties-sanctioned-russians-annual-convention/story?id=54932526>

³⁵ *Vedomosti*, April 28, 2018; www.vedomosti.ru/business/news/2018/04/28/768281-igor-rotenberg

³⁶ US Treasury Department, March 20, 2014; www.treasury.gov/press-center/press-releases/Pages/j123331.aspx

³⁷ Rostec website, accessed July 27, 2018; <https://rostec.ru/en/about/companies/142/>

³⁸ Tula Cartridge Works website, accessed June 21, 2018; <http://tulammo.ru/en/gde-kupit/>

³⁹ ABC News, May 4, 2018; <https://abcnews.go.com/Politics/nra-host-company-ties-sanctioned-russians-annual-convention/story?id=54932526>

⁴⁰ *Ibid*

⁴¹ Lucky Gunner, accessed June 21, 2018; www.luckygunner.com/brands/tula-ammo#review

⁴² US Treasury Department Resource Center, accessed June 21, 2018; www.treasury.gov/resource-center/faqs/sanctions/pages/faq_general.aspx#50_percent

- 5) Can you confirm whether OFAC has investigated the relationship between Tulammo USA and Tula Cartridge Works, and whether a determination to sanction Tula Cartridge Works would have any bearing on Tulammo USA?

I ask that the Department please contact my Finance Committee investigations staff at (202) 224-4515 no later than August 14 with your response. Any classified information associated with your response should be noted and transmitted separately. Thank you for your attention to this important matter.

Sincerely,



Ron Wyden
Ranking Member