

What to Expect in a Second Trump Administration: National Security

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Themes

Staffing the National Security Agencies



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Geopolitics and National Security Regulation Landscape

National Security Priorities

Overview

- Consistent trajectory of national security regulation across presidential administrations
- Once a tool is created, it never goes back in the shed
- Foreign policy and regional views are more likely to influence regulatory action/focus as opposed to fundamental changes about the tools

China



- We expect continuity on the U.S. government's strategy with China
 - There was little variance transitioning from Trump to Biden
 - Tension between the hawks and industry within the administration
- We expect a more aggressive posture toward China (for now)
 - Renewed focus on tariffs/trade balance
 - Increased scrutiny on real estate acquisitions by Chinese parties
 - More laws specifically targeting/excluding China
 - Increased use of U.S. secondary (extraterritorial) sanctions/export controls

National Security Priorities

Russia



- Threats of an escalation
- Offer to loosen sanctions and export controls as key bargaining chip
- Greater divergence of measures between the United States and EU/UK

Middle East will be an increasing factor due to investment heft, links to China, and Israel

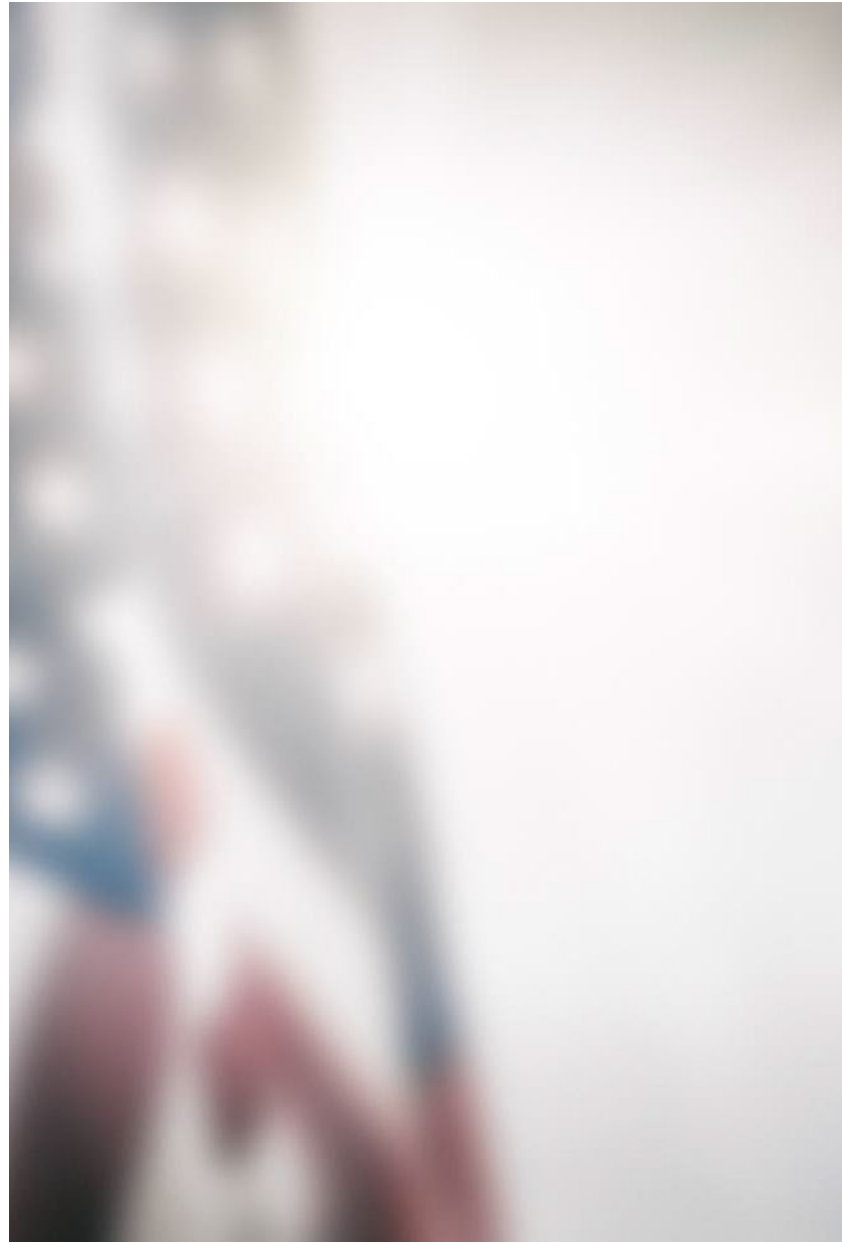
- Trump has a more favorable disposition
- Investment climate may ease for KSA and UAE capital
- Israel may feel more emboldened, which could escalate tensions beyond border states

Global South (Central and South America, Africa, Asia, and Oceania)

- Opportunities for key players in raw and rare earth minerals necessary for technology and energy competition



Inbound & Outbound Investment



Inbound Investment: Consistency & Change

Consistent growth in scope, national security focus areas, and controls

- Under first Trump administration: FIRMMA expanded CFIUS scope
- Focus on dual-use technologies; sensitive personal data; mandatory filings
- Focus on China and direct/indirect connections to China
- Increasing scope of coverage/scrutiny of real estate acquisitions
- Engagement with allies/friends on FDI screening regimes

Predict differences in application and focus without significant changes in regulations

- Trump more favorable disposition to industry in implementation
- More opportunities for industry dialogue; possibly less top-down from WH
- Personnel decisions will impact matter outcomes
- Politics, Congress, and states may have a greater impact in foreign investment (e.g., agricultural land)

Inbound Investment: U.S. Steel CFIUS Review

Status

- Transaction parties publicly indicate closing expected Q4 2024
- CFIUS case withdrawn, refiled; investigation period will expire in late December

Trends

- Possible signs of momentum for deal: local political/industry support; Nippon/USS win in labor arbitration; and steelworkers' head seems more isolated
- But Biden has reiterated intention to block, and Trump appears resolved to block

What will happen

- If there is hope for clearance, it won't happen without union buy-in
- If President blocks, parties may abandon transaction or litigate
- Not a sign of souring U.S. government view on investments from Japan
- But there will be diplomatic implications, and deal reflects politization of process

Inbound Investment: Congressional Action

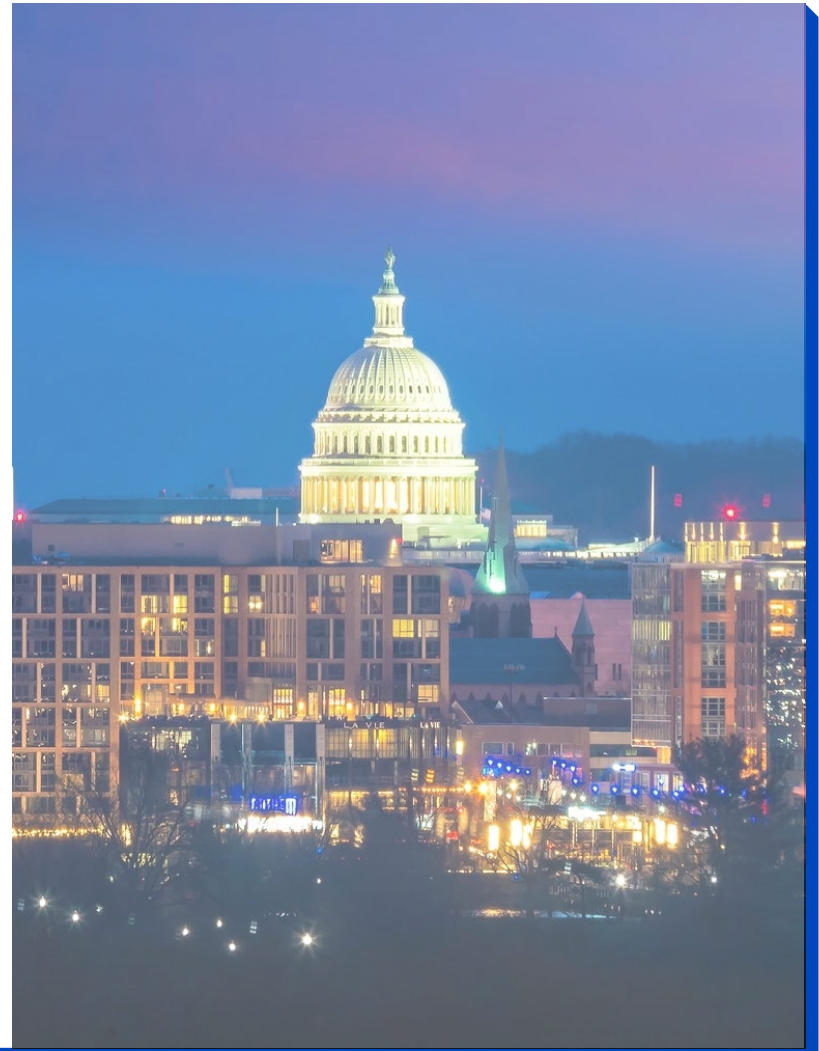
Significant Congressional interest and role in shaping foreign investment restriction

Congress drove the most significant CFIUS changes through legislation: FINSA, FIRRMA

- Most recent update occurred during the first Trump administration

Contemplated legislative changes:

- Increased scope of real estate/agricultural reviews of foreign adversary acquisitions
- Jurisdictional enhancement and greenfield transactions
- Additional permanent members added to Committee
- Country-specific restrictions possible



New Outbound Investment Regulations

Reflect longstanding concerns related to certain U.S. investments in China

- Trump administration: Expansive use of Entity List as “red flag” to investors/businesses
- Biden administration: Formalizes Trump restrictions, adds surveillance companies

Outbound investment screening regulations (effective January 2, 2025)

- Prohibit U.S. investments in specified advanced semiconductors and microelectronics, quantum information technologies, and AI systems
- Require submission of notifications to Treasury for U.S. investments in semiconductors and microelectronics and AI systems not otherwise prohibited
- Rule applies to U.S. persons in non-U.S. companies with executive authority (e.g., directors)

What will happen

- Regulations unlikely to be discontinued, investor-favorable adjustments possible
- Process will ingest information from transaction parties; lead to enhancements
- Treasury leadership will have significant impact
- Congressional efforts to legislate outbound investment restrictions continue



Export Controls

**IT Supply Chain
Integrity**

Tariffs

Export Controls: A Linear Path

A consistent trend line:

- Trump administration promulgated new and expanded controls on critical tech
- Biden administration continued efforts:
 - October '22 and '23 chip rules and controls on quantum tech and equipment
 - Sprinting to finish line: Significant expansion of controls in December 2024; “knowledge” expectations

What to expect under second Trump administration:

- Rules targeting specific parties/persons
- Higher likelihood of strict prohibitions vs. knowledge-based rules
- Controls may be imposed unilaterally
- Expansion of controls over exports to China of retail-level technology with dual-use applications (e.g., basic drone, data center, and connected vehicle technology)
- Limiting or eliminating certain license exceptions for China

Information and Communication Tech and Services: A Trump Concept Implemented by Biden

What is the ICTS regime? In 2019, Trump granted Commerce broad authority to review transactions involving use of IT technology in U.S. supply chains.

- A gap-filler to address supply chain and other vulnerabilities
- Biden deployed and expanded this tool to address specific threats
 - Focused on key supply chain risks
 - Targeted reviews of transactions, not high volume

What to expect under second Trump administration: Continued expansion

- OICTS Director will stay on; position is not a political appointment
- Target key industries and areas of concern:
 - Counterparty diligence, reporting, and recordkeeping for certain infrastructure-as-a-service providers
 - Pending rules regarding connected vehicle tech from China likely final by end of year
 - Rules regarding data centers and drones are in the pipeline; satellite tech to follow

Trump Tariffs: A New (and Old) Variable

What Trump did in first term:

- China tariffs ultimately resulted in 60% of U.S.-China trade subject to 20% tariffs

What Trump has said he will do in second term:

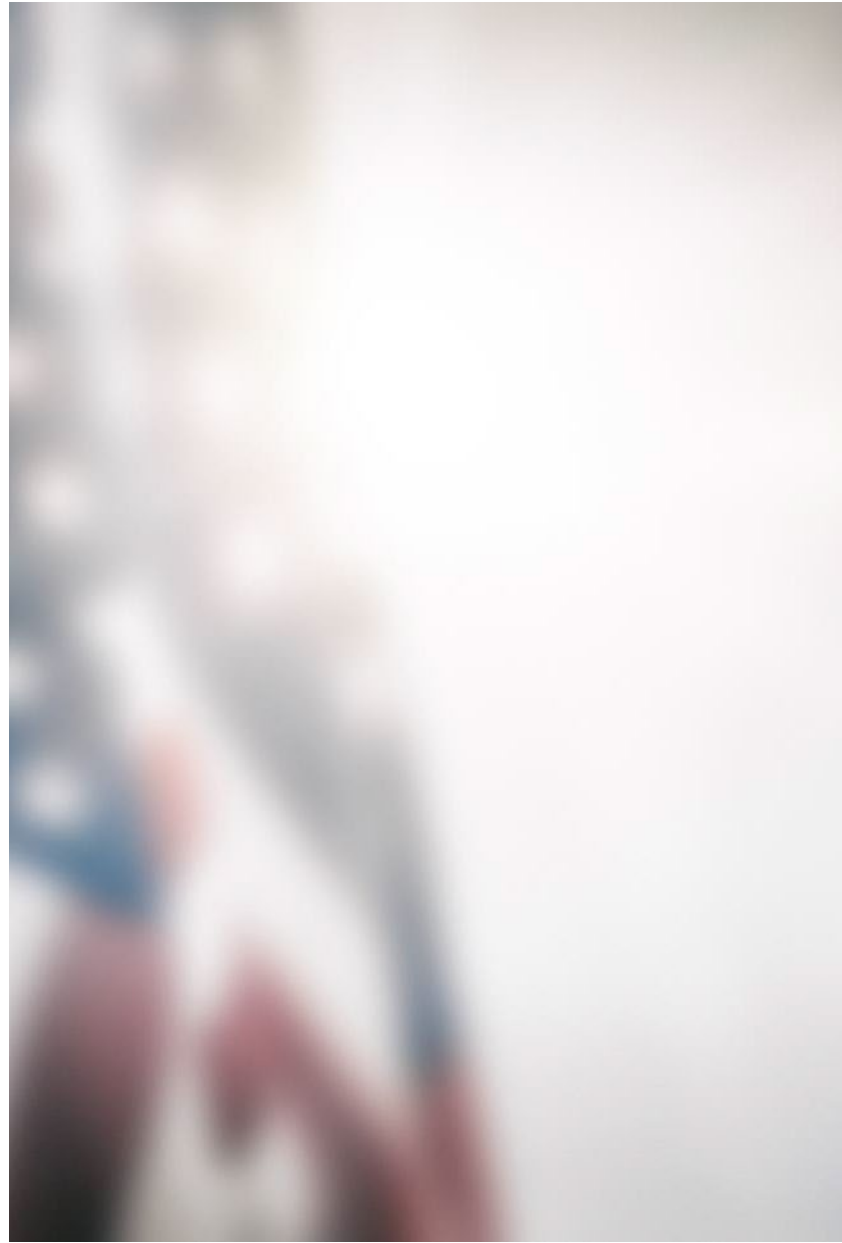
- 25% tariffs on all goods from Canada and Mexico
- 10% additional tariff on imports from China
- 100% tariffs on imports from Brazil, Russia, India, and China (BRIC) if they move away from USD

Counterweights against following through with threats: It's about leverage

- Reliance on Trump's use of threats to bring foreign leaders to table
- Inflationary effect and broad-based industry resistance to tariffs
- Market and trade expertise within administration (Bessent and Greer)
- Legal ramifications – Trump-negotiated USMCA and retaliation from other markets



Sanctions



China Sanctions: President Trump's First Term



President Trump used the first two years of his term to unsuccessfully seek a trade deal with China

Afterwards, predominately used modest designations on Chinese persons to reinforce sanctions campaigns on Iran and North Korea, and in response to concerns about human rights abuses against the Uyghurs in Xinjiang and the status of democracy in Hong Kong

In November 2020, created a new non-SDN sanctions program banning U.S. persons from purchasing or selling publicly traded securities of Communist Chinese Military Companies (CCMC) operating in the defense or related materiel sectors and supporting the PRC's "military, intelligence, and other security apparatuses"

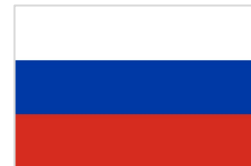
The Biden Administration largely followed the Trump Administration's China policy, but (i) revised the CCMC program to clarify its scope and expand the criteria for sanctions, and (ii) generally focused on sanctions adjacent tools with respect to China (e.g., export controls)

China Sanctions: Predictions for Trump II



- Potential designation of Chinese parties for U.S. sanctions evasion, particularly with respect to Iran and Russia
- Aggressive use of designation authorities to address broader national security and foreign policy concerns, including aggressive actions in the Pacific and human rights issues
- Additions to the CMIC sanctions list and/or adjustments to the CMIC sanctions program guidance to further bar Western investment into China
- Aside from sanctions actions, continue previous administration's expansion and imposition of further export controls denying China access to certain U.S.-origin goods, software, and technologies

Russia Sanctions: President Trump's First Term



August 2017 - Out of concerns about how President Trump would handle Russia, the Republican-controlled Congress enacted the Countering America's Adversaries Through Sanctions Act (CAATSA) mandating certain Russia-related sanctions and authorizing certain secondary sanctions for significant dealings with sanctioned Russian parties and evasion of U.S. sanctions

April 2018 – Given pressure from Congress, and in response to a list mandated by CAATSA, imposed impactful designations of Russian oligarchs in April 2018, including Viktor Vekselberg and Oleg Deripaska

The Biden Administration imposed unprecedented sanctions following Russia's unprovoked February 2022 invasion of Ukraine, in strong coordination with U.S. allies, including designations of major Russian banks and corporations, comprehensive sanctions against the DNR/LNR, a new investment prohibition and restrictions of Russian sovereign debt and new debt of Russian companies, prohibitions on U.S. accounting, trust and corporate formation, management consulting, and certain information technology (IT) and software-related services, and various import bans targeting key Russian exports

Russia Sanctions: Predictions for Trump II



- Potential removals of designations under newer Russian authorities or potential removals of current sector directives barring provisions of Western services as bargaining tool for negotiations over Ukraine
- Any Russian sanctions relief likely to be incremental based on evolving foreign policy considerations
- Aggressive action to rescind existing Russian sanctions could be met with Congressional resistance
- Russia policy to be significantly impacted by appointed personnel but likely still will be driven by Trump's personal views and economic and foreign policy priorities
- Unilateral sanctions revocations would complicate Russian sanctions alignment with key U.S. Western allies

Statutory Restrictions on Removing Russia Sanctions

Countering America's Adversaries Through Sanctions Act (Sec. 216 & 222)

- Presidential action to remove sanctions imposed under the Ukraine-/Russia-Related Sanctions program requires prior notification to Congress and Congressional review period (applies to sanctions provided for in the following Executive Orders: 13660, 13661, 13685, 13694, and 13757). Congress can bar Presidential removal action through passage of a joint resolution of disapproval. Does not apply to sanctions imposed under Biden-era Executive Order 14024.

REPO Act

- Prohibits unblocking Russian sovereign assets until the President certifies that (i) hostilities between Russia and Ukraine have ceased and (ii) Russia has fully compensated Ukraine for the harm caused by its invasion or committed to an international mechanism to compensate Ukraine. Imposes Congressional notification and opportunity for Congress to prevent release through joint resolution.

Iran Sanctions: President Trump's First Term



Trump Administration launched “**maximum pressure campaign**” against Iran, including withdrawing from the Iranian nuclear deal (JCPOA) and “snapping back” JCPOA-era secondary sanctions relief

- Sanctioned the Central Bank of Iran under terrorism-related sanctions authorities (previous sanctions targeted certain high-level officials, but not the Central Bank itself) for support to the Islamic Revolutionary Guards Corps
- Authorized new secondary sanctions threatening non-U.S. financial institutions that engage in “significant transactions” involving the Iranian financial sector, reducing Iranian banks’ access to the global financial system

The Biden Administration sought opportunities to entice cooperation from Iran but ultimately maintained most of the sanctions pressure imposed during President Trump’s first term while issuing limited waivers related to Iran’s civil nuclear power industry and Iran’s purchase of electricity from Iraq. Designations centered on individuals and entities linked to Hamas, the Houthis, and other regional instability and conflict drivers, as well as Russia’s war in Ukraine

Iran Sanctions: Predictions for Trump II



Continuation of “**maximum pressure campaign**” by:

- Threatening secondary sanctions on countries importing Iranian oil (China)
- Designating Iran-linked regional actors, such as Iraqi entities supporting Iran
- Sanctioning complex web of non-U.S. companies selling Iranian oil
- Sanctioning ports and transport companies involved in shipping Iranian oil
- Narrowing sanctions waivers granted for energy projects
- Terminating or imposing further restrictions on Biden-era humanitarian channel
- Attempting to reimpose UN sanctions on Iran
- Increased actions and designations related to Iran’s support to global terrorist organizations (e.g., Hamas, Hezbollah)

Additional actions and designations related to the Houthis (a late-term priority during the first Trump Administration)

Potential secondary sanctions related to the use of Iran’s System for Electronic Payment Messaging to deter expanded adoption and prevent use for evasion of U.S. sanctions

Hardened licensing policy with respect to dealings involving Iran

Cuba Sanctions: President Trump's First Term



Reversed course on a general thawing of tensions during the Obama presidency and ratcheted up sanctions pressure on Cuba

- Narrowed permitted economic activity involving Cuba by barring dealings with Cuban government officials and linked hotels, conglomerates, and companies by limiting existing authorizations
- Expanded the scope of the Cuba embargo by limiting U.S. person travel to Cuba and withdrawing an authorization that allowed U.S. financial institutions to process U-turn payments related to Cuba
- Added Cuba to State Sponsors of Terror list in January 2021, only days before leaving office

The Biden Administration reimposed certain but not all Obama-era relief, including authorizations designed to “increase support for the Cuban people,” certain travel authorizations, and the U-turn authorization, and reopened the U.S. embassy in Havana

Cuba Sanctions: Predictions for Trump II



- Removal of Biden-era travel authorizations
- Removal of authorizations for expanded financial touchpoints with Cuba (“U-turn” and uncapped remittances)
- Increased sanctions enforcement related to economic activities supporting the regime, such as tourism
- Support for codification of Cuba’s presence on the State Sponsor of Terrorism list (potentially under the FORCE act sponsored by Rubio or similar legislation)
- Support for parties seeking to ensure internet freedom in Cuba and assist Cuba in evading state-backed censorship and other restrictions
- Hardened Cuba licensing policy

Venezuela Sanctions: Pres. Trump's First Term



Expanded U.S. sanctions on Venezuela to include financial sanctions, sectoral sanctions, and sanctions on the Government of Venezuela (GoV)

- Prohibited access to U.S. financial markets by the GoV, including state energy company Petróleos de Venezuela, S.A. (PdVSA), with certain exceptions mitigating the impact on the Venezuelan people and U.S. interests
- Prohibited transactions involving the GoV's issuance of digital currency, coin, or token
- Prohibited transactions related to purchasing Venezuelan debt and any debt owed to Venezuela pledged as collateral (OFAC has since issued licenses preventing the forced sale of CITGO, a U.S. subsidiary of PdVSA, to creditors)

The Biden Administration offered limited sanctions relief to incentivize the Maduro government to permit a free and fair electoral process, but reversed course after the Maduro regime violated the terms of that agreement, and designated Maduro officials for election fraud/repression after the election

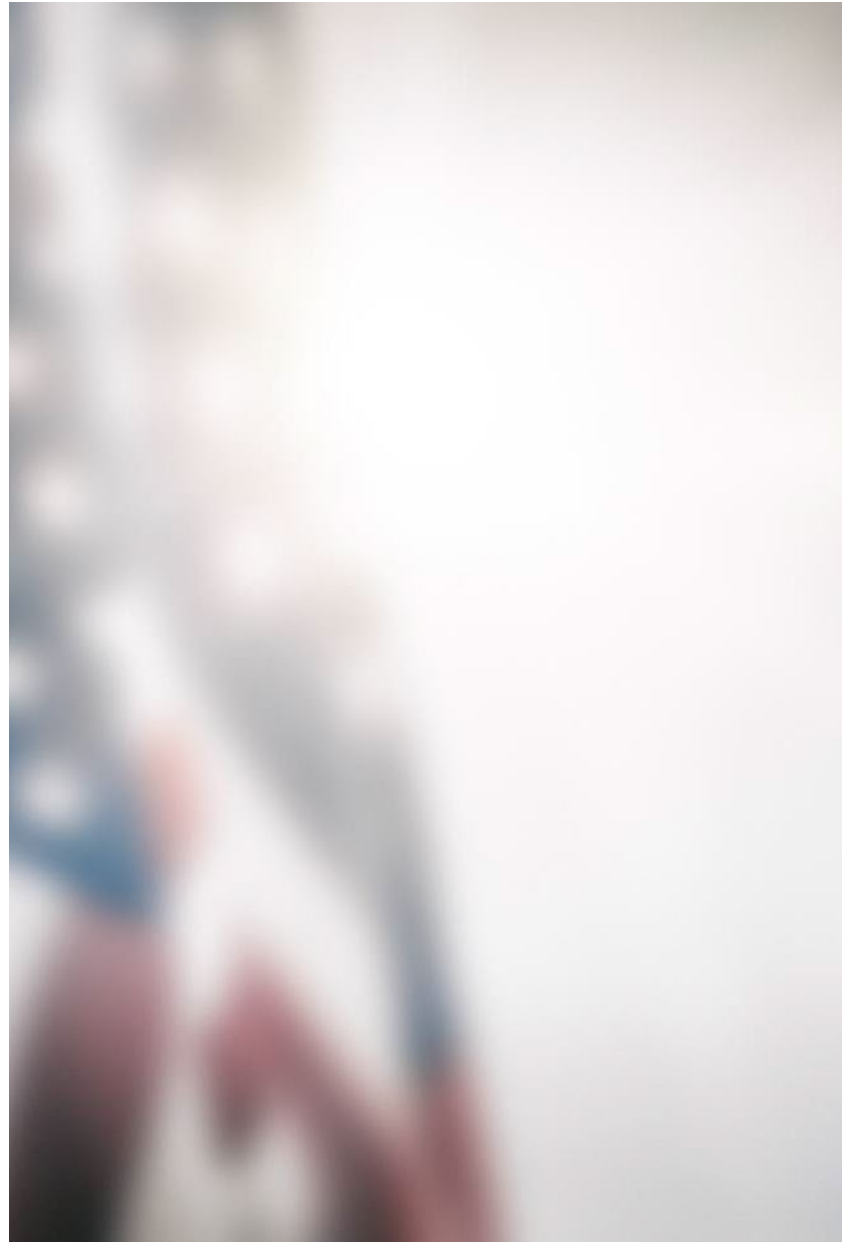
Venezuela Sanctions: Predictions for Trump II



- Potential revocation of existing general license authorizations for dealings with certain Western companies
- Increased sanctions against third-country parties involved in purchasing Venezuelan oil or otherwise funding the Maduro regime
- Increased enforcement/designations under Venezuela sanctions program and potential enforcement investigations related to activities after expiration of GL 44 (April 2024)
- Incoming administration currently being lobbied by oil businesses and bondholders to reach deal with Maduro to allow more oil and related products in exchange for action on reducing migration from Venezuela



Everything Else



Heightened Use of Other National Security Tools



Bulk Sensitive Data

- Origins are CFIUS (first Trump administration)
- Prohibitions on bulk data going to China
- Restrictions on access to bulk data → severe compliance requirements
- To be finalized in January



Foreign Agents Registration Act

- Regulatory changes anticipated shortly
- DOJ signaling increased enforcement
- More responsive to referrals



Artificial Intelligence

- Less comprehensive government response/controls
- Greater concern for industry development
- Not bound by Biden administration initiatives



EU/UK View on Sanctions, Export Controls & Investment Restrictions

EU Reaction to New Trump Administration



Developments during Trump I

- EU not aligned with Trump's sanctions policies – EU Blocking Statute updated in 2018 to counter U.S. sanctions on Iran
- Trend to more protectionism, e.g., Foreign Investment Control Screening Regulation adopted in 2019

Potential Reactions to Trump II

- “Lessons learned” may lead to openness for negotiations with Trump administration, to actively engage and identify common interests
- Where disagreement with U.S. or lack of cooperation within G7, more independent use of foreign policy and national security tools (sanctions, export controls, investment controls)
- Additional EU Russia sanctions to keep pressure up against Russia's war
- EU may be slow to respond to U.S. measures – EU 27 not always aligned but need consent on many foreign policy matters, in particular sanctions
- Member States may adopt national measures (e.g., export controls/China)

UK Sanctions/Export Controls and Investment Policy

- Similar to the EU position
- Potential for greater divergence between the UK and U.S. on sanctions than that seen to date (though perhaps less divergence to be expected in relation to Iran)
- Future for UK sanctions in relation to China remains to be seen but so far there have been attempts to warm relations
- Pressure from the U.S. could see the UK take some measures with respect to national security



Questions

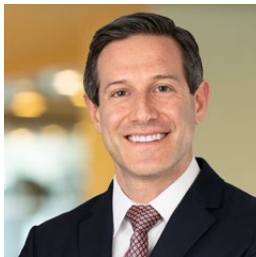


Presenters



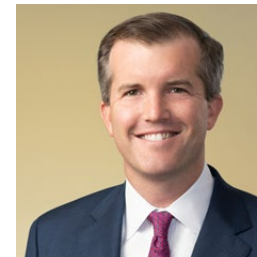
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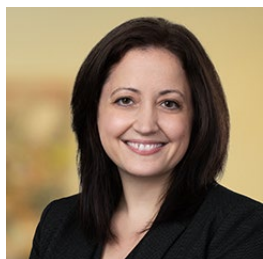
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