New UN, U.S. and EU Iran Sanctions Announced

2010-06-25

On June 9, the United Nations Security Council passed Resolution 1929, which expands multilateral sanctions against Iran. Last week, the European Union and the United States announced that they would implement Resolution 1929, and institute further sanctions based on the UN action. The combined UN, EU and U.S. sanctions expand prohibitions relating to exports of proliferation-sensitive goods and technologies, as well as transactions with certain financial and shipping enterprises. The EU and U.S. measures also impose new sanctions aimed at Iran's energy, oil and gas sectors.

The emerging landscape is one of overlapping, but slightly divergent multilateral, U.S. and EU sanctions. Collectively, however, the sanctions seek to enhance the effectiveness of restrictions imposed against Iran and to isolate critical sectors of its economy, particularly energy, shipping and finance. In Europe, the sanctions reflect heightened concern about the lack of progress over Iran's nuclear program and more active enforcement of EU sanctions and export controls. For the United States, the new sanctions will tighten restrictions on business dealings with Iran, particularly to prevent circumvention of existing prohibitions.

The U.S. Congress, meanwhile, has reached the final stages of approving new legislation that specifically targets Iran's petroleum resources and its refined petroleum sector. In doing so, the bill also expands the scope and extraterritorial reach of U.S. sanctions. The legislation was adopted by the House and Senate yesterday and is widely expected to be enacted by the President soon, despite the Obama Administration's prior statements that unilateral U.S. action could undermine international support for stronger multilateral sanctions and continuing diplomatic pressure on Iran.

Facing potential exposure to multilateral and unilateral measures restricting transactions involving Iran, companies doing business in Europe and the United States should carefully review these new sanctions and be attentive to the compliance challenges they present in a period of heightened enforcement activity. The following is an overview of the new developments.

United Nations Security Council Resolution 1929

Resolution 1929 expands the existing UN arms embargo against Iran; tightens restrictions against entities engaged in proliferation-sensitive activities, particularly in the financial and shipping sectors; and restricts Iran's ability to acquire interest in any commercial activity related to proliferation. Most prominently, the Resolution adds 41 parties to its blacklists of parties involved in Iranian nuclear or ballistic missile activities. This includes Iranian entities in the defense, aerospace, financial, steel, manufacturing and research sectors, such as the Islamic Republic National Guard Corps; the Islamic Republic of Iran Shipping Line; Yazd Metallurgy Industries; Farasakht Industries, which is owned or controlled by or acts on behalf of the Iran Aircraft Manufacturing Company; First East Export Bank; and several Iranian shipping companies. A copy of the resolution and a listing of the blacklisted entities can be found here.

European Union Restrictions Agreed on June 17

In a June 17 Declaration, European government leaders (European Council) announced their decision to implement Resolution 1929 and to impose further controls on dual-use exports, restrictions on trade insurance and the Iranian financial sector, and sanctions on other key industries in Iran, such as energy, oil and gas, transportation and shipping.

These additional measures

> "should focus on the areas of trade, especially dual use goods and further restrictions on trade insurance; the financial sector, including freeze of additional Iranian banks and restrictions on banking and insurance; the Iranian transport sector, in particular the Islamic Republic of Iran Shipping Line (IRISL) and its subsidiaries and air cargo; key sectors of the gas and oil industry with prohibition of new investment, technical assistance and transfers of technologies, equipment and services related to these areas, in particular related to refining, liquefaction and LNG technology; and new visa bans and asset freezes especially on the Islamic Revolutionary Guard Corps (IRGC)."

As a next step, EU foreign ministers and the European Commission will adopt implementing measures that will amend existing EU sanctions against Iran in accordance with the European Council Declaration. Such action is expected when the EU's Foreign Affairs Council meets in July 2010 and will likely come into force shortly thereafter. A copy of the June 17 Council Declaration can be found here.

Additional U.S. Iran Restrictions Announced

At the same time, the Obama Administration has announced new measures implementing and building upon the UN resolution. On June 16, the Department of the Treasury's Office of Foreign Assets Control (OFAC) added numerous individuals and entities to its Specially Designated Nationals and Blocked Persons List (SDN List), thereby prohibiting U.S. persons from engaging in commercial or financial transactions with these parties.

The new designations include persons covered by Resolution 1929, as well as additional entities and individuals (*e.g.*, the Post Bank of Iran, which provides financial services to Bank Sepah, among other institutions). OFAC also added 27 specific vessels to the SDN List and updated the information with respect to 71 vessels that were already listed, but whose names were changed by Iranian authorities in an attempt to evade U.S. sanctions. Moreover, the new designations broaden the range of impacted Iranian entities to include brokers, insurance companies and logistics providers.

Congress Nears Final Passage of Broader, Extraterritorial Sanctions

On June 22, a Congressional Conference Committee reconciling House and Senate versions of new Iranian sanctions legislation announced an agreement on a set of measures targeting Iran's petroleum resources and its refined petroleum sector, with expanded restrictions with significant extraterritorial reach. The reconciled bill was adopted by both the House and the Senate on June 24, 2010, and there is strong political pressure for the President to sign the new legislation into law shortly.

Among other provisions, the new legislation would:

- Expand the scope of sanctions authorized under the existing Iran Sanctions Act by imposing sanctions on foreign companies—including insurance, financing and shipping companies—that knowingly sell goods, services, or know-how that assist Iran in developing its refined petroleum sector;
- Ban U.S. banks from engaging in financial transactions with foreign banks that do business with the Iranian Revolutionary Guard or that facilitate Iran's illicit nuclear program or its support for terrorism;
- Ban U.S. government procurement contracts to any foreign company that exports to Iran technology used to restrict the free flow of information or to disrupt, monitor or otherwise restrict freedom of speech;
- Require a certification from a company bidding on a U.S. government procurement contract that it is not engaged in conduct subject to these sanctions;
- Provide a legal framework by which U.S. states, local governments and certain other investors can divest their portfolios of foreign companies involved in Iran's energy sector;
- Establish the availability of additional sanctions that can be imposed against any party that violates certain provisions of the new legislation,, including: (1) a prohibition on access to foreign exchange in the U.S.; (2) a prohibition on access to the U.S. banking system; and (3) a prohibition on property transactions in the U.S.;
- Strengthen the U.S. trade embargo against Iran by codifying existing executive orders and limiting the goods exempted from the embargo; and
- Increase substantially the criminal penalties for sanctions violations by U.S. entities.

A copy of the Conference Committee Report on the proposed new legislation can be found here.

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The recent UN, EU and U.S. actions to impose sanctions against Iran are noteworthy. They not only expand the scope of applicable prohibitions to new parties and types of transactions, but also demonstrate a higher level of cooperation on Iran-related sanctions between the EU and the U.S. The June 17 European Council statement, for example, echoes much of what has been discussed by the U.S. Congress over the past six-to-nine months.

This convergence, however, may soon be tested in the wake of the expected enactment of new U.S. legislation that goes significantly beyond the sanctions announced thus far. In the meantime, companies should review possible transactions implicated by the UN, EU and U.S. sanctions to ensure continuing compliance with applicable requirements.

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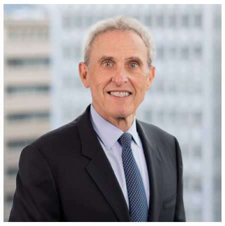

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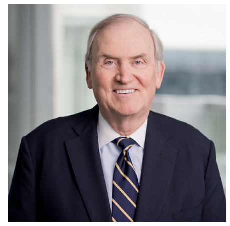

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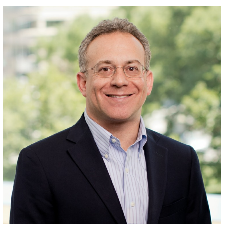

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