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IRAN SANCTIONS

New Act Underscores Importance of Comprehensive Assessment of Sanctions' Effectiveness

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International Affairs and Trade



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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our work on the implementation of U.S. sanctions against Iran. My testimony will discuss the continuing challenges the United States faces in (1) deterring the illegal transshipment of U.S. goods to Iran, (2) restricting foreign investment in Iran's energy sector, and (3) assessing the overall effectiveness of U.S. sanctions. In addition, I will discuss how the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (signed into law on July 1, 2010) addresses these challenges.

The United States has imposed multiple sanctions against Iran to deter it from developing its nuclear program, supporting terrorism, and abusing human rights. The United States has banned most U.S. trade and investment with Iran and prohibited firms from knowingly transshipping U.S. goods to Iran through other nations. The United States has also acted to limit Iran's ability to explore for, extract, refine, or transport its petroleum resources. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 expands existing sanctions against Iran and requires the Administration to report on information related to the sanctions.

My statement is drawn from prior GAO work related to sanctions against Iran.¹ We conducted this work in accordance with all sections of GAO's Quality Assurance Framework and generally accepting government auditing standards, as appropriate. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹GAO, *Iran Sanctions: Firms Reported to Have Commercial Activity in the Iranian Energy Sector and U.S. Government Contracts*, [GAO-10-721T](#) (Washington, D.C.: May 12, 2010); *Firms Reported to Have Commercial Activity in the Iranian Energy Sector and U.S. Government Contracts*, [GAO-10-639R](#) (Washington, D.C.: May 4, 2010); *Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sector*, [GAO-10-515R](#) (Washington, D.C.: March 23, 2010); *Iran Sanctions: Complete and Timely Licensing Data Needed to Strengthen Enforcement of Export Restrictions*, [GAO-10-375](#) (Washington, D.C.: March 4, 2010); and *Iran Sanctions: Impact in Furthering U.S. Objectives Is Unclear and Should Be Reviewed*, [GAO-08-58](#) (Washington, D.C.: December 18, 2007).

Summary

Iran is obtaining U.S. military and dual-use goods (civilian goods with potential military applications) that are illegally transshipped through intermediaries in third-party nations, most notably the United Arab Emirates, Malaysia, and Singapore. U.S. agencies have conducted investigations to uncover Iranian procurement networks and prosecuted at least 30 firms and individuals between 2007 and 2009. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 requires the President to designate a country as a Destination of Diversion Concern if certain criteria are met. Moreover, the President shall impose a licensing requirement upon certain U.S. exports to the designated country unless the President makes a number of determinations, including determining that it is appropriate to provide technical assistance to strengthen the country's export control systems.

At least 41 foreign firms had commercial activity in Iran's energy sector between 2005 and 2009. Of these firms, seven had contracts with the U.S. government valued at almost \$880 million. The Iran Sanctions Act of 1996 (ISA) provides for sanctions against persons (firms and individuals) who invest more than \$20 million in Iran's energy sector in any 12-month period. However, the United States has not sanctioned firms under the ISA for investing in Iran's energy sector. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 requires the President to investigate reports of certain sanctionable activity where credible evidence is received and make a determination in writing to Congress whether such activity has indeed occurred. The President would then be expected either to impose or waive sanctions.

We previously recommended that the Administration improve the disparate data collected on Iran sanctions, establish a baseline of information on Iran sanctions, and conduct an overall assessment of the sanctions' impact in achieving U.S. foreign policy goals. Recent congressional action has expanded sanctions against Iran and imposed new reporting requirements on the Administration. These actions underscore the importance of comprehensive assessments of the effectiveness of U.S. sanctions against Iran.

Background

U.S. exports to Iran are severely restricted by U.S. laws and regulations.² The U.S. trade ban generally prohibits exports of U.S. goods (including dual-use goods) to countries other than Iran without a Treasury Department license if the exporter has reason to know the goods are specifically intended for transshipment to Iran.³ Foreign firms are generally prohibited from knowingly re-exporting goods on the Commerce Department's list of controlled dual-use goods to Iran even if those goods were originally legally exported from the United States to a third country under a Commerce license.⁴ For example, dual-use U.S. goods exported to countries other than Iran under a Commerce license may not be subsequently transshipped to Iran without a Treasury license if the exporter knew or had reason to know that such goods were intended for Iran. The Departments of Commerce, Defense, Homeland Security, Justice, and the Treasury investigate allegations of illegal transshipment of U.S. goods to Iran. Exporters who knowingly ship U.S. goods to Iran through other countries without a Treasury license are subject to prosecution by the Department of Justice.

Iran has the world's third largest oil reserves, or about 140 billion barrels, and produces about 4.2 million barrels per day. However, Iran's oil production has remained virtually flat in recent years and will likely stagnate in the medium term due to insufficient investment, according to the International Monetary Fund. Iran requires increasingly modern and advanced oil recovery technologies to stop natural declines of oil production, but has found advanced technology difficult to import due to international sanctions and high costs. According to the Department of Energy (DOE), Iran does not currently have sufficient refining capacity to meet its domestic demand for gasoline. Iran imported approximately 130,000 barrels of gasoline per day in 2009, as well as other refined products such as diesel fuel. Iran's nine refineries are operated by the National Iranian Oil Refining and Distribution Company, according to DOE. With the potential participation of foreign companies, Iran plans to add capacity at eight refineries to fully meet domestic demand for gasoline by 2013 or 2014, according to DOE officials.

²See generally, 31 C.F.R. part 560.

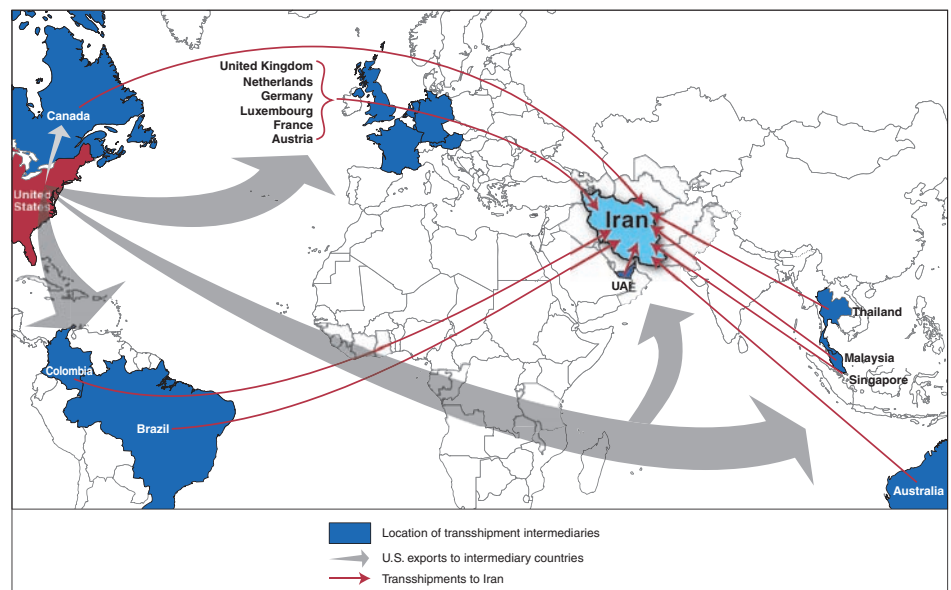
³31 C.F.R. § 560.204.

⁴31 C.F.R. § 560.205.

Iran Obtains Illegal Transshipments of U.S. Military and Dual-Use Goods through Other Countries; New Act Calls for Identification of Destinations of Diversion Concern

The United States banned nearly all trade and investment with Iran in 1995 after banning imports from that country in 1987. According to a Treasury official, the trade and investment ban is aimed at making it more difficult for Iran to procure U.S. goods, services, and technology, including those that could be used for terrorism or proliferation. However, as we have reported, attempts have been made to circumvent the trade ban through the transshipment of U.S. exports through third countries. U.S. officials identified several locations that serve as transshipment points for military and dual-use goods destined for Iran, including the United Arab Emirates (UAE), Malaysia, Singapore, Thailand, Australia, Canada, Colombia, Brazil, Austria, France, Germany, Luxembourg, The Netherlands, and the United Kingdom (see figure 1).

Figure 1: Illegal Transshipment Routes to Iran



Sources: GAO analysis of Justice Department data; Map Resources (map).

A 2009 Justice Department report cited 30 cases that involved the use of intermediaries in these countries. More than half of the cases listed involved the use of intermediaries in the UAE for transshipment. About 20 percent involved the use of intermediaries in Malaysia and Singapore. U.S. goods involved in these cases included U.S. military aircraft components, laboratory equipment, specialty alloy pipes, night vision goggles, and sensitive technologies sent to Iranian missile and nuclear entities.

U.S. officials stated that the UAE has taken steps to address the use of its territory for transshipment. They noted that the UAE has increased cooperation with U.S. enforcement entities and enacted new export control legislation in 2007. According to the UAE government, the new law bans the export/re-export of strategic goods (including arms and military hardware, chemical and biological materials, and dual-use goods) without a special license, and specifies penalties that include imprisonment or fines. Commerce officials stated that the law contains the basic elements of an export control regime to combat transshipment. However, Commerce officials have reported a high rate of unfavorable end-use checks for U.S. items exported to the UAE and U.S. officials note the potential shift of illegal transshipment operations to other nations, such as Malaysia and Singapore.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 addresses the use of intermediaries to transship military and dual-use items to Iran. Under the Act, the Director of National Intelligence must identify to the President, relevant agency heads, and appropriate congressional committees the countries whose governments the Director believes allow the transshipment or diversion to Iran of certain U.S. goods, services or technologies. Moreover, the President shall designate a country as a Destination of Diversion Concern if the President determines that the government of the country allows substantial diversion of specified U.S. goods, services, or technologies through the country to Iranian end-users or Iranian intermediaries. Upon designation, the President must submit to the appropriate congressional committees a report identifying the countries of concern and listing the items that are being diverted through each respective country. After designation, the President shall require a license to export to the designated country the specified U.S. goods, services, or technologies. This licensing requirement may be delayed if the President makes a number of determinations including determining that it is appropriate to provide technical assistance to strengthen the country's export control systems.

Foreign Firms Maintain Commercial Ties to Iran's Energy Sector; New Act Requires President to Begin Investigations and Report on Firms' Investments in Iran's Energy Sector

Iran's energy sector is vital to its economy and government. In recent years, oil export revenues have accounted for 50 to 76 percent of the Iranian government's revenues and 24 percent of Iran's gross domestic product. However, Iran has not reached peak crude oil production levels since 1978, does not produce sufficient natural gas for domestic use, and lacks the refining capacity to meet domestic demand for gasoline. Accordingly, Iran is seeking the participation of foreign firms in providing financing and technical assistance in numerous energy projects.

Based on our review of open source information, we identified 41 firms that had commercial activity in the Iranian energy sector between 2005 and 2009 (see app. 1). Open source information stated that these firms supported activities throughout Iran that involved the exploration and development of oil and gas, petroleum refining, or petrochemicals, including the construction of pipelines and tankers for the transport of oil or gas (see fig. 2).

Figure 2: Map of Iranian Oil, Gas, and Petrochemical Activities



Source: GAO analysis of U.S. Department of Energy data.

Of the 41 firms, seven had contracts with the U.S. government (see app. II for these firms). From fiscal years 2005 through 2009, the U.S. government obligated almost \$880 million in contracts to these seven firms. U.S. agencies obligated almost 90 percent of these funds for purchases of fuel and petroleum products overseas.

ISA provides for sanctions against persons who invest more than \$20 million in Iran's energy sector in any 12-month period. ISA authorizes the President, who delegated authority to the Secretary of State, to ban such persons from U.S. government procurement. However, the Secretary of State has not determined that a firm's activities have met the legal criteria for sanctions under the Iran Sanctions Act since 1998. At that time, the Secretary waived the imposition of sanctions upon three foreign energy firms—Total (France), Gazprom (Russia), and Petronas (Malaysia). In waiving the sanctions, the Secretary cited the European Union's cooperation on counterterrorism efforts involving Iran and the possibility that the Union would take the issue to the World Trade Organization.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 requires additional action on the part of the President. The new act requires, rather than authorizes, the President to initiate an investigation upon receipt of credible evidence that a person is engaged in certain prohibited activities such as investment in the development of Iran's petroleum sector.⁵ The President is also required to make a determination in writing to Congress about whether such activity has indeed occurred. The President would then be expected either to impose or waive sanctions. The Act also requires the President to submit a report to Congress on investments in Iraq's energy sector since January 2006, including a list of all significant energy related joint ventures, investments, and partnerships Iran has with entities from other countries and an estimate of the value of these investments.

Our list of 41 firms with commercial activity in Iran's energy sector has prompted reaction from the cited firms. Upon request, 13 of the 41 firms provided comments on a draft of the report. Since the report was released, four firms have provided additional comments. Technimont (Italy) stated that it had canceled its involvement in an Iranian energy project due to lack of financing. Statoil (Norway) confirmed that it had frozen new

⁵Pub. L. No. 111-195, § 102(g). This reporting requirement applies only to activities described in section 5(a) of the ISA.

investments in Iran's South Pars natural gas field and halted oil exploration and development activities in Iran. Repsol (Spain) provided us a copy of its May 2010 letter to the Iranian government discontinuing its participation in a \$10 billion project to develop Iran's Persian LNG project. Repsol's withdrawal from the project will be effective July 31, 2010. We also received a letter from Ashok Leyland Project Services of India stating that it had not made binding agreements regarding the cited projects and would not take actions that violate laws or expose it to U.S. sanctions.⁶

New Act Underscores Importance of Comprehensive Assessment of Sanctions' Effectiveness

Additional sanctions in the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 and new reporting requirements underscore the importance of comprehensive assessments of U.S. sanctions' effectiveness in deterring Iran's support for terrorism and continued nuclear proliferation. In December 2007, we recommended that the Administration complete such an assessment. We found that U.S. agencies—State, Treasury, Commerce, Homeland Security, and others—collected disparate data on the multiple sanctions they implemented.

Accordingly, we recommended that U.S. agencies consider collecting and analyzing data on, but not limited to,

- the number of goods seized, penalties imposed, and convictions obtained under the trade ban (Homeland Security, Treasury, Commerce, Justice);
- sensitive items diverted to Iran through transshipment points (Commerce and the intelligence community);
- the amount of assets frozen resulting from financial sanctions (Treasury and the intelligence community); and
- the extent of delays in foreign investment in Iran's energy sector (State, Energy, and the intelligence community).

The data should then be used to establish baseline information for continuous monitoring and periodic reporting on what U.S. sanctions have achieved.

⁶The firm also stated that it, rather than "Hinduja," should have been identified as a firm with commercial activities in Iran's natural gas sector.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 expands the number of activities that are sanctionable. For example, the Act requires the President to impose sanctions against persons or entities that

- export at least a certain value of refined petroleum products to Iran,
- sell at least a certain value of services and technology to maintain or expand Iran’s refinery capacity
- export sensitive technologies that the Iranian government can use to monitor or jam its citizens communications, and
- commit human rights abuses against Iranian citizens.

The Act also adds reporting requirements that increase the transparency of the Administration’s actions, but also underscore the importance of having a framework to utilize the reports’ data and provide a comprehensive assessment. For example, the Administration must report on investments in Iran’s energy sector, the activities of foreign export credit agencies, and the number of countries of diversion concern.

These expanded sanctions and reporting requirements underscore the importance of improving data collection, establishing a baseline, and comprehensively assessing the impact of sanctions on Iran. Such assessments are important because they provide the Administration and Congress with important information on the impact of existing and new sanctions and the extent to which these collective sanctions further the achievement of U.S. foreign policy and security goals toward Iran.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members may have at this time.

GAO Contacts and Staff Acknowledgments

Should you have any questions about this testimony, please contact Joseph A. Christoff at (202) 512-8979, or christoffj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this statement include Tet Miyabara (Assistant Director), Pierre Toureille, Grace Lui, Jon Fremont, Jennifer Bryant, and Debbie Chung.

Appendix I: Foreign Firms Publicly Reported to Have Commercial Activity in the Iranian Oil, Gas, or Petrochemical Sectors As Of March 2010

Firm ^a	Country ^b	Sector
1. ABB Lummus	Not applicable	Refining, petrochemicals
2. Amona	Malaysia	Oil exploration and production
3. Belneftekhim	Belarus	Oil exploration and production
4. China National Offshore Oil Corporation	China	Natural gas
5. China National Petroleum Corporation	China	Oil exploration and production, natural gas
6. Costain Oil, Gas & Process Ltd.	United Kingdom	Natural gas
7. Daelim	South Korea	Natural gas
8. Daewoo Shipbuilding & Marine Engineering	South Korea	Oil tankers
9. Edison	Italy	Oil exploration and production
10. ENI	Italy	Oil exploration and production
11. Gazprom	Russia	Oil exploration and production, pipeline
12. GS	South Korea	Natural gas
13. Haldor Topsoe	Denmark	Refining
14. "Hinduja" (Ashok Leyland Project Services)	"United Kingdom" (India)	Oil exploration and production, natural gas
15. Hyundai Heavy Industries	South Korea	Oil tankers
16. INA	Croatia	Oil exploration and production, natural gas
17. Indian Oil Corporation	India	Natural gas
18. Inpex	Japan	Oil exploration and production
19. JGC Corporation	Japan	Refining
20. Lukoil	Russia	Oil exploration and production
21. LyondelBasell	Netherlands	Petrochemicals
22. Oil India Ltd.	India	Natural gas
23. Oil and Natural Gas Corporation	India	Oil exploration and production, natural gas
24. OMV	Austria	Natural gas
25. ONGC Videsh Ltd.	India	Natural gas
26. Petrobras	Brazil	Oil exploration and production
27. Petrofield	Malaysia	Natural gas
28. Petroleos de Venezuela S.A.	Venezuela	Natural gas
29. Petronet LNG	India	Natural gas
30. PGNiG	Poland	Natural gas
31. PTT Exploration & Production	Thailand	Natural gas
32. Repsol	Spain	Natural gas
33. Royal Dutch Shell	Netherlands	Natural gas
34. Sinopec	China	Oil exploration and production, refining
35. SKS Ventures	Malaysia	Natural gas
36. Snamprogetti	Italy	Pipeline
37. StatoilHydro	Norway	Oil exploration and production, natural gas
38. Tecnimont	Italy	Petrochemicals
39. Total	France	Natural gas
40. Turkish Petroleum Company	Turkey	Natural gas
41. Uhde	Germany	Petrochemicals

Source: GAO analysis of open source information.

^aFollowing the March 2010 publication of this table, four firms (Ashok Leyland, Repsol, Statoil, and Tecnimont) informed us that they had not gone forward with the projects cited in the table.

^bThe country listed is the physical location of the firm.

Appendix II: Firms Reported in Open Sources as Having Both Commercial Activity in the Iranian Energy Sector and U.S. Government Contracts

Firm/country ^a	U.S. Government obligations					Total
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
Repsol/Spain	\$40 million	\$37 million	\$110 million	\$81 million	\$51 million	\$319 million
Total/France	\$0	\$27 million	\$0	\$154 million	\$131 million	\$312 million
Daelim Industrial Co./South Korea	\$0	\$0	\$0	\$0	\$111 million	\$111 million
ENI/Italy	\$9 million	\$88 million	Less than \$100,000	\$0	\$0	\$97 million
PTT Exploration and Production/Thailand	\$21 million	\$4 million	\$6 million	\$1 million	\$3 million	\$35 million
Hyundai Heavy Industries/South Korea	\$1 million	\$2 million	\$1 million	\$0	\$0	\$5 million
GS Engineering and Construction/South Korea	Less than \$100,000	\$0	\$0	\$0	\$0	Less than \$100,000
Total	\$71 million	\$158 million	\$117 million	\$236 million	\$296 million	\$879 million

Source: GAO analysis of Federal Procurement Data System-Next Generation records and other government records.

Note: Totals may not add due to rounding.

^aThe country listed is the physical location of the firm as reported in open sources.

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