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U.S. Imposes New, Stronger Iran Sanctions – Significant Implications for Petroleum Industry, Financial Sector and U.S. Government Contractors

New U.S. legislation would impose sanctions on non-U.S. companies doing business with Iran. On July 1, 2010, President Obama signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act (the “Act”), which requires the President to impose sanctions on companies that invest in the Iranian energy sector, assist Iran with maintaining or improving its refinery capacity, or exports refined petroleum products to Iran. Specifically, the Act requires the President to impose at least three of eight possible sanctions, and provides new alternatives to the sanctions already available under the 1996 Iran Sanctions Act.

The Act’s unilateral sanctions are even more restrictive than those recently announced by the United Nations (UN). The new sanctions are intended to impede Iran’s nuclear enrichment program by cutting of investment in the energy sector and restricting Iran’s ability to either produce or import refined petroleum products.

Like existing U.S. sanctions, the new sanctions also include restriction targeted at the government of Iran and at specific Iranian entities, such as the Iranian Revolutionary Guard Corps.

Barring Investment in Iran’s Petroleum Industry

The Act requires that sanctions be imposed on any “person” that makes a single investment of \$20 million or more in the Iranian petroleum. Sanctions would also apply to any person that makes individual investments of \$5 million, if the total investment in a single 12 month period equals or exceeds \$20 million. Such investments must directly contribute to Iran’s ability to develop “petroleum resources,” which is broadly defined to include petroleum, refined petroleum products, oil or liquefied natural gas (LNG), natural gas resources, oil or LNG tankers, or products used for oil or LNG pipelines.

The new sanctions also prohibit entities from supplying goods, services, technology, information, or support that could facilitate maintenance or development of Iran’s domestic refined petroleum production capacity (products include diesel, gasoline, jet fuel, and aviation gasoline). The sanctions would apply if any of the covered items has a value greater than \$ 1 million or if the aggregate sales in a 12-month period exceed \$ 5 million.

Likewise, persons are prohibited from exporting refined petroleum products themselves to Iran, or any goods, services, technology, information, or support that could enhance Iran’s ability to import refined petroleum products.

Financial Sector

The Act would allow Treasury to prohibit foreign banks and financial institutions from opening or maintaining correspondent accounts in the U.S., if the foreign bank is found to have assisted in the development of Iran's nuclear program or other weapons programs. It will also require U.S. financial institutions to audit and certify that their foreign correspondent banks are not providing services to Iranian entities.

Government Contracts

Any entity seeking to contract with the U.S. government must certify that it, and any other entities owned or controlled by it, does not engage in any activity prohibited under the sanctions. This effectively requires entities seeking U.S. government contracts to conduct internal audits to ensure that their operations, as well as the operations of their subsidiaries, are compliant with the Iran Sanctions.

Sanctions and Penalties

The Act provides for three new sanctions that can be imposed on foreign persons that engage in prohibited transactions, which are in addition to sanctions already available under the 1996 Iran Sanctions Act. These are:

- Prohibit the sanctioned person from conducting any banking transactions with a U.S. financial institution, including transfers of credit or payments of any kind;
- Prohibit the sanctioned person from engaging in any foreign exchange transactions with a U.S. financial institution;
- Freeze the sanctioned persons assets in the United States.

The existing sanctions include:

- Denial of Export-Import Bank loans, credits or credit guarantees for exports to the sanctioned entity;
- Denial of export licenses for shipments to the entity;
- Denial of U.S. bank loans exceeding \$10 million;
- If the entity is a financial institution, a prohibition on its service as a primary dealer in U.S. government bonds; and/or a prohibition on its serving as a repository for U.S. government funds (each counts as one sanction);
- Prohibition on U.S. government procurement from the entity;
- Restrictions on imports from the entity.

Penalties for violating the Iran Sanctions are significant. Civil penalties may be assessed in the amount of \$250,000 per violation or twice the value of the transaction. Criminal penalties may be assessed up to \$1 million per individual and company, and may include up to twenty (20) years imprisonment. Violators also risk debarment, loss of export privileges, and mandatory comprehensive compliance audits conducted by third-party auditors.

This *GT Alert* was prepared by [GT's Export Controls Group](#). Questions about these regulatory changes, or other export controls or U.S. sanctions matters, can be directed to:

- Michael Marinelli – 202.533.8503 (marinellimx@gtlaw.com)
- Kara Bombach – 202.533.2334 (bombachk@gtlaw.com)
- Renee Latour – 202.533.2358 (latourr@gtlaw.com)

Albany
518.689.1400

Houston
713.374.3500

Philadelphia
215.988.7800

Amsterdam
+31 20 301 7300

Las Vegas
702.792.3773

Phoenix
602.445.8000

Atlanta
678.553.2100

Los Angeles
310.586.7700

Sacramento
916.442.1111

Austin
512.320.7200

London*
+44 (0) 203 349 8700

San Francisco
415.655.1300

Boston
617.310.6000

Miami
305.579.0500

Shanghai
+86 21 6391 6633

Chicago
312.456.8400

New Jersey
973.360.7900

Silicon Valley
650.328.8500

Dallas
214.665.3600

New York
212.801.9200

Tallahassee
850.222.6891

Delaware
302.661.7000

Orange County
949.732.6500

Tampa
813.318.5700

Denver
303.572.6500

Orlando
407.420.1000

Tyson's Corner
703.749.1300

Fort Lauderdale
954.765.0500

Palm Beach County North
561.650.7900

Washington, D.C.
202.331.3100

Palm Beach County South
561.955.7600

White Plains
914.286.2900

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