

## Obama Administration Announces New US Sanctions Targeting Iran

Ahead of the passage of new legislation that will significantly strengthen U.S. sanctions against Iran, the President has issued a new Executive Order designed to put further pressure on revenue sources of the Iranian government. The order effectively expands the sanctions of Section 1245 of the National Defense Authorization Act for FY 2012 (the "NDAA") beyond purchases of petroleum with the Central Bank of Iran to cover purchases of petroleum or petrochemical products through any channel. It also provides new authority to sanction the purchasers themselves and targets those who provide material support to key Iranian institutions.

### Sanctions Applicable to Non-U.S. Financial Institutions

A non-U.S. financial institution could be sanctioned for conducting or facilitating, on or after July 31, 2012, any significant financial transaction:

- with the National Iranian Oil Company ("NIOC") or Naftiran Intertrade Company ("NICO") with the exception of sales of certain refined petroleum products to NIOC or NICO that do not exceed the thresholds specified in the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 ("CISADA"); or
- for the purchase or acquisition of petroleum, petroleum products, or petrochemical products from Iran.

A non-U.S. financial institution sanctioned under the new order could lose access to correspondent and payable-through accounts in the United States, which would effectively prevent the institution from doing business in U.S. dollars.

Importantly, the exceptions authorized by the NDAA apply to the new sanctions (*i.e.*, entities from countries that are found to have reduced their purchases of crude oil from Iran will not be sanctioned), unless the sanctioned activity is related to the purchase or acquisition of petrochemical products.

### Sanctions Against Purchasers of Petroleum and Petrochemical Products

Unlike the NDAA, which provides for sanctions only against the non-U.S. financial institution facilitating the sanctionable transaction, the new order also provides for the possibility of sanctions against the purchasers of Iranian crude or petroleum products themselves. On or after July 31, 2012, persons who knowingly engage in a significant transaction for the

purchase of petroleum, petroleum products, or petrochemical products from Iran may be subjected to any of a number of sanctions on a list of sanctions substantively the same as those in CISADA and Executive Order 13590, as can persons who own or control such persons and have knowledge of the proscribed activities. As with the sanctions applicable to non-U.S. financial institutions described above, the exceptions in the NDAA apply unless the transaction involves the purchase of petrochemical products.

#### Sanctions Targeting Support for NICO, NIOC, and the Central Bank of Iran

The order also provides authority to sanction any person who materially assists, sponsors, or provides financial, material, or technological support for, or goods or services in support of:

- NIOC, NICO, or the Central Bank of Iran; or
- the purchase or acquisition of U.S. dollars or gold (or other precious metals) by the Government of Iran.

All property and interests subject to U.S. jurisdiction of any person sanctioned for these activities would be frozen.

#### Designation of Two Non-U.S. Financial Institutions for Sanctions Under CISADA

In a separate action announced along with the new order, the U.S. Department of the Treasury, for the first time, imposed sanctions under Section 104(c) of CISADA and the Iranian Financial Sanctions Regulations. Two financial institutions, Bank of Kunlun (China) and Elaf Islamic Bank (Iraq) were designated under Section 104(c) of CISADA for knowingly facilitating significant transactions for various Iranian-linked banks designated by the United States for having connections to weapons of mass destruction and terrorism. In particular, Bank of Kunlun, of which state-owned China National Petroleum Corporation is a major shareholder, was cited for dealings with Bank Tejarat, an Iranian bank designated for involvement in Iran's proliferation activities, and for making at least one payment for an affiliate of Iran's Islamic Revolutionary Guard Corps pursuant to a letter of credit. As a result, these institutions have effectively lost access to the U.S. financial system.

The Executive Order may be found at [http://www.treasury.gov/resource-center/sanctions/Programs/Documents/iran\\_petro\\_eo\\_07312012.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/iran_petro_eo_07312012.pdf). For a summary of CISADA, see our July 6, 2010 memorandum, available at [http://www.cgsh.com/president\\_obama\\_signs\\_new\\_iran\\_sanctions\\_into\\_law/](http://www.cgsh.com/president_obama_signs_new_iran_sanctions_into_law/).

For a summary of the NDAA, see our January 2, 2012 memorandum, available at [http://www.cgsh.com/president\\_obama\\_signs\\_new\\_us\\_sanctions\\_targeting\\_foreign\\_banks\\_dealing\\_with\\_iran/](http://www.cgsh.com/president_obama_signs_new_us_sanctions_targeting_foreign_banks_dealing_with_iran/).

If you have any questions, please feel free to contact any of your regular contacts at the Firm, or Ken Bachman or Paul Marquardt of our Washington office, listed on our website at <http://www.clearygottlieb.com>.



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