OFAC FAQs

Questions Related to Executive Order of July 31, 2012, "Authorizing Additional Sanctions With Respect to Iran"

On July 30, 2012, the President signed an Executive Order ("E.O.") to authorize additional sanctions with respect to Iran. Effective as of 12:01 a.m. Eastern Standard Time on July 31, 2012, the order provides additional sanctions authorities to the Secretary of the Treasury and the Secretary of State. The order builds, in part, on prior authorities set forth in the National Defense Authorization Act for Fiscal Year 2012 ("NDAA") and in the Iran Sanctions Act ("ISA").

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216. What does the E.O. "Authorizing Additional Sanctions With Respect to Iran" do?

This Executive Order imposes new sanctions against the Iranian energy and petrochemical sectors.

The E.O. authorizes the Secretary of the Treasury, in consultation with the Secretary of State, to impose financial sanctions on foreign financial institutions found to have knowingly conducted or facilitated any significant financial transaction with the National Iranian Oil Company ("NIOC") or Naftiran Intertade Company ("NICO") (except for sales of refined petroleum products to NIOC or NICO that are below the dollar threshold that could trigger sanctions under ISA). It also provides new authority to impose sanctions on foreign financial institutions found to have knowingly conducted or facilitated significant transactions for the purchase or acquisition of petroleum or petroleum products from Iran through any channel, with the aim of deterring Iran or any other country or institution from establishing workaround payment mechanisms for the purchase of Iranian oil to circumvent the NDAA oil sanctions. The existing exception rules under the NDAA apply to these new sanctions. Thus, countries that are determined by the Secretary of State to have significantly reduced their purchases of Iranian crude oil will be excepted from this new measure as well.

In addition, the E.O. provides new authority to impose sanctions on foreign financial institutions found to have knowingly conducted or facilitated significant transactions for the purchase or acquisition of petrochemical products from Iran.

Finally, the E.O. provides authority for the Secretary of the Treasury to block the property and interests in property of any person determined to have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services in support of:

• NIOC, NICO, or the Central Bank of Iran ("CBI"), or
• the purchase or acquisition of U.S. bank notes or precious metals by the Government of Iran.

Additionally, the E.O. grants the Secretary of State, in consultation with the Secretary of the Treasury and other cabinet officials, new powers to impose a range of sanctions on individuals or entities determined to knowingly engage in significant transactions for the purchase or acquisition of petroleum, petroleum products or petrochemical products from Iran. Individuals or entities determined to meet such criteria will be subject to the same sanctions that may be imposed under ISA.

217. Why was this authority needed?

This E.O. further strengthens the Iran sanctions framework by deterring work-around financial transactions involving NIOC or NICO that were not captured under the sanctions previously implemented against the CBI. The E.O. also addresses concerns that the Government of Iran is utilizing sales of petrochemical products to replace revenue lost as a result of previously enacted sanctions. In addition, the E.O. provides additional authority to combat and deter the use of non-bank intermediaries to conduct petroleum and petrochemical trade, provide support to or for the CBI, NIOC or NICO, or procure U.S. bank notes or precious metals for the Government of Iran.

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218. What constitutes a "significant" financial transaction under the new E.O.? Is there a certain dollar threshold?

Treasury expects to apply the same framework under section 1 of the new E.O. that it has applied under section 1245 of the NDAA and section 104 of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 ("CISADA"). Under that framework, in determining whether transactions are significant, the Secretary of the Treasury may consider a number of factors related to the transaction or services, including, but not limited to: size, number, and frequency; type, complexity, and commercial purpose; the level of awareness or involvement by the bank's management; whether the activity or payment illustrates a pattern or practice or an isolated event; the ultimate economic benefit conferred upon the sanctions target; and whether the transactions involved the use of deceptive financial practices to obscure the identities of the parties involved.

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219. Does this E.O. mean that Iranian trade partners should no longer buy petroleum products from Iran? How will this affect exports of Iranian oil?

These new measures further strengthen the existing comprehensive Iran sanctions framework by deterring work-around financial transactions involving NIOC or NICO that were not being captured under the sanctions previously implemented against the CBI. Iranian trade partners can continue to buy petroleum and petroleum products from Iran without risking sanctions under this E.O. if they have received a significant reduction exception under the NDAA. However, in jurisdictions that do not have a significant reduction exception, the purchase of petroleum or petroleum products and significant dealings with NIOC or NICO may be subject to sanctions under this E.O.

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220. Does this E.O. mean you are designating NIOC and NICO? Can countries that have been excepted from NDAA sanctions still purchase oil through these companies without facing sanctions?

All property and interests in property of NIOC and NICO subject to U.S. jurisdiction are already blocked pursuant to E.O. 13599 and U.S. persons are prohibited from all dealings with these entities. This new E.O. provides authority to sanction foreign financial institutions that knowingly conduct or facilitate any significant financial transaction with NIOC or NICO. Financial institutions in countries that have received a significant reduction exception are not subject to these sanctions for petroleum purchase transactions with NIOC and NICO while the exemption is in effect.

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221. Your E.O. targets transactions between foreign financial institutions and NIOC or NICO. What about a NIOC or NICO subsidiary? Are transactions with those entities also sanctionable under this E.O.?

Yes. The E.O. defines these terms to include any entity owned or controlled by, or operating for or on behalf, these entities.

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222. Does this E.O. make sanctionable activities related to the pipeline project to supply natural gas from the Shah Deniz gas field in Azerbaijan to Europe and Turkey, given that NICO reportedly has a 10 percent stake in the project?

No. The relevant provisions of the E.O. do not apply to such projects initiated prior to the effective date of this E.O.

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223. Are barter arrangements or other non-cash trade transactions involving petroleum, petroleum products, or petrochemical products originating from Iran sanctionable under the terms of the new E.O.?

Yes. To the extent a financial institution is involved, that financial institution could be sanctioned under this E.O. for a barter arrangement related to the purchase or acquisition of petroleum, petroleum products, or petrochemical products from Iran. In addition, barter transactions knowingly conducted with NIOC, NICO, or the CBI also could result in sanctions – regardless of whether a financial institution is involved – to the extent that those transactions constitute material support for, or services to, NIOC, NICO, or the CBI.

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224. What are the definitions of "petroleum products" and "petrochemical products"?

The term "petroleum products" includes unfinished oils, liquefied petroleum gases, pentanes plus, aviation gasoline, motor gasoline, naphtha-type jet fuel, kerosene-type jet fuel, kerosene, distillate fuel oil, residual fuel oil, petrochemical feedstocks, special naphthas, lubricants, waxes, petroleum coke, asphalt, road oil, still gas, and miscellaneous products obtained from the processing of: crude oil (including lease condensate), natural gas, and other hydrocarbon compounds. The term does not include natural gas, liquefied natural gas, biofuels, methanol, and other non-petroleum fuels.

The term "petrochemical products" includes any aromatic, olefin, and synthesis gas, and any of their derivatives, including ethylene, propylene, butadiene, benzene, toluene, xylene, ammonia, methanol, and urea.