

ALERT

New U.S. Sanctions Target Steel, Aluminum, and Other Key Sectors of the Iranian Economy

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On January 10, 2020, and in response to Iran's recent ballistic missile strikes on U.S. military bases in Iraq, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) imposed new sanctions targeting the largest Iranian steel, aluminum, copper, and iron manufacturers, as well as certain foreign companies doing business with those manufacturers. OFAC also sanctioned several senior leaders of the Iranian regime, and the President issued a sweeping new Executive Order (EO) aimed at foreign companies doing business in or with Iran's construction, mining, manufacturing, and textiles sectors.

In May 2019, the President issued EO 13871, which provides authority for the U.S. government to sanction foreign companies that are in, or do business with, the Iranian iron, steel, aluminum, and copper sectors. This EO is part of the larger, wide-ranging sanctions program on Iran, including the so-called "secondary" sanctions designed to deter non-U.S. companies from doing business with Iran. The U.S. government has broad discretion to determine if a foreign company has engaged in a "significant transaction" related to Iranian steel, aluminum, or other products covered by EO 13871 that would trigger the sanctions, and imposition of sanctions would effectively cut off a company from the U.S. market.

Last Friday, OFAC used this authority to sanction several of Iran's largest metals manufacturers—including Mobarakeh Steel Company (which already was sanctioned for other reasons), Esfahan Steel Company, Khuzestan Steel Company, Iran Aluminum Company, and Almahdi Aluminum Co., among others—further heightening the risk of doing business with these entities. Notably, OFAC also designated Pamchel Trading Beijing Co. Ltd. and its network of non-Iranian

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companies/vessels and Oman-based Reputable Trading Source LLC as Specially Designated Nationals (SDNs), effectively banning these entities from the U.S. market. Among other business with Iran, Pamchel Trading Beijing Co. allegedly purchased tens of thousands of metric tons of steel slabs from Mobarakeh Steel Company each month and sold certain inputs/materials for use by Iranian metals producers. Reputable Trading Source in Oman allegedly worked with Khouzestan Steel Company, supplied raw materials and parts to Iranian steel companies, and engaged in marketing and exporting of steel products from Iran. These designations demonstrate that the Administration is willing to enforce the Iran metals sanctions against third country companies and likely are intended to serve as a warning to other foreign companies currently engaging or planning to engage in purchases of metals products from Iran.

Separately, the President issued a new EO similar in scope and reach to the one covering the Iranian metals sectors, but targeting foreign companies doing business in or with Iran's construction, mining, manufacturing, and textiles sectors. The new EO allows the U.S. government to designate as SDNs companies operating in these Iranian industries, as well as foreign companies that engage in a significant transaction in connection with one of the specified sectors or materially assist any SDN blocked under the new EO. As with the EO covering the metals sectors, this EO specifically provides authority to impose sanctions on foreign financial institutions that knowingly conduct or facilitate a significant financial transaction in connection with the construction, mining, manufacturing, or textiles sector (or an SDN designated pursuant to the EO). The prospect of such banking sanctions, including a potential prohibition on opening or maintaining a correspondent or payable-through account in the United States, often acts as a practical impediment to foreign companies seeking to engage with Iran, as, historically, many financial institutions have not been willing to risk being cut out of the U.S. market in order to facilitate deals with Iran.

Wiley Rein has unparalleled sanctions compliance experience. Should you have any questions regarding the new Iran sanctions, please do not hesitate to contact one of the members of the International Trade and National Security practices listed on this alert.