



Client Alert



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AGG Export Controls Update: Company Settles over Violations of Iranian Transactions Regulations

On April 25, 2012, Sandhill Scientific Inc. (Sandhill), a U.S. manufacturer of medical equipment, agreed to pay \$126,000 to settle allegations that it violated the Iranian Transactions Regulations (ITR) and related regulations. The ITR broadly prohibits U.S. companies from entering into, or performing, business transactions with parties in Iran as well as specified Iranian entities. Specifically, the Office of Foreign Assets Control (OFAC) alleged that Sandhill exported medical equipment valued at approximately \$6,700 to Dubai with knowledge or reason to know that the goods were intended for transshipment to a company in Iran. OFAC also alleged that Sandhill failed to provide documents responsive to two administrative subpoenas issued by OFAC during its investigation.

This matter was not voluntarily disclosed to OFAC, and the agency determined that the alleged ITR violation constituted an egregious case because:

- Sandhill's unlicensed export resulted from willful and reckless conduct in which the company's management was directly involved;
- Sandhill deliberately concealed the fact that the goods were destined for Iran; and
- Sandhill did not fully cooperate with the investigation.

The determinations resulted in a base penalty amount of \$250,000 for the alleged ITR violation. Further, OFAC's Economic Sanctions Enforcement Guidelines (Guidelines) provide that, where the value of the underlying transaction is \$500,000 or less, failure to comply with an administrative subpoena may result in a civil penalty of up to \$20,000, irrespective of whether any other violation is alleged. Because the medical equipment exported by Sandhill had a value of approximately \$6,700, the base penalty for the two alleged RPPR violations totaled \$40,000.

In addition to the facts and circumstances described above, the settlement amount reflects OFAC's consideration of the following facts and circumstances pursuant to the Guidelines:

- Sandhill does not appear to have had any compliance program in place at the time of the alleged violations;

- Sandhill does not appear to have taken any remedial action after the alleged violations came to its attention;
- The export may have been eligible for an OFAC license pursuant to § 560.530 of the ITR; and
- OFAC has no record of any prior sanctions enforcement actions involving Sandhill.

U.S. companies of all sizes are subject to the ITR and the other sanctions programs administered by OFAC. All such companies should have an export control compliance program in place addressing exports to jurisdictions against which the U.S. maintains an economic sanctions program, exports of controlled items, and re-export or transshipment risk. The penalty in this case is almost 19 times the value of the underlying export—a significant penalty by any metric. Export controls risk is a significant issue for U.S.-based exporters, and AGG can help design a compliance process to mitigate that risk. Our solutions are sensitive to a business's size, goals, and culture.

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