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IRAN SANCTIONS

Firms Reported to Have Commercial Activity in the Iranian Energy Sector and U.S. Government Contracts

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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our work regarding foreign firms with commercial interests in Iran's energy sector. In March 2010, we issued a report identifying 41 foreign firms that have commercial activity in Iran's energy sector. The report released today identifies which of the 41 foreign firms also have U.S. government contracts.[1]

Iran's energy sector is vital to its economy and government. In recent years, oil export revenues have accounted for 24 percent of Iran's gross domestic product and between 50 and 76 percent of the Iranian government's revenues. However, Iran has not reached peak crude oil production levels since 1978, does not produce sufficient natural gas for domestic use, and lacks the refining capacity to meet domestic demand for gasoline. Accordingly, Iran is seeking the participation of foreign firms in providing financing and technical assistance in numerous energy projects. IHS Global Insight reports that Iran's priorities for the next 5 years are to (1) raise oil production and exports as much as possible, (2) increase natural gas production for domestic use, and (3) expand refining capacity. In November 2008, the Deputy Minister of the National Iranian Oil Company stated that Iran would need about $145 billion in new investment over the next 10 years to build a thriving energy sector.

U.S. law restricts U.S. firms from investing in Iran's energy sector through sanctions to discourage Iran from supporting terrorism and developing nuclear weapons.[2] In addition, the Iran Sanctions Act (ISA) provides for sanctions against persons, including foreign firms, who invest more than $20 million in Iran's energy sector in any 12-month period.[3] The act allows the President, who delegated authority under the act to the Secretary of State, to ban such persons from U.S. government procurement, including contracts for

[1]See GAO, *Firms Reported to Have Commercial Activity in the Iranian Energy Sector and U.S. Government Contracts*, GAO-10-639R (Washington, D.C.: May 3, 2010) and *Firms Reported in Open Sources as Having Commercial Activity in the Iran's Oil, Gas and Petrochemical Sectors*, GAO-10-515R (Washington, DC.: Mar. 23, 2010)

[2]*See e.g.* Exec. Order 13,059, 62 Fed. Reg. 44,531 (Aug. 19, 1997).

[3]Iran-Libya Sanctions Act of 1996, Pub. L. No. 104-172, § 5, 110 Stat. 1541, 1543 as amended. The act also allows for sanctions against persons providing goods, technology, or services to Iran knowing that such provision would contribute materially to Iran's ability to acquire or develop chemical, biological, or nuclear weapons or related technologies; or acquire or develop destabilizing numbers and types of advanced conventional weapons.

goods or services.[4] The Secretary of State is responsible for determining whether a firm's activities meet the legal criteria for an investment, and the firm could therefore be subject to actions under the Iran Sanctions Act. The Secretary of State may waive the sanctions if the Secretary determines it is in the national interests of the United States to do so.[5]

The Secretary has not determined that a firm's activities have met the legal criteria for sanctions under the Iran Sanctions Act since 1998. At that time, the Secretary waived sanctions on three foreign energy firms—Total (France), Gazprom (Russia), and Petronas (Malaysia). We did not attempt to determine whether the activities of the 41 firms we identified meet the legal criteria for an investment under the Iran Sanctions Act. To identify firms reported in open sources as having commercial activity in the Iranian energy sector, we relied only on government reports and information, about 200 energy trade publications, and corporate Web site information and statements. We excluded sources deemed insufficiently reliable, such as newspaper reports, newswires and news releases from the Iranian government. We listed a firm as having commercial activity in Iran's energy sector if three reputable industry publications or the firm's corporate statements reported the firm to have (1) signed an agreement to conduct business; (2) invested capital; or (3) received payment for providing goods or services in connection with a specific Iranian energy project. We provided the firms on our list an opportunity to comment on our findings.

To determine the extent to which the firms we identified also had contracts with the U.S. government, we searched the Federal Procurement Data System-Next Generation (FPDS-NG) for references to the firms.[6] We verified that the firms in FPDS-NG were matches to firms on our list by

[4]Pub. L. No. 104-172, §§ 5-6; Memorandum: Delegation of Responsibilities Under the Iran and Libya Sanctions Act of 1996, 61 Fed. Reg. 64,249 (Nov. 21, 1996). Other sanctions include a denial of Export-Import Bank assistance, a ban on issuing licenses to export controlled technologies to the sanctioned firm, and other sanctions to restrict imports with respect to the sanctioned person in accordance with the International Emergency Economic Powers Act.

[5]Pub. L. No. 104-172, § 9; 61 Fed. Reg. 64,249.

[6]FPDS-NG is the primary governmentwide contracting database. More than 60 government agencies, departments, and other entities submit contract data to FPDS-NG. FPDS-NG can be accessed at https://www.fpds.gov/fpdsng_cms/. Reporting requirements for FPDS-NG are in Federal Acquisition Regulation (FAR) subpart 4.6. FPDS-NG data are described in FAR 4.602.

using the U.S. government central contractor registration to confirm identifying information. We took steps to corroborate key FPDS-NG information by obtaining U.S. government documents and public statements that confirmed the firms' U.S. contracts.

We conducted our work from September 2009 to April 2010 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and discuss any limitations in our work.

Summary

Based on our review of open source information, we identified 41 firms that had commercial activity in the Iranian energy sector between 2005 and 2009. Of these firms, seven had contracts with the U.S. government. From fiscal years 2005 through 2009, the U.S. government obligated almost $880 million in contracts to these seven firms.[7] U.S. agencies obligated almost 90 percent of these funds for purchases of fuel and petroleum products overseas. Thirteen of the 41 firms listed in our March 2010 report responded to our inquiries regarding their commercial activities in Iran, including two of the seven firms with U.S. government contracts. Since the report was released, four more firms responded, including one firm that noted it had not made a decision about finalizing its commercial activities in Iran.

Background

Iran seeks commercial investments to increase its oil and natural gas production, refining capacity, and pipeline and tanker infrastructure.

Iran has the world's third largest oil reserves, or about 140 billion barrels, and produces about 4.2 million barrels per day. However, Iran's oil production has remained virtually flat in recent years and will likely stagnate in the medium term due to insufficient investment, according to the International Monetary Fund. Iran requires increasingly modern and advanced oil recovery technologies to stop natural declines of oil production, but has found advanced technology difficult to import due to international sanctions and high costs.

[7]An obligation is recorded when a government agency enters into a binding agreement to purchase services or goods.

According to DOE, Iran does not currently have sufficient refining capacity to meet its domestic demand for gasoline. Iran imported approximately 130,000 barrels of gasoline per day in 2009, as well as other refined products such as diesel fuel. Iran's nine refineries are operated by the National Iranian Oil Refining and Distribution Company. With the potential participation of foreign companies, Iran plans to add capacity at eight refineries to fully meet domestic demand for gasoline by 2013 or 2014, according to DOE officials.

Iran has one of the world's largest natural gas reserves, second only to Russia. Iran's domestic consumption of natural gas has increased rapidly over the past 20 years, and development of natural gas resources would better position Iran to meet domestic demand. According to U.S. officials, between 20 and 25 percent of Iran's natural gas is currently reinjected into mature oil fields to enhance oil recovery. Iran plans to expand its development of liquefied natural gas, but this plan requires significant investment from international partners.[8]

Iranian officials have stated that Iran needs large investments in its natural gas infrastructure, including pipelines. In addition, while Iran has over 40 tankers, Iran purchased additional tankers for shipping crude oil in 2009.

Forty-One Foreign Firms Had Commercial Activity in Iran's Oil, Gas, or Petrochemical Sectors from 2005 to 2009

Based on our review of open source information, we identified 41 foreign firms that had commercial activity in the development of the Iranian oil, gas, and petrochemical sectors from 2005 to 2009. We define commercial activity as having signed an agreement to conduct business, invested capital, or received payment for the provision of goods or services in Iran's energy sector. We did not review the contracts and documents underlying these transactions and did not independently verify these transactions. These firms are listed in table 1. Open source information stated that these firms supported activities throughout Iran that involved the exploration and development of oil and gas, petroleum refining, or the construction of pipelines and tankers for the transport of oil or gas. The firms provide technical expertise, equipment, or funding that enables Iran to increase the productive capacity and profitability of its oil, gas, and petrochemical sectors.

[8] Iran has three major liquefied natural gas (LNG) projects in various stages of development—Iran LNG, Pars LNG, and Persian LNG—all of which are associated with a phase of the South Pars development. The South Pars natural gas field has a 25 phase development scheme spanning 20 years.

Table 1: Foreign Firms Publicly Reported to Have Commercial Activity in the Iranian Oil, Gas, or Petrochemical Sectors

Firm	Country[a]	Sector
ABB Lummus	Not applicable	Refining, petrochemicals
Amona	Malaysia	Oil exploration and production
Belneftekhim	Belarus	Oil exploration and production
China National Offshore Oil Corporation	China	Natural gas
China National Petroleum Corporation	China	Oil exploration and production, natural gas
Costain Oil, Gas & Process Ltd.	United Kingdom	Natural gas
Daelim	South Korea	Natural gas
Daewoo Shipbuilding & Marine Engineering	South Korea	Oil tankers
Edison	Italy	Oil exploration and production
ENI	Italy	Oil exploration and production
Gazprom	Russia	Oil exploration and production, pipeline
GS	South Korea	Natural gas
Haldor Topsoe	Denmark	Refining
Hinduja	United Kingdom	Oil exploration and production, natural gas
Hyundai Heavy Industries	South Korea	Oil tankers
INA	Croatia	Oil exploration and production, natural gas
Indian Oil Corporation	India	Natural gas
Inpex	Japan	Oil exploration and production
JGC Corporation	Japan	Refining
Lukoil	Russia	Oil exploration and production
LyondelBasell	Netherlands	Petrochemicals
Oil India Ltd.	India	Natural gas
Oil and Natural Gas Corporation	India	Oil exploration and production, natural gas
OMV	Austria	Natural gas
ONGC Videsh Ltd.	India	Natural gas
Petrobras	Brazil	Oil exploration and production
Petrofield	Malaysia	Natural gas
Petroleos de Venezuela S.A.	Venezuela	Natural gas
Petronet LNG	India	Natural gas
PGNiG	Poland	Natural gas
PTT Exploration & Production	Thailand	Natural gas
Repsol	Spain	Natural gas
Royal Dutch Shell	Netherlands	Natural gas
Sinopec	China	Oil exploration and production, refining
SKS Ventures	Malaysia	Natural gas
Snamprogetti	Italy	Pipeline
StatoilHydro	Norway	Oil exploration and production, natural gas
Tecnimont	Italy	Petrochemicals
Total	France	Natural gas
Turkish Petroleum Company	Turkey	Natural gas
Uhde	Germany	Petrochemicals

Source: GAO analysis of open source information.

[a]The country listed is the physical location of the firm.

The 41 firms listed in table 1 represent a minimum of firms with commercial activity in Iran's energy sectors (see GAO-10-515R for details on our methodology). We provided the 41 firms an opportunity to comment on our findings. Thirteen firms responded before we issued the March 2010 report, and confirmed our findings.[9] Four firms responded after we issued the report. An official from Statoil stated that the information in our March 2010 report was accurate. Tecnimont noted that the contract we described had never entered into force due to a lack of financing. Repsol stated that it had not yet made a final investment decision on the project that we identified. ENI neither confirmed nor denied the information that we reported.

Seven of the Foreign Firms Also Had Contracts with the U.S. Government

From fiscal years 2005 through 2009, the U.S. government obligated almost $880 million in contracts to seven of these 41 firms. U.S. agencies obligated almost 90 percent of these funds for purchases of fuel and petroleum products overseas. The firms are presented in table 2 in order of magnitude of obligations, as reported in FPDS-NG.

Table 2: Firms Reported in Open Sources as Having Both Commercial Activity in the Iranian Energy Sector and U.S. Government Contracts

	U.S. Government obligations					
Firm/country[a]	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**Total**
Repsol/Spain	$40 million	$37 million	$110 million	$81 million	$51 million	$319 million
Total/France	$0	$27 million	$0	$154 million	$131 million	$312 million
Daelim Industrial Co./South Korea	$0	$0	$0	$0	$111 million	$111 million
ENI/Italy	$9 million	$88 million	Less than $100,000	$0	$0	$97 million
PTT Exploration and Production/Thailand	$21 million	$4 million	$6 million	$1 million	$3 million	$35 million
Hyundai Heavy Industries/South Korea	$1 million	$2 million	$1 million	$0	$0	$5 million
GS Engineering and Construction/ South Korea	Less than $100,000	$0	$0	$0	$0	Less than $100,000
Total	$71 million	$158 million	$117 million	$236 million	$296 million	$879 million

Source: GAO analysis of Federal Procurement Data System-Next Generation records and other government records.

Note: Totals may not add due to rounding.

[a]The country listed is the physical location of the firm as reported in open sources.

[9]See GAO-10-515R for summaries of these firms' comments.

According to FPDS-NG, the Department of Defense (DOD) obligated funds to

- Repsol of Spain for the purchase of fuel for naval and aviation purposes;
- Total of France for the purchase of fuel, including jet fuel, gasoline, and diesel;
- Daelim Industrial Co. of South Korea for the construction of family housing at a U.S. Army base in South Korea;[10]
- ENI of Italy for the purchase of petroleum products;
- PTT Exploration and Production of Thailand for the purchase of jet fuel and other petroleum products;
- Hyundai Heavy Industries of South Korea for the purchase of power transformers;[11] and
- GS Engineering and Construction of South Korea (then known as LG Engineering and Construction) for the construction of office buildings in South Korea.

According to DOD, these firms are qualified to contract with the U.S. government based on reviews of the Excluded Parties Listing System and the Office of Foreign Assets Control Specially Designated Nationals List, maintained by the Departments of State and Treasury. DOD also stated that these contracts are critical to support mission requirements of worldwide military operations.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members may have at this time.

[10]The U.S. Army Corps of Engineers has announced that it has contracted with Daelim Industrial to construct family housing at a U.S. base in South Korea. See http://www.army.mil/-news/2009/08/09/25673-corps-of-engineers-awards-contract-for-new-family-housing-at-usag-humphreys/.

[11]According to FPDS-NG, DOE also obligated funds to Hyundai Heavy Industries of South Korea for the purchase of power transformers.

GAO Contacts and Staff Acknowledgments

Should you have any questions about this testimony, please contact Joseph A. Christoff at (202) 512-8979, or christoffj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this statement include Tet Miyabara (Assistant Director), JoAnna Berry, Colleen Candrl, Jon Fremont, Julia Kennon, Grace Lui, Lauren Membreno, and Pierre Toureille.

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