THE
NATIONAL LAW REVIEW

Connecticut Company Reaches Settlement With OFAC Regarding Alleged Iran Sanctions Violations

Tuesday, February 26, 2019

*This week, we are pleased to have a guest post from **Kevin Daly**. Attorney Daly is a member of the firm's Manufacturing Industry Group and also its Trade Compliance Team.*

On February 21, 2019, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) entered into a settlement with Connecticut-based ZAG IP, LLC (ZAG) (formerly known as ZAG International, LLC) arising from alleged violations of U.S. sanctions against Iran. Federal law presently prohibits U.S. persons and companies from entering into almost all transactions involving Iranian buyers or sellers or Iranian goods. The settlement resolved allegations that ZAG knowingly bought and resold Iranian-origin goods. The settlement highlights several critical compliance practices that companies should consider adopting to minimize the risk of sanctions violations.

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ZAG's business involves global sourcing and marketing of cement raw materials as well as providing advisory services for the construction industry. In 2014, ZAG signed an agreement to sell about 400,000 metric tons of clinker (material that is ground to a powder and used as a binder in cement) to a purchaser in Tanzania. The material was to be manufactured by a supplier based in India. After the contract was executed, the supplier informed ZAG that due to technical problems at its plant, it would be unable to deliver a sufficient amount of clinker. When the Tanzanian purchaser refused to permit any delays in shipment, ZAG sought an alternative supplier and identified a company located in the United Arab Emirates. The UAE company offered to supply Iranian-origin clinker, falsely representing to ZAG that the material was not subject to U.S. sanctions. ZAG purchased the material.

ZAG voluntarily disclosed the potential violations to OFAC, and the settlement that was developed required ZAG to pay a $506,250 monetary penalty. OFAC found that there were both aggravating and mitigating factors regarding ZAG's conduct. OFAC found as aggravating factors that ZAG acted in reckless disregard of the Iran sanctions, that senior management was aware of the Iranian origin of the goods, that Iran received significant benefits, that ZAG is a sophisticated business, and that ZAG did not have an effective compliance program. As mitigating factors, OFAC found that ZAG had no other violations within the last five years, that ZAG is a small business entity, that ZAG took significant remedial measures, and that ZAG cooperated with OFAC's investigation. Ultimately, considering the circumstances OFAC determined that the violations were "non-egregious.

There are several takeaways for any U.S. company buying or selling abroad.

1. First, U.S. Iran sanctions prohibit U.S. companies from importing or purchasing goods of Iranian origin. Although violations based on exports to Iran tend to receive the most attention, U.S companies in the buyer's seat need to be diligent as well.
2. Second, a U.S. company buying or selling abroad should have an effective program that includes vetting all transactions for sanctions compliance, even when (as was the case with ZAG) plans change on short notice or business exigencies develop.
3. Third, companies must be aware of "red flags" in transactions and respond to them appropriately. Generally speaking, when a red flag arises, the company should pause the transaction until the suspicious

information can be investigated. In ZAG’s case, ignoring the red flags with the proposed transaction (the knowledge of the Iranian origin of the goods) was the reason OFAC found that ZAG acted recklessly.