

Exporting to Iran: What Oil & Gas Companies Need to Consider

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It is estimated that Iran's proved oil reserves rank fifth largest in the world at approximately 150 billion barrels (as of 2014) – or, roughly, 10% of the world's total proven petroleum reserves. Iran has been exploring and producing hydrocarbons for over a century, however, in recent years, the increasingly severe international sanctions leveraged against the country in response to its nuclear ambitions has severely curtailed Canadian exports of oil and gas (O&G) technology, goods and services to Iran.

Just over three months ago, the Canadian government announced the easing of Canada's economic sanctions against Iran and signalled Canada's willingness to resume dialogue with Iran. While diplomatic relations have not yet been formally re-established, this easing is allowing limited but increasing commercial relationships between Canada and Iran to resume and expand.

Since February 5, 2016, there has been a growing interest among Canadian O&G companies to export to the country. While it is possible to do so, Iran remains a sanctioned country and there are important considerations at play when considering exporting to Iran. Most importantly, any export to Iran must still be compliant with three different trade control laws: the *Regulations Implementing the United Nations Resolutions on Iran*, the *Special Economic Measures (Iran) Regulations* (the "SEMA Regulations"), and the *Export Control List* ("ECL"). Taken together, these three mechanisms continue to limit what can be exported to Iran and how, including prohibitions on exports to "designated persons", the majority of whom are associated with Iran's government and nuclear program. If any of the goods and associated services are considered restricted by law, it may be possible in certain circumstances to obtain a permit authorizing its export. Exporting a restricted item or to a restricted individual without a permit can result in significant financial penalties and even jail time.

If your company is considering an export of goods or services to Iran, the following information is crucial to protecting yourself before agreeing to a deal:

Due diligence: you must perform comprehensive due diligence on the entire transaction to ensure that none of the goods or services are prohibited from export and that none of the persons, either individuals or corporations, are "designated persons" under Canadian law.

From a practical point of view, you must also ensure that you will receive the support of key intermediaries in completing the export successfully. Key steps include the following:

1. Do you know your end-user?

- Who is the ultimate end-user of your goods? Obtain as much information as possible on the end-user and, if possible, request an end-user certificate. Certain companies and individuals are still sanctioned under Canadian law and all transactions with these individuals are prohibited.

2. Are you familiar with the technical specifications of your goods?

- There are broad prohibitions in place on the types of items that are subject to export controls. For example, under the SEMA Regulations, any "stainless steel valves, piping, tubing and fittings" made of stainless steel type 304, 316 or 317 are restricted and a permit must be sought for their export.

- Similarly, under the ECL, understanding the technical specifications of goods is crucial to understanding whether any good is subject to export controls. For example, a company wanting to export a battery must ensure that it cannot be defined as a “high energy device...” that can be characterized as a “cell...having an ‘energy density’ exceeding 550 Wh/kg at 20°C”. When making a determination under the ECL, the general description of an item may not be sufficient to assess whether it falls under the category of a controlled good.
3. **Do you have any U.S. origin goods in the products to be exported?**
- Did you import a component from the U.S. that is ultimately going to be assembled into your final product and shipped to Iran? If so, it is possible that the ECL applies and you will require an export permit. In addition, re-export of U.S. origin goods to Iran may also require an export permit from U.S. authorities, even if the finished product is being shipped from Canada.
4. **Have you spoken to your bank, broker and insurer?**
- **Shipment:** how will the goods be shipped? Where will the transshipment point be? Will your insurance company underwrite the goods with Iran as the final destination? You need to ensure that the carrier is willing to load your shipment with Iran as a final destination. Similarly, insurance companies may be overly cautious and refuse to insure your shipment. Speak to your broker and insurance company before signing on the dotted line.
 - **Payment:** how will the goods be paid for? Speak to your bank or brokerage to ensure you will be able to receive payment. While the U.S. has also relaxed its sanctions against Iran, it still has in place very strict U.S. dollar restrictions: U.S. dollar transactions continue to be virtually prohibited because no payments linked to Iran may be processed through the U.S. financial system.

NO to all or some questions above	YES to all questions above
Obtain information required above for an export control assessment before proceeding.	Verify your proposed export against the relevant legislation. Obtain the proper export permits, if required.

Seek legal advice: making a determination of whether an export permit is required may require additional expertise that goes beyond your capacities in-house. If in doubt, seeking legal advice on your proposed transaction may save you time and effort.

The easing of sanctions with Iran represents an opportunity for Canadian businesses to engage with the country. However, it is important for companies to remember that transactions are still subject to various trade control regimes and that all proposed exports must be vetted against all relevant legislation in order to prevent delays with shipments and, more importantly, fines and potential convictions for violations.

To learn more about the applicable legislation and due diligence, visit: [CANADA EASES ITS SANCTIONS ON IRAN: EIGHT TIPS FOR CANADIAN BUSINESSES SEEKING TO EXPLORE IRAN-RELATED OPPORTUNITIES.](#)

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