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May 4, 2010

The Honorable Joseph I. Lieberman  
Chairman  
The Honorable Susan Collins  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Jon Kyl  
Ranking Member  
Subcommittee on Terrorism and Homeland Security  
Committee on the Judiciary  
United States Senate

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

On March 23, 2010, we issued a report entitled *Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors*.<sup>1</sup> Based on open sources, we identified 41 foreign firms as having commercial activity in these vital sectors of Iran's economy from 2005 to 2009.<sup>2</sup> As you requested, this report identifies which of the 41 firms in our March 2010 report had contracts with the United States government from fiscal years 2005 to 2009.

Our March 2010 report and this report are intended to support congressional consideration of U.S. sanctions against Iran, including proposed legislation to expand the Iran Sanctions Act (ISA). We did not use ISA criteria or monetary thresholds when identifying firms and did not attempt to determine whether firms meet the legal criteria for an investment specified in ISA.<sup>3</sup> Under the existing Iran Sanctions Act, persons, including firms, that invest more than \$20 million in Iran's energy sector in any 12-month

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<sup>1</sup>GAO, *Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors*, [GAO-10-515R](#) (Washington, D.C.: Mar 23, 2010).

<sup>2</sup>Iran's energy industry is vital to its economy and government. 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, according to the Department of Energy (DOE) and IHS Global Insight. Accordingly, Iran is seeking the participation of foreign firms in providing financing and technical assistance in numerous oil, gas, and petrochemical projects, according to DOE.

<sup>3</sup>The Secretary of State is responsible for making such determinations. Our complete methodology for identifying the 41 firms is described in [GAO-10-515R](#).

period may be banned from U.S. government procurement.<sup>4</sup> In 1998, the United States made its first and only determination that a firm's investments constituted activity covered by the Iran Sanctions Act. The sanctions were waived because the Secretary of State determined it was in the national interest to do so. The U.S. Senate and House of Representatives have passed separate bills to expand U.S. sanctions against Iran and are now working to resolve differences.<sup>5</sup>

To identify which of the 41 firms listed in our March 2010 report also had U.S. government contracts, we searched the Federal Procurement Data System-Next Generation (FPDS-NG) for fiscal years 2005 through 2009. We first searched in FPDS-NG for firms with identical names and other identifying information as the firms listed in our March 2010 report, and we found seven firms with identical names. We verified that those seven firms were among the firms listed in our March 2010 report. We then corroborated the information in FPDS-NG on the seven firms by obtaining U.S. contracts and other evidence that confirmed the existence of contracts with these firms. Enclosure I provides our scope and methodology for this report and enclosure II lists the 41 firms from our March 2010 report.

We conducted our work from March to April 2010 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objective. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objective and discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

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<sup>4</sup>Iran-Libya Sanctions Act of 1996, Pub. L. No. 104-172, § 5, 110 Stat. 1541, 1543 as amended. 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 that fall under the powers of the International Emergency Economic Powers Act.

<sup>5</sup>The House of Representatives passed H.R. 2194, the Iran Refined Petroleum Sanctions Act of 2009, on December 15, 2009. On March 11, 2010, the Senate amended and passed H.R. 2194, renaming it the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2009. The Senate also asked for a conference on the bill on March 11, 2010.

## Seven Firms with Commercial Activity in the Iranian Energy Sector 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 the 41 firms identified in our March 2010 report.<sup>6</sup> U.S. agencies obligated almost 90 percent of these funds for purchases of fuel and petroleum products overseas. The firms are presented in table 1 in order of magnitude of obligations, as reported in FPDS-NG.

**Table 1: Firms Reported in Open Sources as Having Commercial Activity in the Iranian Energy Sector and Reported to Have U.S. Government Contracts**

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

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

Note: Totals may not add due to rounding.

<sup>a</sup>The country listed is the physical location of the firm as reported in open sources.

<sup>b</sup>We confirmed that each of these firms had U.S. government contracts by obtaining official documents and statements that confirmed the existence of contracts with these firms. Of the obligation amounts reported in the table, we tested 8 instances against U.S. government contractual documents and official statements. We determined the amounts were consistent with the information reported in FPDS-NG.

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;<sup>7</sup>

<sup>6</sup>An obligation is recorded when a government agency enters into a binding agreement to purchase services or goods.

<sup>7</sup>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/>.

- 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;<sup>8</sup> and
- GS Engineering and Construction of South Korea (then known as LG Engineering and Construction) for the construction of office buildings in South Korea.

### **Agency Comments**

We provided the Departments of State and Defense a draft of this report for comment. The Department of State provided technical suggestions which we have incorporated as appropriate.

DOD provided oral comments on the draft. DOD stated that it contracts for services, supplies, and construction worldwide in support of military operations. According to DOD, these contracts are critical to meeting mission requirements; however, contracting overseas is compounded by a limited number of contractors who are able to perform where DOD requires support. DOD stated it must meet Federal Acquisition Regulation requirements to evaluate the qualifications of a contractor. A DOD review of current and active records in the Excluded Parties Listing System and the Office of Foreign Assets Control Specialty Designated Nationals List, operated by the Departments of State and Treasury, did not find any contractors listed in this report. According to DOD, the seven firms listed in this report are qualified to contract with the federal government and DOD and are not excluded from such contracts.

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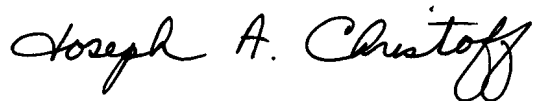
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<sup>8</sup>According to FPDS-NG, the Department of Energy also obligated funds to Hyundai Heavy Industries of South Korea for the purchase of power transformers.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of the report to interested committees, the Secretary of State, and the Secretary of Defense. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at 202-512-8979 or [christoffj@gao.gov](mailto:christoffj@gao.gov). Major contributors to this report include Tetsuo Miyabara (Assistant Director), JoAnna Berry, Colleen Candrl, Jon Fremont, Julia Kennon, Lauren Membreño, and Pierre Toureille. Technical support was provided by Martin De Alteriis, Grace Lui, Jodi Munson, and Joseph Carney.

Sincerely,

A handwritten signature in cursive script that reads "Joseph A. Christoff". The signature is written in black ink and is positioned above the typed name and title.

Joseph A. Christoff  
Director, International Affairs and Trade

## Scope and Methodology

To determine the extent to which firms identified in open sources as having commercial activity in Iran's energy sector also have contracts with the U.S. government, we searched the Federal Procurement Data System-Next Generation (FPDS-NG) for references to the 41 firms identified in our March 2010 report. As we described in that report, each of these 41 firms had (1) been cited in at least three standard industry publications as having commercial activity in a specific project, or (2) provided information on its corporate web site about its involvement in a specific project *and* had been cited as having been involved in the same project by at least one standard industry publication.<sup>9</sup> We chose FPDS-NG to determine if any of these 41 firms also had contracts with the U.S. government because FPDS-NG has served as the primary governmentwide contracting database since 1978. Congress, executive branch agencies, and the public rely on FPDS-NG for a broad range of data on agency contracting actions, procurement, and spending.<sup>10</sup> The Office of Management and Budget established FPDS-NG, and the U.S. General Services Administration administers the system.<sup>11</sup> More than 60 government departments, agencies, and other entities submit contract data to FPDS-NG. FPDS-NG contains data on obligations, which are recorded when a government agency enters into a contract to purchase services or goods.

We searched the FPDS-NG archives from fiscal years 2005 through 2009 using search terms that would select any record with the same firm name as identified in our March 2010 report. After matching firms from our March 2010 list with records in FPDS-NG, we obtained the Data Universal Numbering System (DUNS) numbers for the firms determined to be identical matches, and searched FPDS-NG for these DUNS numbers.<sup>12</sup> With certain exceptions, all firms that do business with U.S. agencies are required by the U.S. government to register with the U.S. government central contractor registration

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<sup>9</sup>Our complete methodology for identifying these 41 firms is described in GAO, *Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors*, [GAO-10-515R](#) (Washington, D.C.: Mar 23, 2010). As noted in [GAO-10-515R](#), we did not attempt to determine whether the listed firms meet the legal criteria for an investment specified in the Iran Sanctions Act. The Secretary of State is responsible for making such determinations.

<sup>10</sup>FPDS-NG can be accessed at [https://www.fpds.gov/fpdsng\\_cms/](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.

<sup>11</sup>For more information on FPDS-NG and other federal procurement data systems, see GAO, *Federal Contracting: Observations on the Government's Contracting Data Systems*, [GAO-09-1032T](#) (Washington, D.C.: Sept. 29, 2009).

<sup>12</sup>Data Universal Numbering System (DUNS) numbers are 9-digit identifying numbers obtained by firms through Dun and Bradstreet to uniquely identify a firm. Dun and Bradstreet is a leading source of commercial information, and maintains a commercial database with more than 140 million business records. U.S. vendors must be registered in the U.S. Central Contract Registry prior to the award of a U.S. government contract and a firm must have a DUNS number to register. We also compared the street addresses of the firms listed in our March 2010 report with street addresses listed in the U.S. government central contractor registration (CCR) data system (<https://www.bpn.gov/ccr/>).

## Enclosure I

(CCR) and obtain a unique DUNS number. We matched all of the data in table 1 to individual firms' DUNS numbers.

We took steps to corroborate key FPDS-NG information by obtaining U.S. government documents and public statements that confirmed that these seven firms have U.S. contracts. To do so, we searched (1) the Department of Defense's Electronic Document Access system<sup>13</sup> to locate copies of relevant contract documents and (2) the U.S. Army Corps of Engineers website for announcements of contracts.

Our searches for U.S. contracts only covered firms that we had identified as being directly involved in commercial activity in the Iranian energy sector. Therefore we included a parent firm or subsidiary only if that firm had also been reported in open sources as having commercial activity in the Iranian energy sector. For example, in our March 2010 report, we included two parent firms and two of their subsidiaries because all were reported in open sources as having commercial activity in the Iranian energy sector.

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<sup>13</sup>The Electronic Document Access system is a Department of Defense online system designed to provide acquisition-related information.

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

This table provides information from our March 2010 report. We did not attempt to determine if these firms meet the legal criteria specified in the Iran Sanctions Act.

**Table 2: Foreign Firms Publicly Reported to Have Commercial Activity in the Iranian Oil, Gas, or Petrochemical Sectors**

Firm	Country <sup>a</sup>	Sector
1. ABB Lummus	Not applicable	Refining, petrochemicals
2. Amona	Malaysia	Oil exploration and production
3. Belneftekhim	Belarus	Oil exploration and production
4. China National Offshore Oil Corporation	China	Natural gas
5. China National Petroleum Corporation	China	Oil exploration and production, natural gas
6. Costain Oil, Gas & Process Ltd.	United Kingdom	Natural gas
7. Daelim	South Korea	Natural gas
8. Daewoo Shipbuilding & Marine Engineering	South Korea	Oil tankers
9. Edison	Italy	Oil exploration and production
10. ENI	Italy	Oil exploration and production
11. Gazprom	Russia	Oil exploration and production, pipeline
12. GS	South Korea	Natural gas
13. Haldor Topsoe	Denmark	Refining
14. Hinduja	United Kingdom	Oil exploration and production, natural gas
15. Hyundai Heavy Industries	South Korea	Oil tankers
16. INA	Croatia	Oil exploration and production, natural gas
17. Indian Oil Corporation	India	Natural gas
18. Inpex	Japan	Oil exploration and production
19. JGC Corporation	Japan	Refining
20. Lukoil	Russia	Oil exploration and production
21. LyondelBasell	Netherlands	Petrochemicals
22. Oil India Ltd.	India	Natural gas
23. Oil and Natural Gas Corporation	India	Oil exploration and production, natural gas
24. OMV	Austria	Natural gas
25. ONGC Videsh Ltd.	India	Natural gas
26. Petrobras	Brazil	Oil exploration and production
27. Petrofield	Malaysia	Natural gas
28. Petroleos de Venezuela S.A.	Venezuela	Natural gas
29. Petronet LNG	India	Natural gas
30. PGNiG	Poland	Natural gas
31. PTT Exploration & Production	Thailand	Natural gas
32. Repsol	Spain	Natural gas
33. Royal Dutch Shell	Netherlands	Natural gas
34. Sinopec	China	Oil exploration and production, refining
35. SKS Ventures	Malaysia	Natural gas
36. Snamprogetti	Italy	Pipeline
37. StatoilHydro	Norway	Oil exploration and production, natural gas
38. Tecnimont	Italy	Petrochemicals
39. Total	France	Natural gas
40. Turkish Petroleum Company	Turkey	Natural gas
41. Uhde	Germany	Petrochemicals

Source: GAO analysis of open source information.

<sup>a</sup>The country listed is the physical location of the firm as reported in open sources.

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