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United States General Accounting Office

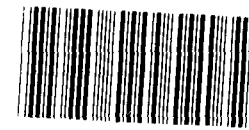
GAO

Briefing Report to the Honorable
Lowell P. Weicker, Jr.

January 1988

EXPORTS TO IRAN

U.S. Controls Have Recently Been Strengthened



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RELEASED



National Security and
International Affairs Division

B-229442

January 26, 1988

The Honorable Lowell P. Weicker, Jr.
United States Senate

Dear Senator Weicker:

In response to your request, this report provides information on a sale of helicopter engine parts to an Iranian company by Pratt and Whitney. A partial shipment under this sale, made in October 1986 from Pratt and Whitney's Canadian subsidiary, contained some U.S.-origin parts.¹

In October 1986, Pratt and Whitney's Canadian subsidiary exported helicopter parts valued at \$624,000 to Iran. This shipment partially fulfilled a \$2.8 million contract with the Iranian Helicopter Supply and Renewal Company (see app. I for quantity and value of exports). U.S.-origin parts comprised approximately 2.7 percent of the value of the entire contract, and all were included in the October shipment. According to Pratt and Whitney officials, the remaining parts were to be of Canadian origin, except for some bearings which were of French origin.

Pratt and Whitney had obtained a Canadian export permit in accordance with Canadian laws but suspended further shipments following the November 1986 disclosure of U.S. arms sales to Iran. The Canadian export permit expired at the end of January 1987, and Pratt and Whitney, Canada, has not sought a new one.

Although the parts exported to Iran were probably for military use, the sale was made in accordance with applicable U.S. laws and regulations. The Department of Commerce recently expanded controls encompassing exports to

¹Pratt and Whitney, Canada, Incorporated, is a subsidiary of Pratt and Whitney Group, a division of United Technologies Corporation.

Iran. According to Commerce officials, the reexport of U.S. nonstrategic parts and components from other countries (such as the U.S. parts shipped from Canada) was not subject to this control action. However, Canada has traditionally controlled its reexport of U.S.-origin items in a manner consistent with U.S. controls on direct exports of such goods.

THE PRATT AND WHITNEY SALE AND EXPORT
TO IRAN DID NOT REQUIRE U.S. APPROVAL

Commerce's implementing regulations for foreign policy controls under the U.S. Export Administration Act of 1979,² as amended, list Iran among the countries for which special export restrictions apply. The regulations state, in part, that "for Iran, a validated license is required for the export of all aircraft and helicopters, and related parts and components." Because a portion of the initial shipment was to include U.S.-origin parts, Pratt and Whitney submitted a license application to the Department of Commerce in August 1986 noting that the ultimate destination of the items was Iran.

Commerce officials reviewed the list of items to be exported and determined that they were not defined as helicopter parts under the regulations implementing the Export Administration Act. Rather, they were considered "other transportation parts and accessories" and the Department of Commerce classified them as "general destination" (G-DEST) transportation equipment, for which Commerce export approval is not required.

Commerce officials told us they were confident that the parts were ordered for military helicopters because Iran does not have the commercial version. Even so, these particular parts were not subject to export controls³ because the helicopter engines in which the parts were to be used are not considered controlled technology. Therefore, Commerce returned Pratt and Whitney's application without action, noting that no approval was necessary.

²50 U.S.C. App. 2401 et seq. (1982), as amended by the Export Administration Act, Pub. L. No. 99-64, 99 Stat. 120 (1985).

³As found in 15 CFR, section 399.1, supplement number, 1 ECCN 1460A, 2460A, 4460B, 5460F, 6460F, 1485A, 6494F, and 1501(a), (b)(1), and (c)(1).

EXPANDED U.S. CONTROLS WERE CONSIDERED
PRIOR TO PRATT and WHITNEY SALE

Prior to the Pratt and Whitney sale, the Department of Commerce considered whether controls on exports to Iran should be expanded to include G-DEST commodities. In a January 1985 memorandum to State, Commerce stated that it had "...identified a potentially serious loophole in our Iran controls which are designed to deny significant exports to the Iranian military." Commerce also referred to a series of inquiries by U.S. companies to export G-DEST parts that may have been used in foreign-produced military equipment in Iran. The inquiries about the export of G-DEST parts to Iran included (1) engines that could be used in Soviet-made tank transporters, (2) engines that could be used in Swiss-made troop carriers, and (3) engines that could be used in Canadian-made military jet trainers. In the memorandum, Commerce asked State to "...examine the possibility of subjecting [G-DEST] items to a licensing requirement when destined for military end-users or end-uses in Iran." Although the Department of State concurred with the proposal to amend the Export Administration Act regulations, no change was formally proposed and consultations with the appropriate congressional committees did not take place.⁴

RECENT EXPANSION OF U.S. CONTROLS WOULD
AFFECT EXPORTS OF HELICOPTER PARTS TO IRAN

In October 1987, the Department of Commerce notified the Congress that it intended to expand controls on exports to Iran. The new controls encompass the kinds of equipment shipped by Pratt and Whitney in 1986. However, since most of the goods in this shipment and the total sale were Canadian in origin, the effect of the broadened U.S. controls on this transaction would have been minimal had they been in effect.

In its October 1987 report, the Department of Commerce noted it intended to expand controls on exports to Iran because of Iran's recent hostile policies and actions directed toward the United States as well as toward neutral shipping in the Persian Gulf. These controls became effective on November 27, 1987. Included among 14 broad

⁴According to section 6 of the Export Administration Act, as amended, Commerce is required to consult with and report to the Congress on its intentions to expand export controls.

categories (see app. II for a complete listing) now controlled are nonstrategic aircraft parts and components having a potential military application. According to Commerce officials, the types of helicopter engine parts sold by Pratt and Whitney to Iran in 1986 are included within the nonstrategic aircraft parts and components category and are therefore subject to export licensing if manufactured in and exported from the United States.

The 14 categories have been added to the antiterrorism controls previously in place on the export of all aircraft and helicopters, marine outboard engines (with a horsepower of 45 or more), scuba gear and related equipment, certain chemicals, and national security controlled items destined for Iranian military uses. Commerce's general policy is to deny license applications for the export of these goods.

Commerce acknowledges that the new categories control goods that are available from foreign sources but notes that the administration continues to seek the cooperation of other countries in cutting off the flow of militarily useful items to Iran. Because the controls are described as intended to demonstrate U.S. foreign policy resolve and to distance the United States from Iran for acts counter to U.S. interests under the Export Administration Act, the controls can continue despite foreign availability of the controlled items.

Commerce also reported that the effect of the expanded controls on the U.S. economy will be small. U.S. bilateral trade with Iran has decreased 87 percent in the last 11 years, from a high of \$4.6 billion in 1975 to \$603 million in 1986. U.S. exports to Iran amounted to \$34 million in 1986 and \$18 million in 1987 through July. According to Commerce, the controls are limited in scope and contain no provisions that are likely to raise allied concerns.

OBJECTIVE, SCOPE, AND METHODOLOGY

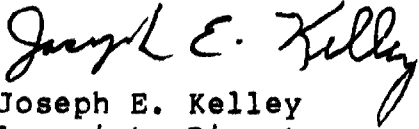
To review the circumstances surrounding the sale of helicopter parts to Iran, we examined the legislation establishing export controls and the antiterrorism regulations applicable to Iran. We discussed the Pratt and Whitney application for export with representatives of United Technologies in Washington, D.C., and obtained written responses to questions from Pratt and Whitney. We also discussed the development and implementation of controls on exports to Iran with Commerce and State Department officials. We discussed this report with Commerce, State, and Pratt and Whitney officials and incorporated their comments as appropriate. At your request, we did not obtain agency comments. Our review was

performed from January to November 1987 in accordance with generally accepted government auditing standards.

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We plan no further distribution of this report until 15 days from its issuance. At that time we will provide copies to the Chairmen of the House Committee on Foreign Affairs and the Senate Committee on Foreign Relations; the Secretaries of Defense, Commerce, and State; and other interested parties. If you have any additional questions, please call me at 275-4128.

Sincerely yours,


Joseph E. Kelley
Associate Director

PRATT AND WHITNEY HELICOPTER
PARTS SOLD TO IRAN

<u>Source</u>	<u>Part</u>	<u>Total quantity ordered</u>	<u>October 1986 quantity shipped</u>	<u>Value of total order</u>	<u>Value of October shipment</u>
Canada	Cylinder	2	2	\$ 3,519	\$ 3,519
Canada	Cylinder	154	154	284,491	284,491
U.S.	Bearing	6	6	16,262	16,262
U.S./Fr. ^a	Bearing	194	12	552,102	34,151
Canada	Shaft	12	12	97,340	97,340
Canada	Shaft	188	12	1,601,250	102,207
U.S.	Washer	200	200	1,211	1,211
Canada	Nut	25	25	2,585	2,585
Canada	Nut	175	0	18,999	0
U.S.	Ring	200	200	898	898
U.S.	Washer	200	200	1,651	1,651
U.S.	Nut	200	200	6,600	6,600
Canada	Housing	20	0	14,337	0
Canada	Housing	40	40	30,108	30,108
Canada	Housing	140	0	110,398	0
U.S.	Nut	600	600	1,138	1,138
U.S.	Spacer	200	200	13,718	13,718
Canada	Nozzle	80	80	11,041	11,041
Canada	Nozzle	120	120	17,389	17,389
U.S.	Ring	200	200	90	90
Total				<u>\$2,785,127</u>	<u>\$624,399</u>
Total U.S. origin				<u>\$75,719</u>	<u>\$75,719</u>
Percentage U.S. origin				2.7	12.1

^a The first 12 parts were supplied by the United States; the remaining parts were to be supplied by France.

LISTING OF EXPANDED U.S.
EXPORT CONTROLS TO IRAN

In its October 1987 report to the Congress, Commerce noted that the threat to U.S. strategic interests has increased as a result of recent Iranian hostile policies and actions directed at the United States and at neutral shipping in the Persian Gulf. Therefore, the Department of Commerce expanded existing foreign policy controls on the following items when destined for Iran:

- Mobile communications equipment
- Boats, including inflatable boats
- Off-highway wheel tractors
- Large diesel engines
- Nonstrategic aircraft parts and components
- Portable electric generators
- All marine engines (outboard/inboard, regardless of horsepower)
- Other naval equipment (surface-effect and hydrofoil vessels and acoustic underwater detection equipment)
- Underwater photographic equipment
- Submersible systems
- Pressured aircraft breathing equipment
- Sonar navigation equipment
- Electronic test equipment
- Cryptographic equipment

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