



United States Government Accountability Office
Washington, DC 20548

February 25, 2013

Congressional Committees

Subject: *Firms Reported to Have Engaged in Activities Related to Iran's Energy and Communications Sectors While Having Had U.S. Government Contracts*

Iran's illicit nuclear activities, support for terrorism, and human rights abuses have led the United States and other nations to impose multiple sanctions.¹ For example, U.S. law provides for sanctions against foreign firms that engage in certain activities in Iran's energy sector.² It also prohibits U.S. agencies from entering into or renewing procurement contracts with individuals or entities that export sensitive technologies to Iran for monitoring, filtering, or disrupting the flow of information and communication in Iran or of the people of Iran.³ The United States imposed these sanctions through legislation and executive orders that include the Iran Sanctions Act of 1996 (ISA)⁴; the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) of 2010⁵; and the Iran Threat Reduction and Syria Human Rights Act of 2012 (TRA).⁶

Senate Reports 111-201 and 112-26⁷ require GAO to annually update a 2010 GAO report that used open source data to identify foreign firms with commercial activity in

¹For example, see the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, Pub. L. No. 111-195, 124 Stat. 1312, and Council Decision 2010/413/CFSP Concerning Restrictive Measures Against Iran and Repealing Common Position 2007/140/CFSP, 2010 O.J. (L 195) 39.

²For example, see Iran and Libya Sanctions Act of 1996, Pub. L. No. 104-172, as amended (the name of this law was changed to the Iran Sanctions Act of 1996 by the Iran Freedom Support Act, Pub. L. No. 109-293, 120 Stat. 1344 (2006)).

³Comprehensive Iran Sanctions Accountability and Divestment Act of 2010, Pub. L. No. 111-195, § 106, 124 Stat. 1336, codified at 22 U.S.C. § 8515.

⁴Pub. L. No. 104-172, as amended.

⁵Pub. L. No. 111-195.

⁶Pub. L. No. 112-158, 126 Stat. 1214.

⁷S. Rep. No. 111-201 (2010) and S. Rep. No. 112-26 (2011).

Iran's energy sector and determine if they had contracts with the U.S. government.⁸ They also require GAO to expand the 2010 report's scope to include firms that export technologies to Iran that are specifically to be used to disrupt information and communication flows. GAO has previously issued two reports related to the Senate mandates.⁹ In addition, GAO issued a report in December 2012 that identified seven firms reported in open sources to have engaged in commercial activities in Iran's energy sector at some point between June 1, 2011, and September 30, 2012.¹⁰ To further update GAO's response to the Senate mandates, this report identifies:

- (1) whether any of the seven foreign firms reported in open sources to have been engaged in commercial activity in Iran's energy sector between June 1, 2011, and September 30, 2012, had U.S. contracts, awards, or purchasing agreements; and
- (2) which foreign firms were reported in open sources to have exported technologies to the Iranian government for monitoring, filtering, and disrupting information and communications flows, from June 24, 2011, through December 15, 2012, and whether they had U.S. contracts, awards, or purchasing agreements.

To determine if any of the seven firms that were reported to have engaged in commercial activity in Iran's energy sector had U.S. contracts, awards, or purchasing agreements, we searched the Federal Procurement Data System-Next Generation (FPDS-NG), the primary government-wide contracting database since 1978, for active contracts for the time period from June 2011 through December 2012. To conduct our open source review for firms that exported technologies to the Iranian government, we reviewed open source information, including industry and trade publications, corporate reports and statements, and U.S. Securities and Exchange Commission filings, for the time period from June 24, 2011, through December 15, 2012. We did not attempt to determine whether the activities for which the firms are listed in our reports met the legal criteria for sanctionable activities specified in U.S. law. The Secretary of State and/or the Secretary of the Treasury is responsible for making such determinations. See enclosure I for a full description of our scope and methodology.

We conducted this performance audit from December 2012 to February 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on

⁸GAO, *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).

⁹GAO, *The U.S. Government Is Establishing Procedures for a Procurement Ban against Firms that Sell Iran Technology to Disrupt Communications but Has Not Identified Any Firms*; GAO-11-706R (Washington, D.C.: Jun. 30, 2011); and GAO, *Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors*, GAO-11-855R (Washington, D.C.: Aug. 3, 2011).

¹⁰GAO, *Firms Reported to Have Sold Iran Refined Petroleum Products or Engaged in Commercial Activities in Iran's Energy Sector*, GAO-13-173R (Washington, D.C.: Dec. 7, 2012).

our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

Of the seven foreign firms we identified in December 2012 as having been reported to have engaged in commercial activity in Iran's energy sector at some point between June 1, 2011, and September 30, 2012, we found that one—Daelim—had U.S. government contracts.

Our review of open sources did not identify any foreign firms that exported technologies to the Iranian government for monitoring, filtering, or disrupting information and communications flows.

Background

Iran's economy and government rely heavily on revenues from its oil and gas industry. Iran's crude oil production peaked in 1978 and has not matched that peak since then because of a high rate of natural decline in mature oil fields, limited investment, and sanctions. IHS Global Insight found that Iran's oil sector will require approximately \$25 billion in annual investment to maintain existing production.¹¹

Members of the U.S. Congress and others have found that the current Iranian government has a history of human rights abuses, including the suppression of free expression. According to an OpenNet Initiative (ONI) report, the Iranian government regulates speech with restrictions over free speech on a broad range of topics, including religion, immorality, social harmony, and politics.¹² This suppression applies to electronic media as well, according to ONI and Senate Report 111-201.¹³ According to a Freedom House report, the Iranian government's suppression tactics include upgrading its filtering technology to block particular types of Internet traffic, hacking international firms' digital certificates to undermine user privacy, and implementing the first stage of establishing a national Internet that would allow Iran tighter control over the flow of information.¹⁴ Freedom House also states that the government continued to use other forms of repression to punish and intimidate bloggers, journalists, and ordinary users, including imposing the death penalty on three bloggers and information technology professionals.

¹¹IHS Global Insight, "Iran, Energy: Report", viewed May 26, 2011. IHS Global Insight provides economic and financial information for the energy industry on a contract basis, including analysis and forecasting for the Iranian oil, gas, and petrochemical sectors.

¹²OpenNet Initiative, *Internet Filtering in Iran* (Toronto, Canada, Cambridge, Massachusetts, and Ottawa, Canada, June 16, 2009). The OpenNet Initiative's stated goals are to "investigate, expose, and analyze Internet filtering and surveillance practices in a credible and non-partisan fashion."

¹³OpenNet Initiative; and S. Rep. No. 111-201 (2010).

¹⁴Freedom House, *Freedom on the Net 2012: A Global Assessment of Internet and Digital Media* (Washington, D.C., and New York, N.Y., Sept. 24, 2012). Freedom House identifies itself as an independent watchdog organization that functions as a catalyst for freedom, democracy, and the rule of law through its analysis, advocacy, and action.

One Firm Reported in Open Sources as Having Engaged in Commercial Activity in Iran’s Energy Sector between June 1, 2011, and September 30, 2012, Had U.S. Government Contracts

In December 2012 we identified seven foreign firms that were reported to have engaged in commercial activity in Iran’s energy sector at some point between June 1, 2011, and September 30, 2012.¹⁵ We found that one of these seven firms, Daelim, had U.S. government contracts. According to data from FPDS-NG, the Department of Defense obligated about \$1.5 million through contracts to Daelim (see table 1), from June 2011 through December 2012.¹⁶

Table 1: Firms Reported in Open Sources as Having Commercial Activity in the Iranian Energy Sector That Have U.S. Government Contracts between June 1, 2011, and December 30, 2012

| Firm name/country | Contract actions | Total obligated funds from June 2011 to December 2012 |
|-----------------------------------|---|---|
| Daelim Industrial Co./South Korea | Housing construction at a U.S. military base in South Korea | \$ 1,496,297 |

Source: Data from the Federal Procurement Data System – Next Generation

According to the contract information identified in FPDS-NG, Daelim entered into the contracts with the U.S. Department of Defense for construction of family housing on a military base in South Korea.

Open Sources Did Not Identify Any Firms Exporting Technologies to Iran for Monitoring, Filtering, or Disrupting Information and Communication Flows from June 2011 through December 15, 2012

Our open source review did not identify any foreign firms that had exported technologies to the Iranian government for monitoring, filtering, and disrupting information and communication flows during the specified time period. Accordingly, we found no such firms that have contracts with the U.S. government. We searched open source publications for the time period from June 24, 2011, through December 15, 2012, and, consistent with the findings in our previous report,¹⁷ we did not find sufficient evidence to identify any firms.¹⁸ We previously reported on numerous

¹⁵For a complete listing and discussion of firms reported to have engaged in commercial activity in Iran’s energy sector from January 1, 2005, through September 30, 2012, see GAO-13-173R.

¹⁶In our August 2011 report (GAO-11-855R), we reported that the U.S. government obligated almost \$4.4 million in contracts from January 2010 through May 2011 to 2 of the 16 firms identified as having engaged in commercial activity in Iran’s energy sector in our August 2011 report. Daelim was one of the two firms identified as having U.S. government contracts.

¹⁷GAO-11-706R.

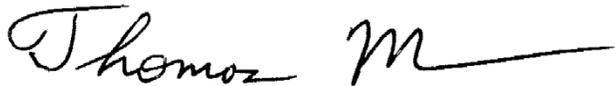
challenges to identifying firms through open sources that may account for our inability to identify any firms.¹⁹

Agency Comments

We provided a draft of this report to the Department of State for comment. State declined to comment.

We are sending copies of this report to appropriate congressional committees and the Secretary of State. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9601 or melitot@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in enclosure 2.



Thomas Melito
Director, International Affairs and Trade

Enclosures - 2

¹⁸Under our methodology, firms are to be identified only when three standard industry publications or the firm's corporate statements reported the firm to have signed an agreement to conduct business, invest capital, or received payment for providing goods or services. We do not consider news articles, blogs, or Iranian government statements as credible sources of evidence.

¹⁹We reported that the competitive and proprietary nature of the communication industry limits information, if any, reported in open sources. Additionally, a firm's intention in selling Iran technology may be difficult to determine because technology that can enable acceptable filtering for objectionable sites, such as pornography, can also be used to disrupt the free flow of information and communication. Finally, Iran's need to obtain monitoring and filtering technology from outside sources may be lessening as it develops indigenous censorship and surveillance capabilities, possibly in response to sanctions against western companies selling it sensitive technologies. For a more complete discussion of these challenges, see GAO-11-706R.

List of Committees

The Honorable Carl Levin
Chairman
The Honorable James Inhofe
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Howard P. McKeon
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

Enclosure I

Scope and Methodology

To identify which firms that were reported to have engaged in commercial activity in Iran's energy sector had been awarded contracts, awards, or purchasing agreements with the U.S. government, we searched the Federal Procurement Data System-Next Generation (FPDS-NG). We chose FPDS-NG because it has served as the primary government-wide 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.²⁰ We searched the FPDS-NG archives for the period from June 2011 to December 2012 using the Data Universal Numbering System (DUNS) numbers²¹ for the seven firms identified as having commercial activities in Iran in our December 2012 report.²² With certain exceptions, all firms that do business with U.S. agencies are required to register with the U.S. government's central contractor registry and obtain a unique DUNS number. We also obtained information on the identified contracts, including obligations, and a description of activity under the contract from FPDS-NG as well as other U.S. agency documents.

To identify, through open sources, firms that export technologies to the Iranian government for monitoring, filtering, and disruption of information and communications flows, we reviewed and analyzed open source information dated from June 24, 2011, through December 15, 2012, that a GAO information specialist determined to be credible and comprehensive. We relied only on information from credible sources to identify firms as having a financial interest in the development of Iran's monitoring, filtering, and disruption of its information and communications infrastructure that met one of the following criteria: (1) if the firm was listed in three standard industry publications; or (2) if the firm's corporate statements reported the firm to have signed an agreement to conduct business, invested capital, or received payment for providing goods or services in connection with these technologies. We excluded sources deemed insufficiently reliable, such as newspaper reports, newswires, and direct news releases from the Iranian government.

We reviewed a wide range of open source information in an attempt to identify entities, including industry standard trade publications, marketing reports, corporate

²⁰FPDS-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. The Office of Management and Budget established FPDS-NG, and the U.S. General Services Administration administers the system. 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).

²¹Data Universal Numbering System numbers are nine-digit identifying numbers obtained by firms through Dunn and Bradstreet to uniquely identify a firm. Dunn and Bradstreet, a leading source of commercial information, 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.

²²GAO-13-173R.

statements, Securities and Exchange Commission filings, and general web searches. We searched Nexis.com to find content files covering the Internet, telecommunications, and electronics industries for the time period between June 24, 2011, and December 15, 2012. Included in these files were numerous industry standard trade publications, such as the *Electronics Engineering Times*, *Communications Today*, and *TechWeb*. We searched Gartner.com for marketing reports and firm websites for press releases and corporate statements. We searched and analyzed Securities and Exchange Commission filings filed between June 24, 2011, and December 15, 2012. We also conducted general web searches for specific firms named in nongovernmental reports, in interviews with private sector firms, and mentioned extensively in the media.

We conducted this performance audit from December 2012 to February 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Enclosure II

GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Pierre Toureille (Assistant Director), Michael Maslowski, JoAnna Berry, Lynn Cothorn, Martin de Alteriis, and Grace Lui made key contributions to this report.

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