



DEPARTMENT OF THE TREASURY
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**OFAC Settles with 3M Company for \$9,618,477
Related to Apparent Violations of the Iranian Transactions and Sanctions Regulations**

3M Company (“3M”), a global manufacturing company based in St. Paul, Minnesota, has agreed to pay \$9,618,477 to settle its potential civil liability for 54 apparent violations of OFAC sanctions on Iran. This conduct occurred between 2016 and 2018 when a 3M subsidiary based in Switzerland, 3M (East) AG (“3M East”), knowingly sold reflective license plate sheeting via a German reseller to Bonyad Taavon Naja, an entity controlled by Iran’s Law Enforcement Forces. Additionally, one U.S. person employed by a 3M foreign subsidiary was closely involved in the sales. The settlement amount reflects OFAC’s determination that 3M’s apparent violations were egregious and voluntarily self-disclosed.

Description of the Apparent Violations

In November 2015, in anticipation of the implementation of the Joint Comprehensive Plan of Action (JCPOA), employees at 3M’s subsidiary 3M Gulf Limited (“3M Gulf”) in Dubai, United Arab Emirates, began working on a proposal to sell reflective license plate sheeting (“RLPS”) to a German company. 3M initially believed the German company would use the RLPS to manufacture blank license plates for export to Iran. In January 2016, the JCPOA went into effect and OFAC published General License H (“GL H”), which authorized foreign subsidiaries of U.S. companies to engage in certain transactions with Iran. OFAC explicitly excluded transactions with Iranian military, paramilitary, intelligence, or law enforcement agencies, or any entities affiliated with those groups, from the scope of the GL H authorization. Similarly, GL H did not authorize U.S.-person involvement with Iran-related transactions undertaken by the foreign subsidiaries of U.S. companies.

Shortly after the JCPOA and GL H went into effect, 3M distributed internal guidance on JCPOA-related changes to U.S. sanctions including GL H, specifically noting the prohibitions with respect to Iranian government entities, such as its law enforcement apparatus, and U.S.-person involvement with Iran-related transactions undertaken by foreign subsidiaries. 3M Trade Compliance personnel also began to formulate a procedure for doing business in Iran, spearheaded by Trade Compliance (“TC”) counsel at the 3M headquarters in Minnesota.

On March 3, 2016, the 3M Gulf senior manager working on the RLPS proposal (“3M Gulf Proponent”) submitted the sales proposal for initial review to TC counsel. According to the proposal, the German reseller would use the RLPS to make license plate blanks, which it would export to “transport authorities in Iran.” Days later, on March 8, 2016, TC counsel approved the proposal based on a misunderstanding of its description of the German reseller as the “end user” rather than the Iranian entity, believing that the German firm would use the RLPS to manufacture blank license plates for export to Iran. The 3M Gulf Proponent then sent the proposal to a TC

employee to perform restricted party list screening against the entities involved, but omitted the page containing sections on “parties involved” and “product end use.” Referencing a previous version of the proposal that listed the parties involved as the German reseller and “transport authorities in Iran,” only the German company was screened and not the actual Iranian end-user.

One week later, on March 10, 2016, 3M Gulf distributed the *3M Gulf Procedure for Business Activities in Iran* (the “Procedure”), setting out an internal approval process for business with Iran in light of GL H and OFAC’s Iran sanctions regulations generally, and again noting the prohibitions on both U.S.-person involvement and transacting with Iranian law enforcement and affiliated entities. The procedure stated that 3M Gulf Trade Compliance would screen all third parties involved in Iran business and then consult with a Trade Compliance attorney located at 3M headquarters in the United States on whether the proposal was consistent with applicable law. The procedure also stated that, consistent with existing 3M policy, 3M Gulf was the primary channel for all Iran-related business activities. The procedure was emailed to, among others, the 3M Gulf Proponent and another manager-level employee at 3M East (together “the Proponents”), and in May, training was provided to 3M Gulf employees on the new policy. The presentation slides for the training were sent to those invited, including the Proponents, shortly afterwards.

The following month, on April 15, 2016, the German reseller notified the Proponents that it would not in fact incorporate the RLPS into the production of finished blank plates, but would instead simply resell the RLPS to Bonyad Taavon Naja (“BTN”) in Iran. Despite this departure from the previously approved version of the proposal, the Proponents did not bring this change to Trade Compliance’s attention. Weeks later, the Proponents received an outside due diligence report on BTN subsidiaries Naji Pas and the Rahgosha Institute, which flagged a connection between Naji Pas and Iran’s Law Enforcement Forces (“LEF”). The Proponents dismissed the need for further investigation, stating that the cited connections to the LEF were “expected” given that license plate issuance is a government function.

Notwithstanding these communications and trainings, in the time between March 2016 and the date 3M East signed an agreement for the resale of RLPS to BTN (“the Distributor Agreement”) in September 2016, the Proponents obfuscated details of the sale from colleagues for fear that it would be re-reviewed by Trade Compliance and spur a more fulsome review under the new Procedure that might jeopardize the deal. In internal discussions, they repeatedly misrepresented the use of the RLPS as for “conversion” into license plates, even after the German reseller clarified that it would be reselling the product to BTN, apparently in the belief that such activity would be considered more acceptable. The Proponents also changed the contracting entity from 3M Gulf to 3M East despite 3M policies establishing 3M Gulf as the sole subsidiary authorized to engage in sales activity with Iran. When numerous managers involved in planning the logistics of the Iran business raised concerns about the deal, the shift out of 3M Gulf, the identity of the end user, and the need to go back to TC counsel for review of the transactions, the Proponents ignored them. At other times, the Proponents accurately described the Iran business as a resale, but falsely claimed they had already received approval from Trade Compliance.

In June 2016, 3M Gulf contacted TC counsel to ask whether a visit from “the end user (Iranian Police Fund)” to the 3M facility that would manufacture the sheeting would be permissible under GL H. Because it was believed a visit to 3M’s plant in Germany did not pose a U.S. sanctions

concern, a July 7, 2016 visit by BTN representatives to 3M's plant was approved, provided that the visitors and their organization were screened against restricted party lists. The checks on the individuals as well as their employer, Rahgosha Institute, did not return any hits to the restricted party lists, and the visit proceeded.

3M East and the German reseller signed the Distributor Agreement on September 22, 2016, with the first order of RLPS shipping to Iran from Germany later that week. Between September 2016 and September 2018, 3M East sent 43 shipments of RLPS to the German reseller, which then resold it to BTN.

Meanwhile, a U.S.-person employee of 3M Gulf had performed substantial work in furtherance of these sales to Iran. This activity included knowingly approving six credit notes relating to the Iran sales, contributing to two internal assessments, and assisting with a quality control issue. This U.S. person received sales incentives partially based on the Iran business in 2017 and 2018. The U.S. person employee engaged in this activity despite knowing the prohibition on U.S.-person involvement in business dealings with Iran and receiving internal guidance on this prohibition on multiple occasions. The Proponents were also aware the U.S. person could not be involved in the Iran business, but nevertheless instructed him to perform related tasks on several occasions.

After GL H was rescinded and the wind-down period ended in late 2018, 3M discovered that the sales had not been authorized. 3M subsequently voluntarily self-disclosed the apparent violations to OFAC, terminated or reprimanded culpable employees, hired new Trade Compliance counsel, enhanced its sanctions training for employees, and ceased doing business with the German reseller.

3M's shipments of RLPS to the German reseller, which 3M knew or should have known would be resold to an arm of the LEF of Iran, and the involvement of a U.S. person in support of these Iran sales, together resulted in 54 apparent violations of 31 C.F.R. 560.204, 560.206, and 560.215 (the "Apparent Violations"). The Settlement Agreement for this action can be found [here](#).

Penalty Calculations and General Factors Analysis

The settlement amount of **\$9,618,477** reflects OFAC's consideration of the General Factors under the Enforcement Guidelines.

The statutory maximum civil monetary penalty applicable in this matter is \$27,481,363. OFAC determined that 3M voluntarily self-disclosed the Apparent Violations and that the Apparent Violations constitute an egregious case. Accordingly, under OFAC's Economic Sanctions Enforcement Guidelines ("Enforcement Guidelines"), 31 C.F.R. Part 501, app. A., the base civil monetary penalty applicable in this matter equals one-half of the statutory maximum, which is \$13,740,682.

OFAC determined the following to be **aggravating factors**:

- (1) 3M Gulf senior managers willfully violated U.S. sanctions laws by exporting RLPS to a prohibited entity in Iran. Numerous other 3M employees were reckless in their handling of

3M's sales of RLPS to BTN, failing to properly evaluate the proposed sales from a sanctions compliance perspective. These employees had reason to know that these sales would violate U.S. sanctions, but ignored ample evidence that would have alerted them to this fact.

- (2) 3M employees had actual knowledge of the transactions and the identity of the specific end user months before the Distributor Agreement was signed.
- (3) BTN is affiliated with, and controlled by, the Iranian LEF, a perpetrator of human rights abuses in both Iran and Syria. Iranian law enforcement entities were excluded from GL H's authorizations.

OFAC determined the following to be **mitigating factors**:

- (1) 3M and 3M Gulf had a risk-based OFAC compliance program in place at the time of the Apparent Violations.
- (2) 3M performed a thorough investigation of the Apparent Violations and represented that it took remedial measures in response to its investigation's findings, to include instituting several changes both in personnel and policies:
 - a. 3M terminated the employment of or formally reprimanded six employees,
 - b. Added Trade Compliance counsel to 3M Gulf and 3M headquarters,
 - c. Enhanced sanctions compliance measures specific to the license plate business,
 - d. Introduced enhanced due diligence for any business involving a sanctioned country or region,
 - e. Required that Trade Compliance re-review any approved proposals that had been changed, and
 - f. Enhanced Trade Compliance training for all applicable employees.
- (3) 3M voluntarily self-disclosed the Apparent Violations to OFAC and provided substantial cooperation throughout OFAC's investigation through the provision of responsive and detailed information in a well-organized manner. 3M also agreed to toll the statute of limitations.

Compliance Considerations

This case demonstrates the importance of implementing and actively maintaining effective, risk-based sanctions compliance controls commensurate with a company's geographic, customer, and operational profile, especially when transacting with high-risk jurisdictions. Even when a company's policies appropriately account for its risks, effective controls are critical, especially when dealing with a changing sanctions landscape that might include the introduction of tailored authorizations that may require heightened scrutiny of particular transactions. The case further underscores the value of having a clear and effective compliance process in place *before and while* pursuing new business that may present sanctions risks.

The case also underscores how essential training is for an effective compliance program to enable all employees, and particularly those in a trade compliance function, to be aware of applicable policies and their associated controls, including understanding how to evaluate all proposed business and entities involved for sanctions concerns.

More broadly, parent companies are expected to oversee compliance with applicable U.S. sanctions laws within their subsidiaries, and to empower employees to alert headquarters trade compliance when business dealings need further review. Such efforts are more likely to succeed when a company is successful at promoting a culture of compliance throughout its organization, including its foreign subsidiaries. Effective sanctions compliance programs will encourage employees to place adherence to sanctions laws, including as reflected in internal trade compliance procedures, above any potential compensation for closing a high-risk deal that may cause the company to violate U.S. sanctions.

Lastly, this case makes clear that if a company with U.S. person employees pursues business activities that some of their employees may be prohibited from participating in, it is essential to create and enforce a process by which such U.S. person employees will recuse themselves.

OFAC Enforcement and Compliance Resources

On May 2, 2019, OFAC published [A Framework for OFAC Compliance Commitments](#) in order to provide organizations subject to U.S. jurisdiction, as well as foreign entities that conduct business in or with the United States or U.S. persons, or that use goods or services exported from the United States, with OFAC's perspective on the essential components of a sanctions compliance program. The *Framework* also outlines how OFAC may incorporate these components into its evaluation of apparent violations and resolution of investigations resulting in settlements. The *Framework* includes an appendix that offers a brief analysis of some of the root causes of apparent violations of U.S. economic and trade sanctions programs OFAC has identified during its investigative process.

Information concerning the civil penalties process can be found in the OFAC regulations governing each sanctions program; the Reporting, Procedures, and Penalties Regulations, 31 C.F.R. part 501; and the Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, app. A. These references, as well as recent civil penalties and enforcement information, can be found on OFAC's website at <https://ofac.treasury.gov/civil-penalties-and-enforcement-information>.

For more information regarding OFAC regulations, please go to: <https://ofac.treasury.gov/>.