DEPARTMENT OF THE TREASURY
OFFICE OF FOREIGN ASSETS CONTROL

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Rice Lake Weighing Systems Settles with OFAC for Iran-Related Apparent Violations

Rice Lake Weighing Systems ("Rice Lake"), a Wisconsin-based manufacturer and distributor of scales and other weight-related products and equipment, has agreed to pay $60,764 to settle its and its Italian subsidiary's potential civil liability for eight apparent violations of OFAC sanctions on Iran. The apparent violations occurred when Rice Lake's Italian subsidiary exported weighing equipment from Italy to Iran through a distributor in the United Arab Emirates with the knowledge that these goods were ultimately destined for Iran. The settlement amount reflects OFAC's determination that these apparent violations were non-egregious and voluntarily self-disclosed.

Description of the Apparent Violations

In November 2016, Rice Lake acquired an Italian company, Dini Argeo S.r.l. ("Dini"), which manufactures and distributes a variety of products used in weighing equipment. At the time, Dini had a business relationship with an Iranian weighing systems company, Pand Weighing Control ("Pandtec"), to which it had sold products prior to being acquired by Rice Lake. Dini continued such sales after the acquisition, as authorized under General License (GL) H, then in effect.[1]

Following the May 8, 2018 announcement of the United States' withdrawal from the Joint Comprehensive Plan of Action with Iran and the revocation of GL H,[2] Dini—an entity owned or controlled by a U.S. person—was no longer authorized to sell its goods to Iran directly or indirectly.

On August 8, 2018, Rice Lake's Import Export Coordinator emailed Dini's General Manager to convey that sales to Iran by Rice Lake's foreign subsidiaries were now prohibited. The English-language email stated, in part, "you are prohibited from any transactions involving Iran, or a citizen of Iran, no matter where located," and excerpted language from the Iranian Transactions and Sanctions Regulations (ITSR). Rice Lake did not include any further explanation or translation. Moreover, Rice Lake does not appear to have taken sufficient steps to ensure its subsidiary understood the prohibitions, took steps to comply with them, or monitor their adherence to the renewed restrictions.

In keeping with the instruction from Rice Lake, Dini stopped selling directly to Iranian customers at that time. Dini personnel, however, do not appear to have understood that selling goods indirectly to Iran was also prohibited, as would become evident the following year. Between June 2019 and November 2021, Dini fulfilled eight orders of weighing and scale equipment and components worth approximately $121,527 to a United Arab Emirates (UAE)-based distributor of weighing equipment with the knowledge that the UAE distributor would reexport them to Iran. Although sales documents did not identify Pandtec as the ultimate recipient of the goods, there were numerous

[1] On January 16, 2016, OFAC issued GL H authorizing, subject to certain conditions, an entity owned or controlled by a U.S. person and established or maintained outside the United States to engage in transactions with any person subject to the jurisdiction of the Government of Iran that would otherwise be prohibited by 31 C.F.R. § 560.215.
[2] OFAC revoked GL H on June 27, 2018 and issued a general license that authorized, through November 4, 2018, the wind down of activities involving Iran that were previously authorized pursuant to GL H.

indications that the goods in question were continuing to reach Pandtec in Iran. For example, on at least five occasions in 2019 and 2020, a Pandtec employee emailed Dini employees with questions about Rice Lake's products they were potentially interested in or with technical questions about products they had previously purchased. Additionally, all emails from the Pandtec employees throughout this period included references to Iran in the signature block. Dini personnel thus knew or had reason to know that these goods would be reexported to Pandtec, the Iranian company with which Dini had previously had a direct relationship. In addition, the UAE distributor eventually revealed that the goods were ultimately intended for Pandtec.

In late 2021, Rice Lake received a tip that its products were being sold in Iran and immediately initiated an investigation. Rice Lake soon found that the sales by Dini to the UAE distributor were likely being diverted to Iran and promptly directed Dini to cease all future sales to the UAE distributor. Rice Lake subsequently disclosed the violations to OFAC and began implementing compliance enhancements.

Dini's indirect exportation of weighing equipment on eight occasions between June 2019 and November 2021 with the knowledge that those goods were ultimately destined for Iran appears to have violated ITSR § 560.215(a) because Dini knowingly engaged in trade-related transactions with a person subject to the jurisdiction of the Government of Iran that would be prohibited by ITSR §§ 560.204(a) and 560.206(a)(2) if engaged in by a U.S. person (the "Apparent Violations").

Penalty Calculations and General Factors Analysis

OFAC determined that the Apparent Violations were voluntarily self-disclosed and constitute a non-egregious case. Accordingly, under OFAC's Economic Sanctions Enforcement Guidelines (the "Enforcement Guidelines"), 31 C.F.R. part 501, app. A, the base civil monetary penalty applicable in this matter equals the sum of one-half of the transaction value for each apparent violation, which is $60,764.

The settlement amount of $60,764 reflects OFAC's consideration of the General Factors under the Enforcement Guidelines.

OFAC determined the following to be **<u>aggravating factors</u>**:

(1) Dini acted with reckless disregard for U.S. sanctions requirements by engaging in indirect sales to Iran that it should have known were just as prohibited as direct sales were. Rice Lake failed to exercise due caution or care for U.S. sanctions requirements in failing to provide sufficient explanation concerning the risks of indirect dealings with Iran or guidance regarding the practical application of the prohibition.

(2) Dini knew or had reason to know that the goods sold were ultimately destined for Iran, even if it mistakenly believed that such sales were permissible.

(3) The weighing products sold were of the kind used by commercial businesses and therefore likely furthered economic activity within Iran. The sales occurred over a period of more than two years.

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

(1) Neither Rice Lake nor Dini have been the subject of any OFAC enforcement action in the five years preceding the earliest date of the transactions giving rise to the Apparent Violations.

(2) The transactions at issue represent only a very small portion of either Rice Lake or Dini's sales during the relevant time period.

(3) Rice Lake took prompt remedial measures. After learning of the potential indirect sales to Iran, Rice Lake immediately began a comprehensive and through investigation with the assistance of outside counsel knowledgeable in U.S. sanctions, including identifying any other possible apparent violations. Rice Lake also worked with outside counsel to design and implement compliance program improvements designed to address the failures that gave rise to the apparent violations; specifically, the training of subsidiary employees, the vetting of end distributors, and adding reexport control warnings to its commercial invoices.

(4) Rice Lake was highly cooperative with OFAC's investigation, responding to multiple OFAC inquiries and document requests in a timely fashion. Rice Lake also agreed to toll the statute of limitations.

Compliance Considerations

This enforcement action highlights the sanctions risks U.S. companies with global operations face for the activities of their subsidiaries or affiliates. This is especially the case with sanctions programs like Iran that require foreign entities owned or controlled by U.S. persons to comply to nearly the same extent as their U.S. parent.[3] These considerations are separate and apart from the liability foreign companies face under other prohibitions that can apply to non-U.S. persons, such as causing U.S. persons to violate sanctions. U.S. individuals and entities should ensure that any foreign subsidiaries that they own or control understand and fully comply with the sanctions prohibitions that apply to them. The compliance failures of a foreign subsidiary can create liability for its U.S. parent. This case also highlights the ongoing risk of goods or items being re-exported to Iran by the non-U.S. subsidiary of a U.S. company.

To avoid this, U.S. companies should ensure their foreign subsidiaries implement effective, risk-based controls to mitigate any sanctions risks. This includes making sure that all relevant personnel, not just management, within foreign subsidiaries understand how OFAC sanctions might impact their day-to-day operations. Misunderstandings can give rise to liability, and enforcement action may be appropriate where reasonable steps were not taken to avoid them. Clear guidance to and regular training of all relevant personnel, not just managers, are essential core elements of any effective sanctions compliance program. Guidance and training should be designed to empower employees who encounter the risks and should be tailored to take into account key differences such

[3] *See*, *e.g.*, Department of Commerce, Department of the Treasury, and Department of Justice, "Tri-Seal Compliance Note: Obligations of foreign-based persons to comply with U.S. sanctions and export control laws" (Mar. 6, 2024); Frequently Asked Question (FAQ) 11; and FAQ 644.

as local language and business customs. Oversight controls, such as centralized monitoring and regular testing and auditing, also provide critical opportunities to identify weaknesses and take corrective action before violations occur. Controls should also take into account the specific risk factors facing a given entity. For example, companies with counterparties located in jurisdictions known to be of high risk for diversion, such as the UAE, should pay particular attention to the risks of indirect dealings with parties subject to sanctions.

Finally, this case underscores the importance of paying careful attention to developments in the sanctions programs OFAC administers and enforces. Sanctions risk is dynamic and can change quickly for numerous reasons, including because the prohibitions themselves can shift.

OFAC Enforcement and Compliance Resources

On May 2, 2019, OFAC published A Framework for OFAC Compliance Commitments (the "Framework") 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 Enforcement Guidelines. 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.

Whistleblower Program

The U.S. Department of the Treasury's Financial Crimes Enforcement Network maintains a whistleblower incentive program for violations of OFAC-administered sanctions, in addition to other violations of the International Emergency Economic Powers Act, the Foreign Narcotics Kingpin Designation Act, the Trading With the Enemy Act, and the Bank Secrecy Act. Individuals located in the United States or abroad who provide information about sanctions violations may be eligible for awards if the information they provide leads to a successful enforcement action that results in monetary penalties exceeding $1,000,000. The incentive program is available for whistleblowers providing information relating to potential violations in any commercial sector.

For more information regarding OFAC regulations, please visit: https://ofac.treasury.gov.