

CLIENT MEMORANDUM

Schlumberger Oilfield Holdings Ltd. Agrees to Plead Guilty and Pay \$232 Million for Violating U.S. Sanctions by Facilitating Trade with Iran and Sudan

March 30, 2015

AUTHORS

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Schlumberger Oilfield Holdings Ltd. (“SOHL”) agreed on March 25, 2015 to plead guilty to a criminal violation of U.S. trade sanctions against Iran and Sudan, to pay \$232.7 million in penalties, and to submit to a three-year period of corporate probation in which SOHL and its parent company, Schlumberger Ltd. (collectively, “Schlumberger”), are expected to fulfill specified compliance commitments. The penalty includes a criminal forfeiture of \$77.6 million, representing the proceeds generated by the illegal acts, and a fine of \$155.1 million—the largest criminal fine ever imposed for a violation of the International Emergency Economic Powers Act (“IEEPA”), one of the principal U.S. sanctions laws.

Schlumberger is one of the largest oilfield services providers in the world. In documents released by the U.S. Department of Justice (the “DOJ”), the government acknowledged that SOHL, a British Virgin Islands entity, and Schlumberger Ltd., a Curaçao entity, could lawfully operate in Iran and Sudan so long as U.S. persons, goods, or services were not involved. Moreover, the DOJ noted that Schlumberger had policies and procedures in place designed to ensure that the company did not violate U.S. sanctions laws. Nonetheless, the DOJ charged SOHL with conspiracy to violate IEEPA by willfully facilitating trade with, and providing services to, Iran and Sudan, activities that involved personnel from Schlumberger’s U.S. Drilling & Measurements (“D&M”) segment, a business unit that provided oilfield drilling and measurement technology and services internationally. Among other things, Schlumberger failed to instruct the employees to recuse

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themselves from any business/transactions involving sanctioned countries, failed to provide them with adequate training on sanctions compliance, and failed to implement and enforce its policies and procedures.

The conduct that led to the criminal settlement involved several elements:

- **Illegal Approval of Capital Expenditures.** D&M management personnel were responsible for supervising D&M's capital expenditure ("CAPEX") process, a forecasting mechanism for determining what tools and equipment would be needed to meet anticipated demand for oilfield services. Expenditures for the required tools and equipment had to be approved by the D&M Global Asset Manager in the United States, and were approved, even when they involved tools and equipment for operations in Iran and Sudan. Such approvals facilitated trade with Iran and Sudan and violated U.S. trade sanctions laws. In addition, Schlumberger employees located outside the United States often contacted U.S. employees directly via email regarding these approvals and took steps to conceal from others the fact that the equipment was for use in Iran or Sudan.
- **Illegal Involvement in Business Decisions.** D&M headquarters personnel located in Sugar Land, Texas, which included both U.S. and non-U.S. citizens, actively engaged in the management of D&M business, including day-to-day operations in Iran and Sudan and took steps to maximize the efficiency and profitability of D&M operations in Iran. This illegal participation in business operations in sanctioned countries apparently occurred with D&M's knowledge and understanding that U.S. trade sanctions laws applied.
- **Delivery of Technical Services.** When technical problems arose in oilfield locations, a query would be directed to a technical expert who could assist. Based on the documents released by the DOJ, queries entered by or on behalf of D&M personnel in Iran and Sudan were regularly addressed by D&M personnel located in the United States. Providing such technical assistance violated U.S. sanctions laws.
- **Equipment Swaps.** Direct shipments or transshipments of equipment from the United States to Iran violate U.S. export control laws. As a result, Schlumberger maintained policies and procedures that enforced a strict prohibition on such direct exports and transshipments. Furthermore, to prevent potential transshipments, Schlumberger implemented a "One Year Rule," that required that U.S.-origin equipment located outside the United States could be re-exported to a sanctioned country only if it had been outside the United States for over a year.

According to the charging documents, D&M personnel developed an equipment swap process to circumvent this rule. In an equipment "swap," personnel in the sanctioned country or the region arranged for a shipment of equipment to be sent from the United States to a non-sanctioned location that already had exactly the same equipment. The equipment in the non-sanctioned country would then be swapped out for the new equipment and the used equipment would be sent to the sanctioned country. While this "swap" did not violate U.S. Export Administration Regulations, the DOJ found that the swap violated U.S. sanctions laws and the applicable regulations because it facilitated the supply of U.S.-origin equipment to D&M oilfield operations in Iran and Sudan.

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In addition to the criminal forfeiture of \$77.6 million in illegal proceeds from these transactions and the record criminal penalty of \$155.1 million, Schlumberger also agreed to continue to withdraw its operations from Iran and Sudan voluntarily and to abide by the terms of a three-year corporate probation that includes numerous compliance conditions. During the term of the probation, Schlumberger agreed to comply with, among others, the following requirements:

- Promptly notify the government of (i) any D&M conduct that Schlumberger determines to be a fraud or anti-bribery violation of U.S. federal criminal law; and (ii) any action or investigation commenced by any U.S. government agency that alleges a fraud or anti-bribery violation of U.S. federal law or a violation of sanctions pursuant to IEEPA;
- Notify the government within 30 days of credible evidence of any potential violations of sanctions pursuant to IEEPA and disclose all factual, non-privileged information concerning same;
- Retain an independent third-party compliance consultant to review and assess Schlumberger's processes, policies and procedures related to sanctions compliance and the non-privileged sanctions trade compliance audits conducted by Schlumberger; and
- Provide an annual certification to the government that, to the best of the General Counsel's knowledge after reasonable inquiry, Schlumberger is in compliance with the compliance undertakings in the settlement agreement.

The plea agreement must be approved by the U.S. District Court for the District of Columbia before it takes effect.

The enforcement action against Schlumberger highlights the sanctions risks that companies doing business internationally can face. It is not enough simply to have policies and procedures in place. Companies must effectively implement those policies and procedures, train employees, monitor activities, and enforce applicable trade restrictions. The conduct outlined in the Schlumberger charging documents reflects some of the most challenging areas of sanctions compliance for multinational companies. The DOJ's investigation, the record-setting penalty, and ongoing compliance and reporting requirements demonstrate the vigor with which the DOJ will pursue sanctions violations.

Related Links

DOJ Press release, available [here](#).

Schlumberger Plea Agreement, available [here](#).

Schlumberger Statement of Offense, available [here](#).

Schlumberger Information, available [here](#).

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If you have any questions or need assistance on sanctions compliance, please contact Martin J. Weinstein (202-303-1122, mweinstein@willkie.com), Robert J. Meyer (202-303-1123, rmeyer@willkie.com), Jeffrey D. Clark (202-303-1139, jdclark@willkie.com), Peter Burrell (+44 20 3580 4702, pburrell@willkie.com), Miriam A. Bishop (202-303-1126, mbishop@willkie.com) or the Willkie attorney with whom you regularly work.

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