Client Alert: U.S. Escalates Iran Sanctions While Further Easing Syria Restrictions

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[Export Controls and Sanctions Group:]

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The Treasury Department's Office of Foreign Assets Control ("OFAC") has expanded the sectors of the Iranian economy subject to secondary sanctions, suspended several longstanding general licenses and other authorizations, imposed additional sanctions targeting Iran's civil aviation sector, and adopted a presumption of denial for Iran-related specific license applications. At the same time, the United States has continued to ease restrictions on Syria, including rescinding its designation as a State Sponsor of Terrorism, but the full implementation of that change is yet to come.

1. IRAN: OPERATION ECONOMIC OUTCAST

On August 24, 2026, Treasury announced Operation Economic Outcast, describing it as "the beginning of a sustained and systematic campaign to close every financial resource that supports" Iran. Treasury's initial actions included the following measures:

1.1. Five Additional Sectors Subject to Executive Order 13902 Sanctions

OFAC determined that the **aviation, digital asset, gold, shipping, and technology sectors** of the Iranian economy are now subject to Executive Order ("EO") 13902, joining the construction, mining, manufacturing, textiles, financial and petroleum and petrochemical sectors included earlier.

This move significantly expands potential secondary sanctions exposure for non-U.S. persons that operate in these sectors, knowingly engage in significant transactions involving them, or materially support persons designated under EO 13902.

Specifically of concern are companies operating globally with significant trade ties to Iran. For example, companies in China, India, Turkey, parts of the Gulf region, and elsewhere – where local law does not broadly prohibit commercial dealings with Iran and significant trade ties continue – can be targeted even where their transactions with Iran have no U.S. nexus.

For U.S. companies, the principal concern is likely to arise through foreign counterparties whose links to Iran expose them to designation. We have increasingly seen U.S. clients caught in pending transactions when a foreign counterparty is newly added to the SDN List. Where OFAC issues no wind-down general license, as is often the case, the U.S. company may need to block property, seek an OFAC license to unwind transactions, and assess whether any post-designation dealings occurred that may warrant a voluntary self-disclosure.

These developments enhance the importance of transaction-specific diligence. Sanctions screening remains an essential first step, but it will not identify a counterparty that has not yet been designated. Particularly if operating in one of the targeted sectors ,U.S. companies should consider additional diligence into their foreign counterparties' links to Iran.

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1.2. Suspension of Several General Licenses

Also effective August 24, OFAC indefinitely suspended several longstanding general licenses under the Iranian Transactions and Sanctions Regulations ("ITSR"), as follows:

- **Personal Remittances:** ITSR § 560.550, covering noncommercial personal remittances to and from Iran
- **Conferences:** ITSR § 560.554, covering certain services related to Iranian participation in conferences in the United States and third countries
- **Educational and Academic Activities:** ITSR § 560.544, covering certain educational and exchange activities by U.S. undergraduate institutions in third countries involving Iranian students, faculty, and universities, and General License G, covering certain academic exchanges with Iranian universities and related educational services
- **Sports:** General License F, covering certain professional and amateur sports activities and exchanges involving the United States and Iran

U.S. persons and U.S.-owned or -controlled foreign entities should identify any activities that relied on these general licenses and suspend them. General License BB provided a limited wind-down period for previously authorized activities through September 8, 2026. Affected organizations should update relevant sanctions compliance procedures and ensure that personnel responsible for these activities are aware of the changes.

1.3. Further Restrictions on Iran's Civil Aviation Sector

On September 8, 2026, OFAC issued dozens of new designations under EO 13902, including what Treasury described as "all remaining active Iranian airlines." OFAC also designated several third-country companies and individuals in the United Arab Emirates, United Kingdom, Turkey, Malaysia, and Kazakhstan for supporting Mahan Air, including through aircraft procurement, cargo services, and general sales agent activities.

OFAC simultaneously indefinitely suspended the following civil aviation general licenses and licensing policy under the ITSR:

- **Overflights:** ITSR § 560.522, covering certain payments to Iran for overflights of Iranian airspace and emergency landings
- **Bunkering and Emergency Repairs:** ITSR § 560.529, covering certain bunkering, emergency repair, and related services involving non-Iranian carriers
- **Temporary Sojourns:** General License J-1, covering the reexportation to Iran of certain civil aircraft on temporary sojourn and related transactions
- **Aircraft Safety:** ITSR § 560.528, which set forth OFAC's licensing policy for exports and reexports of goods, services, and technology related to civil aviation safety and the safe operation of U.S.-origin commercial passenger aircraft. However, the Treasury press release announcing these actions stated that aircraft safety-related license requests will continue to be considered on a case-by-case basis.

General License DD provides a limited wind-down period through 12:01 a.m. eastern daylight time on September 23, 2026, for transactions previously authorized under §§ 560.522 and 560.529 and General License J-1.

The September 8 action is also significant for non-U.S. aviation, logistics, and aircraft-services companies. Treasury specifically warned that foreign persons supporting sanctioned Iranian airlines – including through aircraft transfers, cargo services, or general sales agent activities – may face sanctions exposure. FinCEN separately issued an alert identifying red flags associated with Iran's use of third-country front companies and intermediaries for illicit procurement of aircraft and aircraft parts, and asking financial institutions to report procurement networks supporting Iran's aviation industry.

1.4. New Presumption of Denial for Iran-Related Specific Licenses

OFAC issued a new Statement of Licensing Policy on September 10, 2026, establishing a presumption of denial for Iran-related specific license applications under the ITSR and other Iran-related sanctions authorities. Under the new policy, Iran-related specific licenses may be issued only when required by law or in "exceptional and urgent circumstances, such as risks to life, limb, or environmental safety." Iran-related license applications should now provide written attestation demonstrating these circumstances. Several clients have had long-pending license applications summarily denied, including for medical products.

Applicants should be aware that the presumption of denial does not mean that the specific license cannot be granted, only that the standard by which OFAC now reviews license applications has changed. OFAC assumes that pending applications addressed the prior standard. Applicants who received summary denials should consult with counsel to determine if the license application can be re-submitted to address the new standard.

2. SYRIA: STATE SPONSOR OF TERRORISM DESIGNATION RESCINDED

In contrast to the tightening of sanctions on Iran, the U.S. Government has continued to remove restrictions on Syria. On August 24, 2026, the State Department rescinded Syria's longstanding designation as a State Sponsor of Terrorism ("SST"). As a result, Syria is no longer subject to the restrictions applicable to SST-designated countries under the Terrorism List Governments Sanctions Regulations.

Corresponding changes to the Export Administration Regulations ("EAR") have not yet been implemented. Once BIS makes those changes, Syria is expected to be removed from Country Group E:1 and the remaining Syria license requirements for EAR99 items and items controlled only for anti-terrorism ("AT") reasons are expected to be eliminated.

The State Department has likewise announced that it will amend the International Traffic in Arms Regulations to eliminate the current policy of denial for licenses and other approvals involving defense articles and services destined to or originating in Syria, once the remaining statutory restrictions have been resolved.

This action builds on the substantial Syria sanctions relief implemented beginning in 2025. The United States no longer maintains comprehensive sanctions against Syria, and the Caesar Act has been repealed. List-based sanctions nevertheless remain in place against certain persons in Syria, including certain supporters of the former Bashar al-Assad regime, and persons designated under other sanctions authorities.