

# KEY DEVELOPMENTS IN IRAN, APRIL 2016

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Legal Briefings

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This update aims to provide a brief overview of key developments which have occurred in Iran during the past month and to highlight areas of future interest. In particular, the update covers notable developments in both the political arena and key economic sectors

## POLITICAL DEVELOPMENTS

A number of significant political events affecting Iran have taken place in the past month:

### **Italy's prime minister Matteo Renzi visits Iran**

Following President Rouhani's visit to Rome in February 2016, Mr Renzi made a two day visit to Iran on 11 and 12 April 2016 along with ministers and business leaders. In doing so, he became the first leader of a major EU nation to visit Iran since the lifting of sanctions in January. Some of the bilateral deals signed during the visit are expanded upon below. Mr Renzi commented that: "*We are committed to making sure the efforts of the international community are accompanied by mutual trust and by the immediate relaunch of economic links.*" The visit is expected to be followed by other European leaders in the coming months.

### **Missile tests strain Iran's international relations**

Iran's missile tests on 8 and 9 March have led to renewed intensity in calls to reinstate sanctions against Iran. There is debate as to whether the tests are a violation of the JCPOA and pressure has increased, particularly from Congress and AIPAC in the US, on the US government and the UN to take action. On 24 March, the Obama administration did announce financial sanctions on certain groups associated with the Islamic Revolutionary Guard. However, the UN has not taken any action, and both China and Russia have made it clear that they would seek to prevent any UN resolution taking action against Iran's missile program.

# DEVELOPMENTS IN KEY ECONOMIC SECTORS

## OIL

This month, as the global oil market stalled awaiting the results of talks in Qatar in relation to freezing the level of oil production, Iran continued its attempts to re-establish its pre-sanctions market share.

### **Iran avoids oil production-freeze talks**

Despite numerous calls for Iran to join the talks in Qatar on 17 April, Petroleum Minister Bijan Namdar Zangeneh consistently refused. He stated that Iran would only be interested in talks once its oil production has reached around 4 million barrels per day, a level not expected to be achieved until March 2017.

Iran's increased production has led to increased revenues; on 11 April the IRNA announced that Iranian oil revenues had increased 90% since the lifting of sanctions in January, currently standing at \$20 billion this year.

### **Iran is in talks with various international lenders to finance the modernisation of its oil refineries**

Iran has continued efforts to procure finance from the international community for a major update to many of its oil refineries. Having already secured South Korean and Japanese funding for the Isfahan and Bandar Abbas refineries, Iran has had extended negotiations with a Chinese lender to provide \$3 billion of funding for the redevelopment of the Abadan refinery. Iran is also said to be actively seeking \$2.5 billion of investment in order to modernise its fleet of oil tankers.

## INFRASTRUCTURE

This month saw reports of positive negotiations in relation to several major infrastructure projects in Iran.

### **Iran continues to modernise its rail network**

The Trans-Kazakh railway, which links Tehran to Yiwu in China in 8 days journey time, will open this month. However, Ministers have announced that Iran's rail network needs to be doubled in size and \$28 billion of finance is being sought, with Chinese, South Korean, Italian and French companies said to be interested. Further expansion projects which have been mooted include a rail bridge into Iraq and a link from the port of Chabahar to Afghan mineral mines. Significantly, Iran wants to use the latest technology on these new projects and is due to receive a delegation of Japanese rail experts in Tehran on 17 May to discuss bringing Japanese-style high-speed trains to Iran.

## **Iran and Russia make progress on plans for canal linking Caspian Sea to the Indian Ocean**

Russia and Iran are again considering a joint project to construct the canal, talks over which had previously been shelved after the imposition of sanctions. The proposed \$10 billion canal would allow ships from Russia and the South Caucasus to have direct access to the Indian Ocean. Though it is envisaged that the project would boost the Russian and Iranian economies by as much as \$1.4 billion and \$1.7 billion each year respectively, it is reported that there remain numerous technical hurdles to overcome at the planning stage.

## **India and Iran close to agreement on major new pipeline**

India is reportedly set to sign a deal with Iran to commence work on a \$4.5 billion gas pipeline project which will run directly from the Iranian port of Chabahar to the Indian coast in Gujarat. This will entirely bypass Pakistan, allowing for cheaper export of gas from Iran to India.

## **SHIPPING**

### **India due to spend \$20 billion developing the Iranian port of Chabahar**

The Indian Petroleum and Natural Gas Minister Dharmendra Pradhan met Iranian petroleum minister Bijan Zangeneh in Tehran to discuss cooperation in relation to the port. The location of Chabahar makes it of strategic importance for India as it allows it to bypass Pakistan and access Afghanistan and Central Asia. The deal is reported to involve various commitments from Indian companies to set up plants in the Chabahar Special Economic Zone in return for cheaper gas prices from Iran.

### **International Group of Protection and Indemnity Clubs (IGPIC) increase reinsurance coverage for Iranian shipping**

Iranian shipping had been struggling given that firms were not willing to risk undertaking contracts without proper insurance coverage and given that the vast majority of shipping reinsurers are based in the US and so are unable to provide coverage. As a result, only \$80 million worth of reinsurance coverage per ship had recently been available to Iranian shipping firms. However, IGPIC has agreed to provide around \$580 million per ship until US reinsurers are able to plug the gap. This, together with the announcement on 29 March 2016 that the Japanese Parliament has approved a \$7.8 billion budget for Iranian oil shipping insurance in FY 2016-17, is hoped to be enough to reinvigorate the industry.

## **BANKING**

This month, the slow movement towards recovery in the Iranian banking industry began to build momentum.

### **Iranian bank Sepah re-opens in Rome**

on 10 April 2016 Banca d'Italia reactivated Bank Sepah's banking licence in Italy allowing it to re-open its Rome branch after it had been closed for the previous 9 years owing to the international sanctions against Iran. Bank Sepah, which also has branches in Frankfurt, Paris and London, is now the first Iranian bank to resume operations in Europe.

### **Some European banks begin to handle Iranian transactions**

German bank, DZ Bank, recently confirmed that it has started handling transactions in Iran for European clients. Similarly, KBC, Belgium's largest bank, stated that it has resumed handling its client's business in Iran and is making efforts to develop corresponding relationships with state-owned Iranian banks. Austria's Erste bank is also reportedly preparing to enter the market. However, there is no indication from the largest of the European banks that they will be making any similar moves. This is due to ongoing uncertainty over remaining US sanctions and whether banking transactions involving Iran will be caught in these sanctions.

### **US Treasury Department gives Mastercard sanctions violation notice**

Mastercard Inc., the secondlargest payments network in the US, was reprimanded by the US Treasury for failing to report the fact that it still had accounts on its books for Bank Melli and Bank Saderat, two of the largest Iranian banks against which sanctions had been imposed. There is no suggestion of deliberate wrongdoing and no fines have been imposed. However, the violation notice is an indication that the Treasury Department is still taking Iranian sanctions seriously and this may cause further concern for International banks considering re-entry.

### **OTHER**

This month, diplomatic and economic interest in Iran has continued following the removal of sanctions and more countries have visibly geared up efforts to take advantage of the opportunities offered by Iran.

### **Kazakhstan**

On 11 April 2016, the Kazakh President, Nursultan Nazarbayev visited President Rouhani in Tehran. It was reported that as many as 66 agreements were signed between the two delegations. These seem to promise co-operation in a wide range of areas and are reportedly worth around \$2 billion. Notable deals include:

- the establishment of a joint shipping company between the two nations; and
- a joint venture mining project agreed between Kazakhstan's National Geological Company and Iran Power and Water Equipment and Services Export Company.

## **Pakistan**

President Rouhani visited Pakistan on 25 March 2016 and met with Pakistani Prime Minister, Nawaz Sharif, in order to sign various bilateral trade agreements. Mr Sharif announced: "*Our economic relations had suffered due to sanctions imposed on Iran. In our consultations today, we have reiterated our resolve to enhance the level of bilateral cooperation in diverse fields, including trade, economic and energy.*" Notable developments include:

- Iran agreeing to export 40% more electricity to Pakistan with a larger deal potentially to be agreed in May;
- Pakistani banks agreeing to make Letters of Credit available in Euros rather than USD in order to stimulate trade with Iran; and
- a Memorandum of Understanding on banking cooperation, being agreed between the Governor of the Central Bank of Iran, Valiollah Seif, and Ashraf Wathra, Governor of the State Bank of Pakistan. The agreement includes the following arrangements:
  - Iran will be put back into the Asian Clearing Union (with Pakistan, India and Bangladesh);
  - Iranian Bank Melli is permitted to set up in Pakistan and Pakistani Habib Bank is permitted to set up in Iran; and
  - a permanent 'Iran-Pakistan Joint Banking Committee' will be established.

## **Italy**

Further to the details above, Italian Prime Minister Matteo Renzi and his delegation signed numerous significant deals with Iranian ministers and companies during a two day visit on 11 and 12 April 2016. Particularly notable deals include:

- a framework agreement for Ferrovie dello Stato to build two high-speed rail lines in Iran;

- a deal between the Italian national fashion association, Sistema Moda Italia, and the Tehran Garment Union to help increase the Italian fashion industry's presence in Iran;
- a Memorandum of Understanding agreed between Italian gas company Enel and the National Iranian Gas Export Company to co-operate in relation to wide-ranging natural gas and liquefied natural gas projects in Iran;
- an agreement for Cassa Depositi e Prestiti to offer €4 billion worth of credit facilities to companies building oil and gas and transport infrastructure, with Italian export agency SACE agreeing to guarantee the facilities; and
- a Memorandum of Understanding agreed between Saipem, a large Italian oil services company, and the Iranian company, Razavi Oil & Gas Development, agreeing to work together on the Toos Gas Field Development Project.

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