

KEY DEVELOPMENTS IN IRAN, AUGUST 2016

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Legal Briefings

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/LEGAL DEVELOPMENTS

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

Tripartite conference held in Baku by Iran, Russia and Azerbaijan

On 8 August the presidents of Iran, Russia and Azerbaijan met in order to strengthen ties between the countries, with a particular focus on energy and transportation projects. A number of developments emerged from the discussions including the announcement that Russia will now supply Iran with the S-300 air defence systems which it had initially agreed to deliver in a USD 800 million contract in 2007. The deal had previously been suspended owing to international sanctions. The conference also dealt with plans for collaboration on nuclear power projects, further details are provided below.

Israel ordered to pay USD1.1 billion to Iran

It emerged this month that the Swiss Federal Tribunal, the highest court in Switzerland, has rejected Israel's appeal against the enforcement of an arbitration award ordering Israel to pay Iran around USD1.1 billion in relation to a dispute over the Eilat-Ashkelon pipeline. The pipeline was a joint venture between the countries in 1968 until Israel nationalised the pipeline in 1979 following the Islamic revolution in Iran. Iran has been seeking compensation for its lost revenues for over two decades.

DEVELOPMENTS IN KEY ECONOMIC SECTORS

OIL

This month, Iran's oil production continued to increase with exports reaching 2.5 million barrels per day – around the level of the market share Iran had prior to the imposition of sanctions.

General Terms of the Iranian Petroleum Contract ("IPC") approved

On 3 August, the Iranian government (the Council of Ministers) approved the “general terms, structure and model” of the IPC, based on which the details of a future draft contract are expected to be finalised 3 August 2016. The IPC is designed to be a standard form contract for contractors wishing to undertake oil and gas exploration and development projects in Iran. For background, please see two of our previous e-bulletins; one providing an analysis of the most recent IPC resolution [here](#), and another relating to certain key terms of the IPC announced in November 2015 [here](#). The National Iranian Oil Company is reported to have identified 34 suitable bidders for such projects with deals expected to be completed in the next six months.

AVIATION

Over the last month there has continued to be a strong focus on Iran's aviation industry with multiple airlines announcing developments.

US Congress attempts to block Iran Air's Boeing and Airbus as talks continue

Following Iran Air's two multi-billion dollar aircraft deals with Airbus and Boeing earlier this year, US Congress have raised concerns that the civilian aircrafts may be used for military purposes. Last month, Congress passed two amendments to the relevant appropriations bill. The first amendment prohibits the Office of Foreign Assets Control ("OFAC") from using funds to authorise a license necessary to allow aircraft to be sold to Iran and the second amendment would prohibit US financial institutions from participating in the sale or provision of civilian aircrafts that may be used for military purposes. If these amendments are passed into law it will likely force the termination of the Airbus and Boeing deals.

However, this month uncertainty has continued over the likelihood of Congress' amendments being passed into law, with most commentators predicting the issue will not be resolved before the presidential elections in November. Despite the uncertainty, negotiations as to the details of Boeing's June 2016 agreement with Iran Air were reported to be continuing during talks between the parties in Tehran this month.

Mitsubishi Heavy Industries ("MHI") set to supply regional jets to Iran Aseman Airlines

During an Iranian political delegation's visit to Tokyo this month it was reported that the Iranian airline Aseman Airlines had agreed to acquire around 20 'Mitsubishi Regional Jets' from MHI with a value of around USD 500 million. The details are expected to be agreed during a return visit to Tehran by a Japanese delegation in December, with the funding for the deal reported to be being provided by the Japanese government.

OFAC permit US-made aircraft to land in Iran

This month OFAC issued a licence permitting aircraft made or partially made in the US to have a "temporary sojourn" (a stop of up to 72 hours) in Iran. Prior to this, non US airlines had technically been sanctioned from landing planes which were made in the US or included US made parts in Iran.

AUTOMOBILES

PSA Group (Peugeot and Citroën), announces second joint venture to manufacture cars in Iran

Having previously agreed a €400 million joint venture with Iran Khodro (a state-owned car manufacturer) relating to its Peugeot brand, this month PSA Group announced a second joint venture with an Iranian car manufacturer. The deal, between PSA's Citroën brand and Iranian manufacturer SAIPA, reportedly involves PSA investing around €300 million in developing three Citroën models for production in Iran within the next five years. Prior to PSA's exit in 2011 due to sanctions, it claimed around a 30% share in the Iranian automobile market.

Iran Khodro was also reported to be in talks with LG International last month

In relation to a project to develop electric cars in Iran. The details of the project have not been made public at this stage.

POWER

Two nuclear power plants to be constructed in Bushehr in southern Iran

In a deal announced following the Baku conference on 8 August, it was reported that Russia, Azerbaijan and Iran were planning to co-operate to construct two nuclear power plants in Bushehr. Russian energy minister, Alexander Novak, announced that pre-construction works have already commenced whilst tri-lateral talks as to the details of the projects are ongoing. The deal is expected to involve an investment of around USD10 billion at this stage.

Tekhnopromexport sign a USD1 billion deal to build thermal power plant in Bandar Abbas

It was reported this month that Tekhnopromexport, a subsidiary of the state-owned Russian company, Rostec, has signed a USD1 billion deal to build the 1.4GW Hormozgan thermal power plant in Bandar Abbas. The parties reportedly expect the plant, which will have four 350MW generators, to take around five years to construct; with around 85% of the funding reportedly being provided by the Russian government.

Mapna Renewable Energies Generation ("MREG") actively seeking joint venture partners

The renewable energy arm of the Mapna Group announced this month that it is looking for investors to join three wind farm projects in a joint venture arrangement; one 50MW and two 30MW in size. MREG stated that, ideally, they would find a joint venture partner with access to significant international financing by the end of 2017.

OTHER

In a relatively quiet month for major diplomatic conferences in Iran, there were a number of positive developments in Iran's economic relations with its neighbours.

India's Iranian crude oil purchases reach five year high

It was announced this month that India's oil importation from Iran in the first seven months of 2016 averaged 359,000 barrels per day; an increase of 67% against the same period in 2015 and the highest level in 5 years. • Russia reports massive increase in trade with Iran - Russia's ambassador to Iran, Levan Dzagharyan, announced this month that Russian exports to Iran have increased 91.5% to around USD697 million since the lifting of sanctions in January; with imports increasing by 16%. He noted that the primary constituents of these increased exports were machinery, ground vehicles and weapons.

Russian visit to Tehran leads to reports of a number of major upcoming joint projects

It was announced following the visit of Mahmoud Vaezi (the co-chair of the Russia-Iran Joint Economic Commission) to Tehran on 29 July that a road-map of joint industrial projects will soon be signed. The road-map is expected to set out more than 70 joint projects between the countries. Other reported discussions during the visit include a joint free trade zone, Gazprom developing Iranian gas supply and production, and Lukoil resuming its work in the Anaran oil project which was abandoned in 2010

Foreign Direct Investment ("FDI") statistics

This month Government spokesman, Mohammad-Baqer Nobakht, announced that Iran has attracted over USD5 billion of FDI since the lifting of sanctions in January 2016; this compares with only USD920 million of FDI in the Iranian Calendar year March 2014 to March 2015 during the height of international sanctions.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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