

# KEY DEVELOPMENTS IN IRAN, AUGUST 2018

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Legal Briefings - By **William Breeze and Reza Dadbakhsh**

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This update provides an overview of key developments which have occurred in Iran during the past month and highlights areas of future interest. In particular, the update covers notable developments in the political arena and key economic sectors.

## POLITICAL DEVELOPMENTS

### **US ready to make 'real deal' with Iran**

Despite a social media outburst against Iranian President Rouhani, President Trump subsequently said during a speech to the Veterans of Foreign Wars in Kansas that the United States of America (US) is ready to make a real deal with Iran. Defence Secretary Jim Mattis, speaking at a conference in California, is reported to have said "It's time for Iran to shape up and show responsibility as a nation...I think the president was making very clear that they're on the wrong track."

### **Turkey opposed to sanctions on Iran**

Turkish Foreign Minister Mevlut Cavusoglu has reportedly told American officials that Turkey is opposed to the US sanctions on Iran, and that it is not obliged to implement them. Speaking at a news conference in Azerbaijan, Mr Cavusoglu reportedly said that during meetings in Ankara, Turkey had told the US "Turkey gets oil and gas from Azerbaijan, Iran, Russia and Iraq. If I don't buy from Iran now, where am I supposed to meet that need from?"

### **Iran files lawsuit against US over sanctions**

The International Court of Justice (ICJ), based in The Hague, has received an application filed by Iran asking the ICJ to order the US provisionally to lift its sanctions ahead of more detailed arguments. A US State Department official has reportedly said that the application was without merit and that the US would fight it in the court. Although the ICJ is the highest United Nations court and its decisions are binding, it has no powers of enforcement and countries - including the US - have ignored decisions in the past.

### **US rejects plea from the EU for sanctions exemption**

Ministers from the European Union had written a letter to US Secretary of State Mike Pompeo and Treasury Secretary Steve Mnuchin saying that persevering with the existing nuclear deal was the "best basis on which to engage Iran". Mr Pompeo and Mr Mnuchin reportedly responded that the US intended to maintain sanctions on Iran until it saw a "tangible, demonstrable and sustained shift in the policies we have enumerated." US officials have reportedly put pressure on other countries to stop importing Iranian crude oil from November. For further EU-related Iran news, see our news bulletin on proposed amendments to the Blocking statute [here](#).

### **US announces winding-down period before sanctions re-imposition**

The 90-day winding-down period is due to finish on August 6 2018. Read our bulletin on the winding-down period [here](#).

## **DEVELOPMENTS IN KEY ECONOMIC SECTORS**

### **FINANCE**

#### **Iranian Rial drops to record low**

The Iranian rial has dropped to another record low, with it falling to more than 100,000 rials to the US dollar, in advance of 7 August, when the US is due to re-impose many economic sanctions.

#### **Central Bank governor sacked**

Valiollah Seif, who had been the governor of the Central Bank of Iran (CBI) for five years, was recently fired during a CBI shake-up. Mr Seif has been accused by many critics for mismanaging Iran's monetary policy, failing to foresee that the US would withdraw from the JCPOA, both of which have contributed to a steep drop in the value of the Iranian rial. Further to the re-imposition of economic sanctions, the Trump administration blacklisted Mr Seif for what it called his role in money transfers to Hezbollah, which the US regards as a terrorist group. Mr Seif's blacklisting meant many international bankers could not deal with him without facing penalties from the US.

#### **Alternative Foreign Exchange Market set up in Iran**

As part of the Iranian government's plan to move away from the dual exchange rate regime to a USD peg set by the CBI, the CBI has set limits on the sale and purchase of foreign currencies and recently announced that an alternative foreign exchange market would be set up. Through the new alternative market, foreign currencies can be purchased from exporters of goods (other than petroleum, petrochemical products, condensate, steel products and heavy metals), by importers of non-essential goods. According to the CBI announcement, the market will operate through the NIMA platform and the Ministry of Industry, Mines and Trade's Integrated System of Certificates (ISC).

### **Lloyd's insurers likely to see barring of IT platform**

As a consequence of the impending US sanctions, Lloyd's of London and other European insurers are reportedly winding down Iranian business. Lloyd's Chairman, Bruce Carnegie-Brown, is reported as having said that the re-imposition of sanctions would "probably" mean that insurers would not be able to process Iran-related business through the Lloyd's platform, as it has been partly owned by US firm DXC since last year.

### **Japanese banks to stop Iranian transactions**

Japan's biggest bank, Mitsubishi UFJ Financial Group (MUFG), and Mizuho Financial Group Inc. have both announced that they will halt all Iran transactions to comply with the reimposition of US sanctions in November. Sumitomo Mitsui Banking Corp will reportedly consider its response in compliance with the law and based on US sanctions. The move by MUFG is likely to stop crude oil purchases by Japanese companies, as it is the MUFG banking unit which handles the bulk of those imports.

## **OIL AND GAS**

### **Total to leave Iran following failure to secure sanctions waiver**

The French energy company Total has reportedly quit its business in Iran after failing to successfully negotiate a waiver deal from the US exempting it from the remit of the impending sanctions. Total's CEO Patrick Pouyanné has been quoted as saying that "there is no other way than to leave Iran's lucrative project...you cannot operate in 130 countries in the world without accessing the US financial system. Therefore we are enforcing and complying with US laws and have to leave Iran's profitable market".

### **Iranian Energy sector facing challenges**

Following the announcement of impending sanctions, and Total's withdrawal from phase 11 of South Pars (SP11), Iran is reportedly now banking on China's stateowned CNPC, which holds the second-largest 30% share in SP11, to buy out Total's share. However, a purchase by CNPC of Total's stake would make CNPC the owner of 80.1%, a commercially untenable deal for Tehran.

### **Iran striving to supply oil to India**

A statement from Tehran's embassy in New Delhi reportedly said that Iran will do its best to ensure security of oil supply to India by offering "flexible measures" to boost bilateral trade. India continued trade with during previous sanctions, and Iran reportedly wants India to expedite its investment and accelerate engagement for the development of Chabahar port in Iran, part of a transportation corridor with land-locked Afghanistan.

### **Caspian Sea status negotiations nearing finish line**

The long-disputed legal status of the Caspian Sea could be nearing a conclusion as the five parties, including Iran, are due to meet on August 12. A decision could lead the way for exploitation by Iran and the other littoral countries of the sea's energy-rich resources.

### **OTHER**

#### **Iran's Revolutionary Guards reach deal to evacuate Syrian refugees**

Iranian-backed negotiators have reportedly reached a deal with Syrian rebels to evacuate thousands of people from two rebel-besieged Shi'ite villages in north-western Syria in return for the release of hundreds of detainees in state prisons.

#### **Iran metro prequalification extended**

Applications for the engineering, procurement, construction and finance package for the second line of Iran's Shiraz Metro have been extended until 24 October. The second line will intersect with the first line, and construction works were understood to have started in 2014; however, the project has reportedly encountered some financial issues, leading Shiraz Municipality to restart the procurement process.

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## 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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