



KEY DEVELOPMENTS IN IRAN, JULY 2017

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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 DEVELOPMENTS

US Supreme Court permits partial implementation of Trump travel ban

The US Supreme Court has decided to allow the partial implementation of President Trump's travel ban. The 90-day ban on visitors from Iran, Libya, Somalia, Sudan, Syria and Yemen and 120-day ban on all refugees entering the US had been completely blocked by the lower courts following its issue by Presidential executive order on 6 March 2017. The Supreme Court ruled on 26 June 2017 that the bans could proceed but would only apply to foreigners without a "bona fide relationship" with an American entity or person. The Supreme Court did not provide further guidance on the exact meaning or scope of the phrase "bona fide relationship". However, the Court did give examples of potential exemptions to the travel ban, including those with close family ties in the US, with offers to enrol at American universities or with offers of employment with US companies. Iran's Foreign Ministry spokesman Bahram Qassemi expressed disappointment with the Court's decision and stated that Iran would take proportionate and reciprocal action.

Iran nuclear deal recertified with new sanctions imposed

On 17 July 2017, the US President certified Iranian compliance with the Iran nuclear deal, the Joint Comprehensive Plan of Action (JCPOA). The recertification signals the United States' continued willingness to maintain the sanctions relaxation implemented through the JCPOA, at least in the short term. This is the second time that the new administration has certified Iranian compliance with the deal. However, the US has also introduced additional sanctions against Iran since the JCPOA was entered into. As the most recent example, on July 18, the administration announced new (non-nuclear) sanctions on eighteen Iranian individuals and groups for supporting Iran's ballistic missile programme and for supporting Iran's military procurement or Iran's Islamic Revolutionary Guard Corps (IRGC), as well as an Iran-based transnational criminal organisation and associated persons. The sanctions freeze these individuals and groups' assets and prohibit Americans from transacting business with them.

DEVELOPMENTS IN KEY ECONOMIC SECTORS

OIL AND GAS

Total and CNPC sign contract for South Pars gas project

The signing in Tehran on 3 July 2017 marks the first foreign oil and gas contract signed in Iran since economic sanctions were lifted in 2016 and the first under the new Iranian Petroleum Contract (IPC) regime that is stated to bring Iran back into the international oil and gas market. The deal will see Total take a 50.1% interest, CNPC a 30% interest, and Iran's Petropars taking the remainder. The project will have a production capacity of 2 billion cubic feet per day or 400,000 barrels of oil equivalent per day including condensate. Herbert Smith Freehills was delighted to have advised CNPC on its investment in this project.

Iran signs agreement with Gazprom to develop Farzad B gas field

Iran has reportedly signed an initial agreement with Russia's Gazprom in relation to the development of the Farzad B gas field in Iran. The agreement was signed against a backdrop of growing tensions between India and Iran. The gas field was discovered by a consortium of Indian firms led by ONGC Videsh Ltd. in 2008. ONGC Videsh Ltd., the overseas arm of India's biggest oil and gas explorer, recently submitted a revised plan to the Iranian government for its US\$3 billion development proposal for the Farzad B gas field. According to reports, Iran was dissatisfied with the pricing of the proposal and stalled its approval. The Indian authorities were frustrated by this delay and announced that Indian state refiners would cut oil imports from Iran by a fifth in 2017-18. Iran has retaliated by reducing the 90-day credit period given to major Indian oil companies, including Indian Oil Corporation and Mangalore Refinery and Petrochemicals Ltd, to 60 days. The signing of the initial pact with Gazprom to develop Farzad B could be viewed as further reaction by Iran to these growing tensions. However, it should be noted that the agreement signed with Gazprom is not binding which leaves the door open for ONGC Videsh Ltd to submit an improved offer to the Iranian authorities. Farzad B is one of the largest gas fields in the world with estimated recoverable reserves of 12.5 trillion cubic feet.

Iran raises oil exports to the West

Iran's oil exports to the West increased in May, to reach reportedly their highest level since sanctions on Iran were eased in early 2016 under the Joint Comprehensive Plan of Action. Iran exported around 1.1 million bpd to Europe (including Turkey) in May. This figure was only slightly below the 1.2 million bpd supplied to Asia over the same period. The export figures to Asia were at their lowest since February 2016. This was as a result of South Korea and Japan increasing their oil condensate purchases, which reduced their demand for oil, and India's decision to cut annual oil imports from Iran by a fifth for the fiscal year to March 2018. Iran's total May oil production was reportedly around 3.8 million bpd.

Iran increases exports of light crude oil from its largest oil terminal

Iran exported 240 million barrels of light crude oil to Europe and Asia from Kharg oil terminal last year. This represented an 87% increase in exports against the previous year. Kharg oil terminal accounts for the highest proportion of oil exports from Iran. Iran has recently increased the capacity of the terminal to eight million barrels per day, which is three times the current daily level of Iranian crude and condensate exports.

Iran commences gas exports to Iraq

Following several years of delays, Iran has begun to export gas to Iraq, according to the state-run Islamic Republic News Agency. Iran signed a deal to supply gas to Iraqi power stations in 2013, but security issues had held back the implementation of the agreement. The gas exports have started at approximately seven million cubic meters per day and are expected to eventually reach up to 35 million cubic meters per day.

MINING

Iran increases mining exports

Iran exported 7.683 million tons of mining and mineral products with a value of \$1.02 billion between 21 March and 21 May of this year. This represented an increase of 117% in terms of value, when compared to the same period last year.

Iranian iron ore production rises

Iranian mining companies produced 6,053,900 tons of iron ore concentrate between 20 March and 21 May 2017. This represented a 43% increase in production when compared to the 4,225,579 tons produced in the corresponding period last year. Gol-e-Gohar Company ranked first with production of 2,140,000 tons, whilst second and third places went to Chadormalu and Central Iron Ore companies, with production of 1,650,000 tons and 718,000 tons respectively.

AVIATION

Iran Airtour agrees to purchase 45 Airbus aircraft

Iran Airtour has signed a memorandum of understanding with Airbus to acquire 45 Airbus A320neos jets. The deal was reportedly valued at \$4.5 billion and is contingent upon all necessary approvals, including from the U.S Treasury's Office of Foreign Assets Control.

Aseman Airlines completes deal to acquire 30 Boeing jets

Iran's Aseman Airlines has signed a final contract with Boeing, to buy 30 737 MAX jets with an option to purchase a further 30 planes following the delivery of the initial order. The 30 737 MAX jets have a catalogue value of \$3 billion. The deal was the first transaction completed between Iran and the American plane manufacturer since President Trump took office.

Iran's Zagros Airlines signs MOU to buy 28 Airbus planes

Zagros Airlines has signed a memorandum of understanding with Airbus to purchase 20 Airbus A320neo jets and eight A330neo jets. The deal is contingent upon all necessary approvals, including from the U.S Treasury's Office of Foreign Assets Control.

OTHER

Germany to reopen Euler Hermes export guarantees for trade with Iran

Germany's economy ministry has announced that it will reopen Euler Hermes export guarantees for trade with Iran. The Euler Hermes guarantees are a German government arrangement that protects German companies when foreign debtors fail to repay their loans. The German economy ministry stated that Iran had settled outstanding debts owed from previous guarantees under the scheme.

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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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