

KEY DEVELOPMENTS IN IRAN, JUNE 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 DEVELOPMENTS

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

Iran takes dispute over USD 2 billion US Supreme Court judgment to the International Court of Justice

Iran has filed a claim with the International Court of Justice in relation to the US Supreme Court's judgment stating that USD 2 billion of Iran's frozen assets should be transferred to the American victims of terror attacks. Iran claims that the judgment violates the international law of state immunity. The United Nations had previously declared that it would be willing to actively assist in resolving the dispute between the nations.

US Office of Foreign Assets Control ("OFAC") guidance on permitted transactions in Iran

OFAC released additional guidance on permitted transactions between US and Iranian entities on 8 June 2016 (the "OFAC Guidance"). The document takes a 'frequently asked questions' format and appears to be part of the US Treasury department's ongoing efforts to encourage investment into Iran in the wake of the implementation of the JCPOA. Please see the OFAC Guidance in full at the link [here](#).

Among other things, the OFAC Guidance explicitly emphasises that non-U.S. companies, including those controlled by U.S. companies, may adopt a general recusal policy to ensure that any US persons acting as officers, directors or employees of the company are not engaged in Iran-associated business. Non-US companies which comply with the OFAC Guidance can, under US law, participate in a wide variety of business activities involving Iran, but it will be necessary to ensure that US persons are not involved, directly or indirectly, in such dealings. The OFAC Guidance also contains certain clarifications on the scope of the Iran General Licence, which may be granted by the US government to authorise foreign entities owned or controlled by US persons to engage in Iran-related activities. For more detail on the OFAC Guidance please see our e-bulletin [here](#).

Canadian court's USD 13 million terrorist compensation judgment

A recent judgment by the Ontario Superior Court of Justice declared that Iranian assets should be frozen and USD 13 million should be transferred to the victims of terrorist attacks. Iran's foreign ministry spokesperson, Jaber Ansari, has been quoted stating:

"Any normalisation of diplomatic relations between the two countries requires a revision of the extremist and erroneous policies of the Canadian government."

DEVELOPMENTS IN KEY ECONOMIC SECTORS

OIL & GAS

Iran's oil output has reportedly now reached over 3.8 million bpd, over double the level prior to the implementation of the Joint Comprehensive Plan of Action ("**JCPOA**") on 16 January 2016. The recovery of Iran's oil industry is exceeding most expectations and a number of significant developments emerged this month.

Shell re-enter the Iranian crude oil market

The National Iranian Oil Company ("**NIOC**") announced that Shell has arranged for 953,000 barrels of Iranian crude oil to be loaded onto one of their vessels at Kharg Island. This represents the first purchase of Iranian crude oil by Shell since before the implementation of sanctions and comes in the same month that NIOC announced new agreements with a number of other European oil companies, including:

- **Saras** and **Iplom** from Italy;
- Spanish company **Repsol**; and
- **Hellenic Petroleum** from Greece.

NIOC also announced that it expects **British Petroleum** to open its new office in Tehran in the coming months.

The National Iranian Oil Refining and Distribution Company ("NIORDC") announce long-term strategy

Abbas Kazemi, managing director of NIORDC, announced this month that Iran is planning to increase its refining capacity by around 70% in the next four years and will reduce imports of gasoline as a result. The refinery upgrades will require around USD 14 billion of investment and talks are reported to be in progress with a number of companies, including:

- **Japanese trading house Mitsui and engineering company Chiyoda Corporation** – it was announced this month that the two companies are in the process of conducting a joint feasibility study in relation to modernising the Bandar Abbas refinery, a project reported to be worth around USD 2.8 billion.

POWER

Unit International invests USD 4.2 billion into Iranian gas power plant projects

On 1 June, the Turkish energy company Unit International agreed a deal with the Iranian Energy Ministry to build seven natural gas power plants in Iran. Each plant will be in a separate region and will have a combined output of around 6,020 MW – reportedly meeting 10% of Iran's energy needs. Construction is planned to commence in early 2017.

AVIATION

This month, Iran Air finalised its second multi-billion dollar deal since the implementation of the JCPOA as Iran's aviation industry continues to expand.

Boeing and Iran Air reach agreement

This month Boeing and Iran Air announced that, subject to US government approval, Boeing have agreed to provide around 100 commercial aircraft to the Iranian airline. Estimates for the value of the deal depend on the aircraft provided but range between USD 11 billion and USD 25 billion. The timescale of US governmental approval remains unclear.

Sikorsky in talks in relation to major helicopter exports to Iran

Sikorsky, a subsidiary of US corporation Lockheed Martin, has announced that it has had talks with numerous potential customers in Iran in relation to the sale of commercial helicopters. Sikorsky is said to be working through the relevant regulatory issues with the US government.

SHIPPING

Iranian companies agree preliminary deals with South Korean shipyards

This month it was reported that a number of deals had been struck between Iranian shipping companies and South Korean shipyards, including:

- **Islamic Republic of Iran Shipping Lines** signing a deal with Hyundai Mipo Shipyard, a subsidiary of **Hyundai Heavy Industries Group**, for the construction of up to 10 tankers and 6 bulk-carriers with a combined value of over USD 400 million; and
- **Iranian Offshore Oil Company** making a preliminary agreement with **Daewoo Shipbuilding and Marine Engineering** for the construction of five rigs worth around USD 205 million each.

The deals all remain subject to securing the necessary finance but are reported to be worth around USD 2.4 billion in total.

Iranian imports from the Russian port of Astrakhan fall 16% at the start of 2016

It was reported this month that the value of goods being shipped from the Caspian Sea port of Astrakhan to Iran over the first 4 months of 2016, fell by around 16% by comparison with the first four months of 2015, causing significant losses for shipping companies and traders in timber and grain products in the region.

BANKING

This month, there were a number of significant developments in Iran's banking industry, as the market awaits the impact of OFAC's new guidance (see above).

New financial centre to be established on Qeshm island

The Qeshm Investment and Development Co. announced that the planned financial centre will serve as a gateway for overseas banks to gain access to the Iranian market onshore. This should ease the burden on domestic Iranian banks that have been under significant pressure to support the large number of investors into Iran since the implementation of the JCPOA, with international financing largely unavailable. Talks with Chinese, Russian and Japanese banks are said to be underway, although which specific entities may be involved has not yet been reported.

Central Bank of Turkey

The Bank has announced that it will conduct banking transactions with Iran in the local currency.

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.

Korea

Further details have emerged of some of the major memoranda of understanding and co-operation agreements concluded between the South Korean delegation and their Iranian counterparts during the former's visit to Tehran in May, including:

- **Woori Bank** signing a co-operation agreement with **Pasargad Bank**;
- Iran's **Refah Chain Stores Company** signing a co-operation agreement with the **Korean Agro-fisheries and Food Trade Corporation** with a view to increasing trade in both directions;
- an agreement easing regulations on the importation of Korean cosmetics into Iran; and
- Korea's Trade Insurance Corporation, **K-Sure**, signed a memorandum of understanding with the **Export Guarantee Fund of Iran** agreeing for the Korean side to extend a USD 5 billion line of credit to the Iranian government.

India

At the end of May the Indian Prime Minister, Narendra Modi, visited Tehran and signed 12 agreements with various Iranian entities. The most prominent deal reported thus far involved the Indian government immediately investing USD 500 million into the Chabahar free trade zone, alongside commitments to invest as much as USD 20 billion in the infrastructure in and around the port over the next few years.

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