IRAN: THE POTENTIAL FOR INCREASED PROSPERITY

PART II:

Further to Part I, which introduced the Joint Comprehensive Plan of Action (JCPOA), this blog introduces the pros and cons of the new sanctions regime, and also comments on the need for financial institutions to back potential investors.

Although the JCPOA is intended to pave the way for greater foreign investment in Iran, and many western governments have since encouraged the opportunities, a good deal of trade with Iran remains proscribed, and the complexity of the sanctions rules mean that anyone considering an investment will have to exercise a very considerable amount of care.

EU sanctions relating to oil and gas, banking and shipping have been almost entirely lifted.

Iranian banks will now be allowed to establish themselves throughout the EU. Most significantly, the JCPOA also marks the end of an EU Oil Embargo, which is expected to raise Iranian crude oil exports to half a million barrels a day. This is in turn, putting further downward pressure on international crude prices.

However, the EU will continue to restrict transactions relating to military goods. All member states will be forbidden from investing in any Iranian entities involved in the manufacture of military goods, and any technical or financial services which are implicated in military organisation or trading activities will also remain barred.

The number of Iranian entities and individuals on the US' list of Specially Designated Nationals (SDN) has been reduced. Whereas the US previously forbid US and non US persons from participating in transactions with over 400 blacklisted individuals and entities, this figure is now around 200.

The *Office of Foreign Assets Control* (OFAC) has also introduced a regime under which firms will be able to apply for a license to export aircraft for civil aviation, and provisions are being made to allow for the import of Iranian carpets and foods into the US. However, despite these supposedly improving links, US firms will continue to be banned from entering into a Partnership with Iranian companies or setting up physically in Iran.

Where trade is permitted, western banks are likely to remain somewhat reluctant to support investors for the present. Financial Institutions such as HSBC have previously paid multi billion dollar fines arising out of their dealings in various difficult markets; last year BNP Paribas was subject to a penalty from the US totalling nearly $9billion. These fines are no doubt living long in the collective memory of

International Banking Institutions, even with a new regime calling the shots in Tehran. To date, Chinese and Indian banks have proved more eager to move into Iran than their Western counterparts.

It would now appear those interested in Investing in Iran have to not only ensure that their line of business is permitted, but also that their bank is willing to support corresponding transactions, whether these be in Western currency or otherwise. This two pronged test can only be satisfied after careful consideration of the sanctions clauses agreed.

Above all, the key will be to build strong relationships, to understand your client and the origins of any business opportunity, and to trace investment or purchase funding to a proven, reliable and recognised source.

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