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The lifting of sanctions against Iran and the implications for shipping companies

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*Chemical & Product
Tanker Conference*

Agenda

1. About Iran
2. Implementation Day
3. EU Position
4. US position
5. Energy & Petrochemicals
6. Financial & Banking system
7. Insurance & Reinsurance
8. Shipping, Shipbuilding and Ports
9. Snap back provisions

A few interesting facts about Iran...



- Iran is the second largest economy in the Middle East, after Saudi Arabia, with an estimated nominal GDP of \$397bn in 2015.
- It has the second largest population in the Middle East, after Egypt, with around 80 million people.
- Over 60% are estimated to be under 30 years old and the workforce is highly educated.
- EU trade with Iran currently stands at around \$8bn and is expected to quadruple in the next 2 years.
- Iran has the second largest gas reserves and fourth largest oil reserves globally. It has highlighted its desire to increase oil output to 1bn barrels per year in 2016.
- Iran has proven oil reserves of 158bn barrels, equivalent to more than 150 years of production at the rate of extraction recorded in 2014. Petrochemical production is the second-largest industrial sector after oil and gas.
- Iran shares the world's largest gas asset with Qatar and has the potential to become a leading LNG exporter, subject to accessing the right technology.



Key challenges to do business in Iran

- Risk of bribery and corruption - Iran scores high on the Corruption Perception Index 2015, scoring 27 out of 100, ranking them 130 out of 168 countries.
- Many Iranian companies are influenced, directly or indirectly, by the Iranian security services.
- Price control, inflation and subsidies are moderate factors that reduce the private sector's growing pace.
- Iran ranks low on the World Bank "Ease of Doing Business Report", which ranked the country in 118th place in 2015-2016.
- Risk of bureaucratic delays.
- Lack of infrastructure.

Implementation Day declared on 16th January 2016

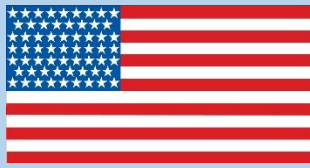
Implementation Day marks the day on which *Yukiya Amano*, the General Director of The International Atomic Energy Agency (IAEA), verified that Iran had implemented its nuclear-related commitments, as described in sections 15.1-15.11 of Annex V of the JCPOA.

Following the IAEA's verification report that the Iran had met its commitments, the European Union and U.S. took all the necessary actions to lift sanctions as set out in sections 16 and 17 of Annex V of the JCPOA.



EU position

- EU restrictions on Financial and Banking activities, Insurance services, Petroleum and Shipping activities, to and from Iran, have now been removed as part of the sanctions relief triggered on Implementation Day.
- A number of Iranian individuals and entities, including a number of Iranian banks, have been delisted though others still remain listed and their assets remain frozen.
- This now allows financial transactions to go ahead with Iran, provided that no listed entities or individuals are involved.
- Note that a number of Iranian banks remain listed for the purposes of International sanctions.

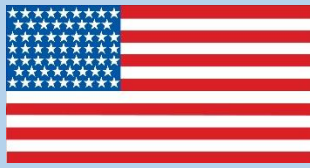


U.S. position

Primary U.S. sanctions

Regardless of Implementation Day, Primary U.S. sanctions remain in place:

- U.S. persons and entities continue to be broadly prohibited from engaging in transactions or dealings with Iran, the Iranian Government and Iranian financial institutions, with the limited exception of transactions that are exempt from regulation or authorized by OFAC.
- In addition, non-U.S. persons continue to be prohibited from knowingly engaging in conduct that: seeks to evade U.S. restrictions on transactions or dealings with Iran; or that causes the export of goods or services from the United States to Iran.

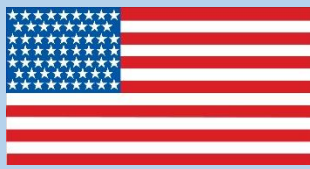


Secondary U.S. Sanctions

Secondary sanctions are generally directed toward non-U.S. persons for specific conduct involving Iran that occurs entirely outside U.S. jurisdiction.

The U.S. lifted the nuclear-related 'secondary sanctions' described in sections 4.1-4.7 of Annex II and 17.1-17.2 of Annex V of the JCPOA by:

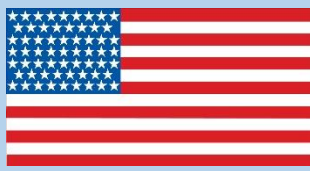
1. Issuing waivers of certain statutory sanctions provisions;
2. Committing to refrain from exercising certain discretionary sanctions;
3. Removing certain individuals and entities from OFAC's sanctions list; and
4. Revoking certain Executive orders and specified sections of an Executive order.



“Non-U.S. person”

“is any individual or entity excluding any United States citizen, permanent resident alien, entity organized under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States.

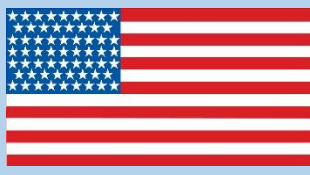
However, an entity that is owned or controlled by a United States person and established or maintained outside the United States (a “U.S.-owned or -controlled foreign entity”) is eligible to participate in transactions or activities subject to the sanctions lifting under the JCPOA only to the extent the U.S.-owned or -controlled foreign entity is authorized by OFAC to engage in such transactions or activities, including pursuant to General License H.”



U.S. delisted over 400 individuals and entities from:

- 1) OFAC's List of Specially Designated Nationals and Blocked Persons (SDN List);
- 2) The Foreign Sanctions Evaders List (FSE List); and
- 3) The Non-SDN Iran Sanctions Act List (NS-ISA List),
pursuant to sections 4.8.1 of Annex II and 17.3 of Annex V of the JCPOA.

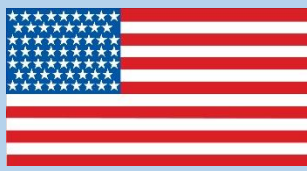
The names of those individuals and entities are set out in Attachment 3 to Annex II of the JCPOA.



Non-U.S. persons will no longer be subject to sanctions for conducting transactions with any one of more than 400 individuals and entities, including the Central Bank of Iran (CBI) and the specified Iranian financial institutions.

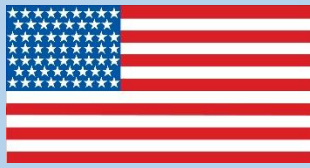
However

Secondary sanctions continue to apply to non-U.S. persons for conducting transactions with any one of more than 200 Iranian or Iran-related individuals and entities who remain, or are placed, on the SDN List, notwithstanding the lifting of secondary sanctions.



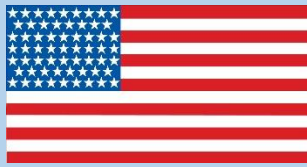
The Energy and Petrochemicals sector

- The U.S. is no longer pursuing efforts to reduce Iran's sales of crude oil under the National Defense Authorization Act for Fiscal Year 2012 (NDAA);
- The restriction on the use of the proceeds of sales of Iranian petroleum and petroleum products for bilateral trade with Iran, which previously applied to the 20 jurisdictions with a so-called "significant reduction exception" under the NDAA, no longer apply. (sections 4.3 of Annex II and 17.1 of Annex V of the JCPOA);
- Secondary sanctions do not apply to non-U.S. persons that purchase, acquire, sell, transport, or market Iranian crude oil, provided the transactions do not involve persons on the SDN List;
- Non-U.S. persons are no longer subject to sanctions for investing in Iran's oil, gas, or petrochemicals, including through participation in joint ventures, provided that transactions do not involve persons on the SDN List; and
- Transactions related to the above-mentioned activities are prohibited from transiting the U.S. financial system.



In addition

- Non-U.S. persons may now provide goods and services or technology for Iran's energy sector and its development of petroleum resources, including the domestic production of refined petroleum products and petrochemical products, or associated services.
- The U.S. lifted the secondary sanctions on the purchase, acquisition, sale, transport, or marketing of petroleum, petroleum products (including refined petroleum products), petrochemical products, and natural gas (including liquefied natural gas) from Iran, and the provision of associated services.
- The U.S. also lifted secondary sanctions on the export, sale and provision of refined petroleum products and petrochemical products to Iran.
- As a result, non-U.S. persons are no longer subject to sanctions, or the concomitant penalties, for engaging in these activities, provided that transactions do not involve persons on the SDN List.

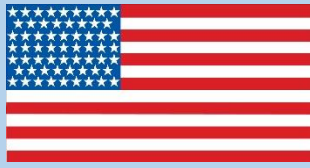


The Financial and Banking sector

Non-U.S. persons, including foreign financial institutions, can engage in financial and banking transactions with the CBI or other financial institutions from Implementation Day without exposure to sanctions.

U.S. persons, however, continue to be broadly prohibited from engaging in transactions or dealings with the Government of Iran and Iranian financial institutions, including the CBI, with the exception of transactions that are exempt from regulation or authorized by OFAC.

Note that foreign financial institutions need to continue to ensure they do not clear U.S. dollar-denominated transactions involving Iran through U.S. financial institutions.



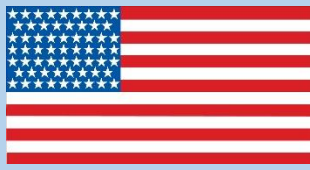
Due Diligence

All U.S. financial institutions will continue to investigate all Iran-related transactions for the purposes of overall sanctions compliance.

The U.S. Treasury expects that U.S. financial institutions will continue to implement a risk-based compliance programme that tailors internal policies, procedures, and processes to appropriately mitigate their sanctions exposure.

For all OFAC sanctions programmes – including the Iran sanctions programme – a financial institution should ensure that it has the appropriate procedures in place to identify, report and interdict transactions that are in violation of sanctions regulations.

OFAC continues to provide industry-specific guidance on compliance policies and procedures on its website, and specific questions relating to Iran-related transactions can be directed to the OFAC Hotline at 1-800-540-6322 or 202-622-2490.

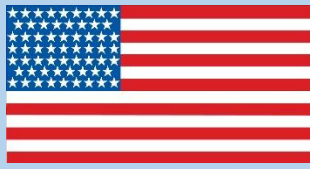


Insurance & Reinsurance

The provision of underwriting services, insurance, or reinsurance by non-U.S. persons for activity that is consistent with the JCPOA is no longer 'sanctionable', as of Implementation Day, provided that the transactions do not involve persons on the SDN List.

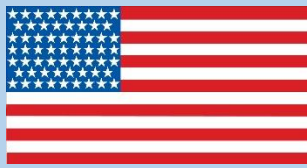
OFAC will not impose penalties on a non-U.S. person for payment of an insurance, or reinsurance claim, arising from an incident that occurred prior to Implementation Day, provided that the underlying activity would not be 'sanctionable' at the time of the payment and the transaction does not involve persons on the SDN List.

To the extent that a claim payment involves a U.S. person, the payment remains prohibited and requires an authorization from OFAC prior to payment.



Insurance and reinsurance services provided to NITC or IRISL vessels.

- It is no longer 'sanctionable' for non-U.S. persons to provide underwriting services, insurance, or reinsurance to NITC or IRISL vessels or vessels owned by non-U.S. persons when chartered by NITC or IRISL, provided that the transactions do not involve persons on the SDN List.
- U.S. persons continue to be prohibited from providing underwriting services, insurance, or reinsurance to NITC or IRISL, including extending insurance coverage to, or paying claims involving, NITC or IRISL.



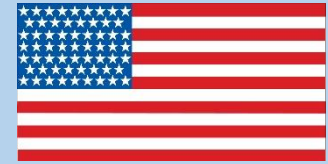
Shipping, Shipbuilding and Port sectors

The U.S. have lifted the secondary sanctions on Iran's shipping and shipbuilding sectors and port operators in Iran, including sanctions related to:

1. the sale, supply or transfer to, or from, Iran of significant goods or services used in connection with Iran's shipping and shipbuilding sectors, including port services such as bunkering, inspection, classification, and financing;
2. transactions with entities determined to be part of the shipping or shipbuilding sectors of Iran (including IRISL, South Shipping Line, and NITC), and persons determined to be Iranian port operators (including the port operator(s) of Bandar Abbas, provided that such persons are no longer controlled by a person on the SDN List); and
3. the provision of associated services for the foregoing.



The 'Snapback' Provisions



The snapback provisions are in place to ensure that Iran continues to abide by the terms of the agreement in the longer term.

It is not meant to act as a disincentive for companies looking to do business in Iran.

The snapback of sanctions will be considered only when the 'Dispute Resolution Mechanism' set up under the terms of the JCPOA has been exhausted.

This mechanism aims to resolve any disputes between the E3+3 and Iran so that the snapback of sanctions will only be considered as a last resort.

However, in the event of significant non-performance by Iran of its JCPOA commitments such that cannot be resolved through the Dispute Resolution Mechanism, the snapback of sanctions will be considered by the other JCPOA participants.

Useful sources

- Europa: http://europa.eu/index_en.htm
- U.S. Department of the Treasury: <https://www.treasury.gov/Pages/default.aspx>
- HM Treasury guidelines: <https://www.gov.uk/guidance/sanctions-on-iran>
- British-Iranian Chamber of Commerce: <http://www.bicc.org.uk/>
- UK Export Finance (UKEF): <https://www.gov.uk/government/organisations/uk-export-finance>
- Foreign and Commonwealth Office: <https://www.gov.uk/government/organisations/foreign-commonwealth-office>

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