

27 SEPTEMBER 2016

## **The Impact of Post Sanction Iran**

James Willn, Partner

### **CONTENTS**

**1. Impact on Middle East oil market**

- Consequences of the sanction lifts
- Challenges
- Identifying oil operator projects and consequential vessel demand

**2. Opportunities in the Iranian market**

- Identifying the industries: Automobile, Aviation, Gas, Mining and Metals
- Entering the market
- Restrictions on charter to hire

**3. What sanctions remain in the market?**

**4. Are Iranian waters able to absorb old tonnage?**

## Impact on Middle East Oil Market



### Consequences

- **Stocks across the Middle East tumbled** as the easing of sanctions against Iran led to additional oil supplies becoming available to a market already reeling from the lowest prices in more than a decade.
- Since the lifting of the sanctions, Iran has regained 80 percent of its market share lost during the sanction years.
- Iran exported 2.31 million bpd of oil in June 2016, which is close to its pre-sanction levels, and a 100 percent increase from December 2015, just before sanctions were lifted.
- Iran has also laid out plans to increase its crude oil supply in the future. It has set an ambitious target to export 5.8 million barrels of crude and condensates by 2021.

3

STEPHENSON  
HARWOOD

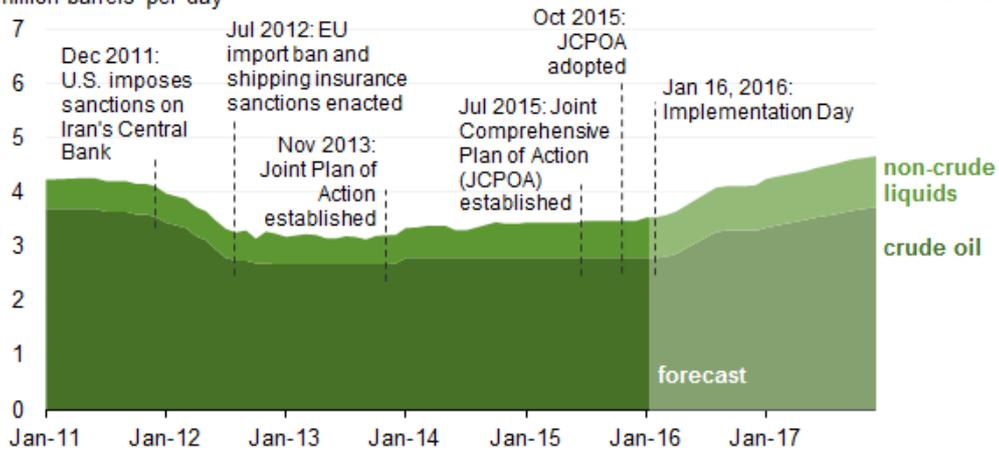
## Impact on Middle East Oil Market



### Monthly Iranian petroleum and other liquids production (2011-17)

million barrels per day

eia



4

STEPHENSON  
HARWOOD

## Impact on Middle East Oil Market



- The impact of Iran's production plan might have been even larger had it not occurred on the same day that Oman announced that it was preparing to slash its daily output of one million barrels by 5 to 10 percent.
- Whatever the eventual impact of additional Iranian barrels on the market, many energy specialists predict **low fuel prices will last for the remainder of 2016**.
- An OPEC report indicated that the group expects low global prices, which have fallen by 70 percent since 2014, to force its rival producers, like the US, to curb production enough to eventually reduce the glut that has driven prices down.

## Impact on Middle East Oil Market



### Challenges

- Iran faces continued **limits on its use of the US dollar** because of the US sanctions that remain in force. The US dollar is widely used for oil trading.
- Iran may face **competition from Saudi Arabia and other Gulf states**. Their differences have sharpened as low prices have split OPEC and tensions have increased between Saudis and Iranians over sectarian conflicts in places like Yemen and Syria.
- One big uncertainty is how **demand for oil** will fare. Slowing growth and the financial turmoil in China have been factors in falling demand.
- The US has lifted its "secondary sanctions" - the ones that apply to non-US individuals or companies, but the **US "primary sanctions"** ban US nationals and companies from engaging in business with Iran.

## Impact on Middle East Oil Market



### Oil Operator Projects

- Iran has the 4<sup>th</sup> largest oil reserve in the world and hence a potential bonanza for oil companies.
- Not only does Iran have a lot of oil, it is also **potentially cheap to exploit** and that is important given the sharp fall in oil prices since 2014.
- Indonesia's **Pertamina** has signed an MOU with National Iranian Oil Company to invest in Iran's upstream oil sector.
- Russia's biggest private oil firm **Lukoil** is considering participating in the development of two oilfields near the city of Ahvaz in Iran.
- German chemical company **BASF** is weighing an investment of \$4 billion in new petrochemical plants near Iran's petrochemical and gas industry hub in Assaluyeh, Bushehr Province.
- **Linde** is reported to be interested in investment in the Iranian petrochemical industry jointly with the Japanese Mitsui Group.

## Impact on Middle East Oil Market



- Iran has outlined plans to rebuild its main industries and trade relationships targeting oil and gas projects worth **\$185 billion by 2020**.
- Iran plans to award the development of two of its major oil fields to Chinese companies.
- Iranian Offshore Engineering and Construction Co. has reached the 32% mark in construction of a new platform for the offshore **Forouzan oil field** in the Persian Gulf.
- Even if a sanctions-free Iran means certain downward pressure on the oil price, the good news for ship owners is that an armada of ships will likely be needed for the country's ailing offshore sector leading to an **increase in vessel demand**.

## Impact on Middle East Oil Market



### IPC

- In preparation for negotiations with foreign investors, Iran is in the process of drafting a new model contract called the integrated petroleum contract (IPC).
- The IPC will require joint ventures to be set up between the National Iranian Oil Company and the IOCs.
- Under Iranian law, a minimum of 51% of the value of the works of government contracts must be carried out by Iranian entities. In compliance, the IPC requires that these local content requirements be met.
- It has been suggested, however, that the Iranian government in fact intends for 70-80% of the development stage work to be provided to Iranian entities and closer to 95% of the production phase work.

## Opportunities in the Iranian Market



### Entering the market - Shipping

- Norway's **Skuld P&I Company** and The Islamic Republic of Iran Shipping Line have signed a MoU covering personnel training, improvement of Iranian experts' knowledge and capabilities in relation to marine insurance.
- The Belgian port of **Antwerp** and the Iranian port of Bandar Abbas have signed a sister port agreement.
- According to Kazakhstan's Ministry of Investment and Development, **Kazakhstan** and Iran will sign an agreement on cooperation in maritime traffic in the Caspian Sea in the near future.

## Opportunities in the Iranian Market



### Entering the market - Mining and Metals

- **Chinese NFC** and **Power China** have indicated a willingness to study investment opportunities in the Iranian mining sector as well as in infrastructural and power plant projects.
- **Ubar Mining International LLC**, a newly established Omani company, has acquired a 70% stake in an Iranian antimony mine.
- India's state-run aluminium firm **Nalco** is considering a \$2bn investment to build a aluminium smelting plant.

11

STEPHENSON  
HARWOOD

## Opportunities in the Iranian Market



### Entering the market - Gas

- **South Pars** is the biggest gas field in the world, and a large part of it lies in Iranian waters. Iran's Pars Special Energy Economic Zone (PSEEZ) and Petropars have signed a cooperation agreement with the Italian **Interoil Srl**.
- Gas is a slightly different proposition from oil, as it's more **difficult to export**. **Oman** and Iran have agreed to change the route and design of a planned undersea natural gas pipeline to avoid UAE territorial waters.
- Norwegian oil and gas company, **Hemla Vantage** is closing in on a \$600 million contract with Kharg Petrochemical Company, a quasi-privately-owned Iranian company to produce and export liquefied natural gas and liquefied petroleum gas by 2017.
- However, German gas giant **Linde** has already expressed an interest in getting back into Iran's LNG sector.

12

STEPHENSON  
HARWOOD

## Opportunities in the Iranian Market



### Entering the market – Automobile

- Daimler Trucks has announced to restart sales and local production. Along with Iran Khodro it will produce engines and other parts. Daimler, says there is "**huge demand for commercial vehicles, especially trucks**".
- The Citroen brand of PSA France's **Peugeot Citroën is set to acquire 50% of SAIPA Kashan**, a subsidiary of Iran's second largest carmaker SAIPA. They have also signed a five-year €400 million contract with **Iran Khodro Company** to launch a joint company in Iran to produce Peugeot cars on a 50-50 joint investment basis.
- **China** and Iran are planning to set up a joint industrial town in Bam Special Economic Zone in Kerman Province, in which auto parts will be manufactured.
- German car parts maker **ZF Friedrichshafen** has opened up a subsidiary in Iran called ZF Pars SSK.

13

STEPHENSON  
HARWOOD

## Opportunities in the Iranian Market



### Entering the market - Aviation

- **Airbus has already won an order for 114 aircraft** from state carrier Iran Air. It could be the first in many new orders. One report from the Iranian press said the country could need almost 600 aircraft over the next decade.
- **Boeing**, which is one of the few US firms which will be allowed to do business with Iran has announced the signing of an agreement worth around \$20 billion with Iran Air, expressing the airline's intent to buy a total of 109 of its aircrafts.
- At the moment Tehran is the nation's hub for domestic and international flights. Analysts say that other airports at other cities will have to be upgraded, including Iran's second biggest city Mashhad in the north-east, tourist destination Shiraz in the south-west and the important industrial city of Isfahan in central Iran.

14

STEPHENSON  
HARWOOD

## Opportunities in the Iranian Market



### Financial

- According to the World Bank, Iran has gained access to as much as \$30 billion of its assets that have been unfrozen as a result of the removal of sanctions.
- South Korea is planning to launch a Euro-based payment system for companies doing business with Iran after the US government approved to the move in June.
- SACE, the Italian export credit agency has said that its cover for trading with Iran has reached €2.5 billion since the lifting of sanctions in January.
- The Central Bank of Iran officially allowed banks to start trading in the open hard currency market. Iran is about to introduce credit card services processed by global payment operator MasterCard for the first time.

15

STEPHENSON  
HARWOOD

## Opportunities in the Iranian Market



### Separate entity or local partnership

- The Government of Iran generally protects the legal rights of foreign companies to operate in Iran in the same way that it does for Iranian companies.
- As of 2008, it has been possible to register a company in mainland Iran that is 100% foreign owned. It is possible to register a foreign owned company without presenting a foreign investment licence (which was previously required).
- **Finding the right local partners.** While it is possible to set up a direct presence, using local distributors at first is strongly advised. The best way to identify new partners involves in-person due diligence. Companies are increasingly considering a "Dubai model," in which they use local partners in the UAE to connect with distributors in Iran.

16

STEPHENSON  
HARWOOD

## Opportunities in the Iranian Market



### Oil and gas partnerships

- **Oil and gas industries will be given priority** and investment in other sectors may be slow initially. The Iranian Ministry of Petroleum has already selected eight Iranian companies as potential local partners to work with IOCs interested in investing in the country's oil and gas fields.

Petropars	Dana Energy
Petrolran	MAPNA Oil and Gas Co
Khatam ul-Anbia Construction Headquarters	Industrial Development & Renovation Organization of Iran
Persian Oil and Gas Development Co	Oil Industries Engineering and Construction Co

## Opportunities in the Iranian Market



### Restrictions on Charter to Hire

- The US primary sanctions remain in place.
- Payments under charterparties cannot be in US dollars. The parties have to agree to payment being made in an alternative currency such as Euro.
- P&I Insurance cover has been significantly limited. The International Group (IG) of P&I Clubs is heavily reinsured by US reinsurers at Group GXL (General Excess Loss) and Hydra levels.
- In an attempt to address the restriction on US-reinsurers being able to offer coverage for Iranian-related activities, IG has sought to find alternative cover for this layer of exposure. It has recently succeeded in increasing the base limit for Iranian vessels or those vessels involved with Iranian trade by pooling resources from its non-US entities. As a result, it has increased the base level of cover from USD80 million to USD580 million per vessel.

## What sanctions remain in the market



### What sanctions remain on the market?

- A number of older US sanctions against Iran remain in force, including those imposed for Iran's alleged support of terrorism and human rights violations.
- Still in force is a US trade embargo preventing US entities from conducting business with Iran and which bans the import of Iranian oil into the US. It also effectively prohibits any US dollar transactions with Iran since those typically transit through US banks.
- Restrictions on exports of US upstream and downstream technology to Iran, unless granted a license will also remain in force.
- However, the US Treasury Department has said it will permit foreign subsidiaries of US companies to operate in Iran, provided there is no involvement of US citizens, technology or financing.

19

STEPHENSON  
HARWOOD

## What sanctions remain in the market



### Breach of US Primary Sanctions

1. **Civil Offence** - fine of up to **US\$250,000 per transaction** or twice the value of the transaction.
2. **Criminal Offence** - penalty of up to **US\$1 million** and **20 years imprisonment**.

20

STEPHENSON  
HARWOOD

## What sanctions remain in the market



On 16 January 2016, OFAC issued General License H "Authorizing Certain Transactions Relating to Foreign Entities Owned or Controlled by a United States Person".

Entity - **"owned or controlled"** by a U.S. person if the U.S. person:

- (1) holds a 50 percent or greater equity interest by vote or value in the entity;
- (2) holds a majority of seats on the board of directors of the entity;
- (3) otherwise controls the actions, policies or personnel decisions of the entity.

Does **NOT** include foreign branches of U.S. entities as these are considered "U.S. persons" and **do not qualify for the sanctions relief.**

**N.B. Significant difference between a Branch and a Subsidiary**

## What sanctions remain in the market



### General License H is a general license

- Foreign entities not required to apply for a specific license to transact new business with the Government of Iran or persons subject to its jurisdiction.
- Some restrictions still apply - even to U.S. Foreign Subsidiaries.
- OFAC removed more than 400 individuals/entities connections to Iran from the Specially Designated Nationals List, the Foreign Sanctions Evaders List and the Non-SDN Iranian Sanctions Act (NS-ISA) List, allowing foreign subsidiaries of U.S. entities to trade with these parties.

## Old tonnage



### Are Iranian waters able to absorb old tonnage?

- If by older tonnage we mean offshore vessels with older specifications such as DP1 and DP2, then there is scope for Iranian waters to absorb older vessels due to the fact that the Persian Gulf is relatively calm.
- The Persian Gulf waters are overall very shallow, with a maximum depth of **90 metres (295 feet)** and an average depth of **50 metres (164 feet)**.
- The Persian Gulf is home to the world's largest gas field shared between Iran and Qatar.
- Need for a lot of jack ups.

23

STEPHENSON  
HARWOOD

## Contact – Stephenson Harwood Middle East



**James Willn**

**Partner – Stephenson Harwood Middle East**

**T: +971 4 407 3922**

**M: +971 52 865 9482**

**E: [james.willn@shlegal.com](mailto:james.willn@shlegal.com)**

Legal 500 UAE Recommended lawyer for Shipping

- **Offshore Construction, Marine and Energy Partner.**
- **Advises clients on the formation of international contracts and disputes, primarily within the offshore oil, gas, construction, energy and shipbuilding industries.**
- **Has been providing advise on sanctions and company set up, to international clients looking to enter the Iranian market.**



STEPHENSON  
HARWOOD