

Last month, the International Atomic Energy Agency recently reported that Iran was not fully cooperating with nuclear site inspectors and that there was evidence of use of Iran's nuclear energy programme to develop nuclear explosive capacity for military applications. The response to this report was renewed pressure on the US, the EU and others to upgrade economic sanctions imposed on Iran. A first wave of enhanced sanctions has been implemented by the US, the UK and Canada, affecting financial transactions and business relationships with Iran.

UK Financial Restriction (Iran) Order 2011 - no deals with Iranian banks

The UK, citing recent concerns raised by the Financial Action Task Force (FATF), an inter-governmental body, about money laundering and terrorist financing risks associated with Iran, invoked the Counter-Terrorism Act to pass the Financial Restriction (Iran) Order 2011 into law as of 21 November 2011. The Order prohibits anyone in the UK financial sector from entering or continuing any transaction or business relationship with any Iranian 'credit institution' or with the Central Bank of Iran or their branches or subsidiaries. This effectively means that any involvement of Iranian banks in a transaction will mean that UK banks and other financial institutions cannot be involved. Traders will have to arrange payment outside the channels involving Iranian banks and licenses from Treasury giving exemptions are likely to be limited to ongoing transactions until their completion.

Attack on the UK embassy

Following this exceptionally strong financial sanctions step a mob severely damaged the UK Embassy and official UK residences in Tehran. The UK then withdrew its diplomatic staff and ordered Iranian diplomatic staff out of the UK. Other governments, in the EU and elsewhere, protested to Iran in sympathy with the UK. This further increased the international pressure to enhance the sanctions regime against Iran.

Expanded EU asset freeze list

On 1 December 2011 the EU responded to the deterioration of relations with Iran by passing a further Implementing Regulation expanding the EU-Iran sanctions Regulation 961/2010. The expanded measure adds substantially to the list of persons and entities whose 'funds and economic resources' are frozen. The 1 December list added 180 names to the existing list, including both individuals and entities. The new entities include a number of trading and shipping companies, especially those connected to the Islamic Republic of Iran Shipping Lines (IRISL), as well as energy and resource companies and a few others, including Yas Air, which was formerly sanctioned under the name of IRGC Pars Aviation Service Company.

More EU sanctions expected for finance, transport and energy sectors

It is expected that there will be further sanctions announced at the next Foreign Affairs Council, currently scheduled for the end of January 2012. The Council expressly stated that they would

examine further measures 'in close coordination with international partners'. The anticipated further measures will be, according to the Council's draft meeting minutes, 'aimed at severely affecting the Iranian financial system' and they will also cover the transport and energy sectors. There is resistance from Greece and other EU states to further measures affecting imports of oil from Iran on the grounds of the potentially damaging impact on the EU economy of cutting off an important source of oil. Nevertheless, France, the UK and Germany are pressing for such an extension.

The US is also putting pressure on governments, such as the UAE, active in regional trade with Iran to take action against Iranian financial institutions. Despite reservations expressed by China and Russia the likely result of all of this pressure on Iran will be expanded sanctions in the EU, the US and other western countries such as Canada. The US is also looking at ways of expanding its already extensive sanctions on Iran. While there is profound uncertainty over the effectiveness of the sanctions in leading to any re-appraisal of Iran's nuclear programme and even concerns that further sanctions on Iranian oil may actually drive up oil prices and be a financial boon for Tehran, the sanctions are having a significant impact on companies wishing to do business in Iran.

This article was prepared by London specialists Bird and Bird, but doesn't constitute legal advice!!