

Implementation of Temporary Iran Sanctions Relief

Last November, the group of nations known as the P5+1 (United States, U.K., Germany, France, Russia and China) reached an initial understanding with Iran whereby Iran agreed to accept limits on its nuclear program in exchange for limited relief from economic sanctions. The initial agreement was intended to last six months, during which time the parties would seek to negotiate a comprehensive agreement.

Recently, U.S. Secretary of State John Kerry announced that technical details of a Joint Plan of Action (JPOA) had been agreed upon and that implementation of the agreement would begin January 20, 2014 and run through July 20, 2014. As an initial step, on January 20, Iran began reducing its stockpile of highly enriched uranium (i.e., uranium enriched to 20 percent or higher and of sufficient quality to fabricate a bomb). In return, Iran will begin receiving approximately \$4.2 billion from previously frozen oil revenues, payable in installments over the six-month period. Iran will also receive limited relief from sanctions imposed by the U.S. and European Union. Should Iran renege on its agreement to suspend its nuclear program, the limited sanctions relief could be immediately revoked. If the parties fail to reach a more comprehensive deal by the end of the six-month period, absent an extension of the JPOA, the sanctions relief will terminate.

Also on January 20, the U.S. Departments of State and Treasury issued joint guidance on temporary sanctions relief to be provided under the JPOA with Iran. The guidance is highly technical and must be read in conjunction with various statutes and executive orders that form the foundation for U.S. sanctions against Iran. **With limited exceptions, notably for certain activities relating to Iran's civil aviation sector, none of the relief from sanctions applies to U.S. persons or entities, or foreign entities owned or controlled by U.S. persons or entities.**

The sanctions relief is available only for transactions that are initiated and completed within the six-month period. All U.S. sanctions not explicitly waived or suspended remain in force, including those on transactions with Specially Designated Nationals (unless specified otherwise) and sanctions implemented under other programs, such as those relating to counter-terrorism or the non-proliferation of weapons of mass destruction.

Key provisions relating to U.S. sanctions relief include the following:

1. **Suspension of sanctions on petrochemical exports from Iran.** The United States will not impose sanctions on non-U.S. companies and financial institutions engaged in transactions relating to the purchase and export of Iranian petrochemical products. This includes non-U.S. entities that provide services needed to facilitate petrochemical exports such as insurance, transportation and financial services.

The transactions may not involve persons on the SDN list other than 14 specific Iranian petrochemical companies listed in the guidance and Iranian depository institutions that were placed on the SDN list solely pursuant to Executive Order 13599.¹ Moreover, the only transactions permitted are the purchase and export of petrochemical products. Other transactions with these entities, such as the provision of goods to one of the listed petrochemical companies, are still prohibited.

2. **Suspension of sanctions on sales to Iran's auto industry.** The United States will not impose sanctions on non-U.S. companies and financial institutions that sell, supply or transfer to Iran goods or services used in connection with Iran's automotive sector, including non-U.S. entities that provide associated services such as insurance, transportation and financial services. Sanctions relief does not extend to any entity on the SDN list other than the



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depository institutions described above (i.e., those listed solely pursuant to EO 13599).

3. **Suspension of sanctions on gold and precious metals.** The United States will not impose sanctions on non-U.S. companies and financial institutions engaged in the sale of gold and certain precious metals to or from Iran. Transactions with persons or entities on the SDN list remain prohibited, with the exception of Iranian depository institutions and instrumentalities of the government of Iran listed solely pursuant to EO 13599. In addition, however, restricted funds may not be used for the purchase of gold or precious metals. These are defined in the guidance as “(i) any existing and future revenues from the sale of Iranian petroleum or petroleum products, and (ii) any Central Bank of Iran (CBI) funds, with certain exceptions for non-petroleum CBI funds held at a foreign country’s central bank.”
4. **Temporary licensing of goods and services related to civil aviation in Iran.** Pursuant to a Statement of Licensing Policy issued by the Office of Foreign Assets Control (OFAC), U.S. persons, U.S.-owned or controlled foreign entities, and non-U.S. persons exporting U.S. origin goods can request authorization from OFAC to engage in transactions relating to the safe operation of Iranian passenger aircraft. Such transactions can include the supply and installation of spare parts in Iran or a third country, and associated services, such as safety of flight inspections, repairs, and the provision of aircraft servicing in Iran or a third country. Transactions cannot involve entities on the SDN list other than Iran Air or Iranian depository institutions listed solely pursuant to EO 13599.
5. **Suspension of sanctions relating to Iranian crude oil exports.** Under the JPOA, the United States will not seek further reductions to Iranian crude oil exports. Accordingly, China, India, Japan, the Republic of Korea, Taiwan and Turkey will be allowed to import crude oil from Iran at their current average levels. Non-U.S. entities and financial institutions that facilitate existing exports to the listed countries, including through transactions involving the National Iranian Oil Company (NIOC) and the National Iranian Tanker Company (NITC), will not be subject to sanctions, provided the transactions do not involve persons on the SDN list other than NIOC, NITC or depository institutions listed solely pursuant to EO 13599.

The export of crude oil to countries other than those listed remains sanctionable. All sanctions applicable to NIOC and NITC, other than for transactions involving crude oil exports to the listed countries, remain in effect.

While the implementation of the JPOA may be cause for optimism, entities wishing to take advantage of the sanctions relief in order to transact business with Iran must exercise considerable caution. Aside from the fact that all of the transactions outlined above must be initiated and completed within the six-month effective period of the JPOA, the complexities of the various provisions suggest that each anticipated transaction should be scrutinized on a case-by-case basis to ensure that they involve only authorized activities and entities. Moreover, it should be noted that the relief specified in the JPOA could be immediately revoked should Iran renege on its obligations under the agreement.

Also of note, many in the U.S. Congress remain skeptical of Iran’s intentions and members of both political parties have expressed concerns that the Iranian concessions are not sufficient to warrant sanctions relief. In December 2013, the Nuclear Weapons Free Iran Act (S. 1881) was introduced in the U.S. Senate and currently has the support of 59 Senators. The bill calls for increased pressure on Iranian oil exports and additional sanctions on Iran’s shipbuilding, construction, engineering and mining industries. Iran has said that any new sanctions would scuttle the JPOA and thus, likewise result in the revocation of sanctions relief.

Should you have any questions regarding U.S. sanctions against Iran or any other U.S. sanctions program, please do not hesitate to contact a member of Cozen O’Connor’s Transportation & Logistics Department.

¹ A “depository institution” is one primarily engaged in the business of banking. EO 13599 blocked the property of the Central Bank of Iran and all Iranian banks and other financial institutions. These are typically identified on the SDN list by use of the [IRAN] tag. Transactions involving depository institutions sanctioned under other programs or executive orders, such as non-proliferation sanctions [NPWMD], global terrorism sanctions [SDGT], those targeting Iran’s Revolutionary Guard Corps [IRGC], etc., are still prohibited and subject to sanctions. Transactions with other entities on the SDN list, such as the Islamic Republic of Iran

Shipping Lines (IRISL) and Tidewater Middle East Company, are still prohibited even if those transactions relate to petrochemical exports.

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