

Investors get ready – but beware of legalities and Iranian compliance

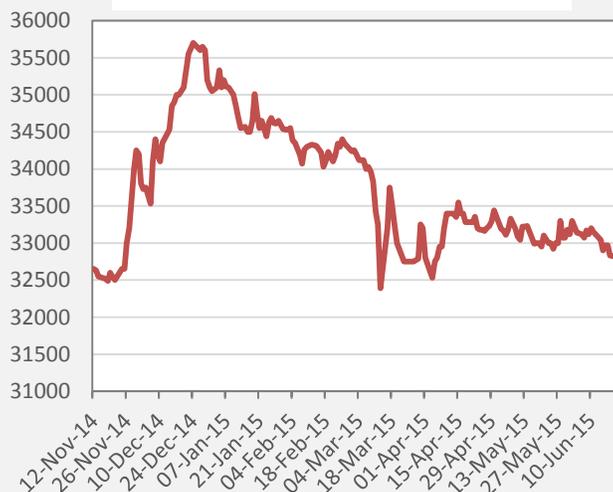
Investors get ready – but beware of legalities and Iranian compliance

As the day draws to a close in Lausanne, all parties will acknowledge the passing of the self-imposed 30th June deadline for an international settlement on Iran's nuclear programme. Nevertheless, the weight of momentum and political will behind the process means an historic deal is likely to be reached in the coming days. This deal has the power to transform Iran's economic trajectory and instigate one of the world's most enticing economic revivals. **But we are not there yet.** Investors should beware that even after a deal is signed, multiple obstacles and risks remain. Investors should be ready to engage, but keep a very close eye on the legalities and the compliance of Iranian authorities.

The economic value of a deal for Iran cannot be overstated. It constitutes the re-immersion of a major economy into the global financial system and trading economy. The deal means renewed access to \$100bn-\$150bn of overseas foreign exchange holdings and the prospect of doubling crude oil export revenues. It means opening a gateway to western technology and capital investment to reboot Iran's crucial failing sectors. Economic optimists see this as a potential watershed moment, a vote of confidence for the moderate voice in Iran's diverse political spectrum that promises a growth-oriented economic policy, the privatisation of industry, openness and the dilution of vested interests. It offers hope to the talented youth pouring out of Iranian universities in their millions each year, and the working class poor who have seen their own aspirations worn away by the past few years. With a comprehensive deal, Iran could be on the brink of a post-sanctions era that is more prosperous and vibrant than ever before experienced in the Islamic Republic

It is fashionable in official circles to acknowledge but downplay the role sanctions removal would play in an Iranian economic recovery – Verity-Iran's view is quite the opposite. The speaker of the Iranian Parliament, Ali Larijani, said this month that sanctions were responsible for 20-30% of the country's economic problems. Indeed, he is right to identify multiple root causes of Iran's economic malaise, but the significance of a nuclear deal to the future is much greater. The potential impact on business confidence, consumption, financial stability, trade and investment would permeate every corner of the economy. In the energy sector, as well as bringing the technical expertise to unlock value from Iran's antiquated production facilities, sanctions relief may unlock

Fig 1. Iranian rial: USD exchange rate (market rate)



large-scale production from Iran's vast gas fields. In the aviation sector, the liberation of financing channels will instigate an overhaul of the national aviation fleet and supporting infrastructure, generating jobs and multiplier effects in the hospitality sector and wider economy. In the automotive sector, factories will exploit large spare capacities. In the retail and wholesale sectors, there will be a consumption boom. These impacts will not occur overnight, but the medium to long-term trajectory under a deal promises to be dramatically different from the alternative.

However, investors should beware that the deal is not yet done and sanctions lift is still some way distant.

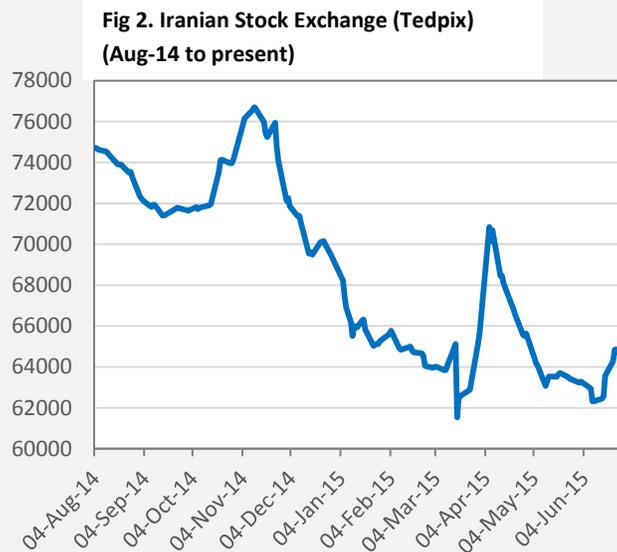
The deal that we expect to be inked in the coming days is the start of a potentially lengthy legal process of sanctions removal. First of all, the negotiators must still emerge from the room having bridged the remaining divides over the nature of sanctions relief, monitoring mechanisms, the reduction of uranium stocks and access to military sites. Some highly complex compromises are to be made in order to sell the deal to conservatives back in Tehran and Washington.

Assuming those issues are resolved and the promises adhered to, only then does the work of untangling a complex web of multinational sanctions begin. According to the 8th April framework agreement, a comprehensive deal should involve i) terminating UN sanctions, ii) terminating the implementation of EU sanctions and iii) ceasing the application of US sanctions. Most analysts consider UN and EU sanctions the easiest to remove (as well as the most difficult to "snap-back" into place once they're gone). The US sanctions however, are coded in US law meaning only an act of Congress can remove them. Instead, President Obama is likely to deliver sanctions relief by issuing multiple waivers to the legislation, each of which will probably have to be renewed on an annual basis until the law is changed. It is also worth noting that April's framework agreement only relates to a repeal of the nuclear related sanctions, others relating to terrorism and human rights will most likely remain in place. So the landscape is far from straight-forward.

Even in the best case scenario, sanctions-lift will take months to be felt. The US Congress has been given 30 days to review any deal struck by the US administration and to vote in opposition or in favour of the deal. If the deadline slips beyond 10th July, that period extends to 60 days. The US will not be able to deliver any sanctions relief (via waiver) in the meantime. If Congress votes against the deal, the President has the power to overrule but this would mean significant procedural delays. For example, the administration would have to present evidence that the waived entities were no longer attempting to develop a nuclear and ballistic missile programme, or financing terrorism – whichever the sanction relates to. Conservative estimates suggest this would take a 4-6 months at least.

In such an environment, despite the many delegations, and MoUs and expressions of interest from foreign investors and businesses partners in recent months, a cloud of legal uncertainty will hang over international firms and financial institutions for months after the deal. A breakdown in the technicalities of the agreement, a breach of trust on one side or the other or any other unexpected political derailment could risk a "snap-back" in sanctions implementation. Major financial and business institutions, many of whom have been stung by Iran sanctions for billions of dollars already, will be highly reluctant to take the risk until legality is assured and the reputational risks are diminished.

There is a critical message in all of this is for Iran's prospective investors: Get ready to engage but be clear on the legalities and liabilities beforehand, and keep a close eye on the compliance of the Iranian authorities. If a deal can be signed in the coming days, it will be a remarkable and historic achievement and presents a very optimistic future for Iran. However, the journey from a signed agreement in Lausanne to meaningful sanctions relief for Iranian banks and businesses is still a



precarious one. The agreement is built on very fragile foundations and if Iran or the US falls short of honouring their respective sides of the bargain, Iran's post-sanctions era could come to a very abrupt end, before it's even begun.



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