

## UK Trade with Iran – the impact of sanctions: a view in February 2008

This is an appropriate time to look at British trade with Iran, because there has been a dramatic change in the market since the New Year. Many British companies are unable now to make or receive payments from Iran directly through the British banking system.

### Structure of UK's trade with Iran

At its high point in 2005, British exports of goods were £463 million. The Department for Business, Enterprise & Regulatory Reform [DBERR] believes that at least as much again is exported from the UK to Iran through Dubai. Iran is our 4<sup>th</sup> largest Middle Eastern market, after the UAE, Saudi Arabia and Israel.

However since 2005 there has been a drop in exports, nearly 7% in 2006 and 12.7% in the 9 months to September 2007 compared with the same period in 2006. When the figures are available we should expect to see that exports in 2007 as a whole will have fallen by well over 20% compared with 2005. This is due to restrictions on trade with Iran rather than a fall in the competitiveness of British exporters.

In addition to goods the UK exports services, £212 million in 2006. These are significantly "City" services, that is legal, banking and insurance services. Also BICC has a number of Members who wish to invest in Iran either as direct investors or indirectly through general investment funds. Generally the direct investors know they must time their investments to coincide with an improvement in the present political climate.

The UK's competitive advantage in doing business with Iran is: the British-Iranian community and skills in desired sectors for the development of Iran. The historical relationship can be helpful (although this can cut two ways)

Through the EU, the UK is a member of the historically largest supplier to Iran.

### UK trade in context

In 2006 the EU provided a third of Iran's imports and China 10%. There are many other country suppliers include the UAE, South Korea, Japan, Turkey, South Africa, Russia and Singapore. This diversity of suppliers may be one reason why Iran has been able to withstand the effect of unevenly applied sanctions thus far.

The leading EU supplier is Germany. Since 2005, exports from EU countries have been declining: for example, Germany's exports fell by 25.6% from its high point to € 3.2 billion in 2007.

Into the space created by the fall in EU exports stepped China, Russia, India and others to a lesser extent – representing a shift in Iran's trade towards Asia. Iran claims China to be its leading trade partner now; displacing Germany. Not only is

there a shift in trade to Asia, but Asian companies are taking leading investment positions in the development of Iran's energy and mineral resources.

The present competitive advantage of Asia is political and in being a low cost supplier – this may prove to be an enduring advantage when EU companies are in a position to reverse the decline in their Iranian trade. As with the UK, this decline in trade is due to trade restrictions

### Trade Restrictions

There are three main trade restrictions which affect UK business with Iran – the export licensing regime of the UK, UN sanctions and US sanctions.

UK licensing is designed to prohibit the export of goods which could have a dual use including the manufacture of WMD. Companies we come across seem to well understand the law and abide by it.

To date there have been three UN Security Council Resolutions [*UNSCR 1737 in December 2006, UNSCR 1747 in March 2007 and UNSCR 1803 in March 2008 intended to prevent supplies to Iran of materials for nuclear enrichment and for weapon delivery systems, and to target Iran's arms exports, Bank Sepah and the Revolutionary Guards Organisations*]. These resolutions appeared to have a limited additional impact on the business of BICC Members, partly, I believe, because, their general purpose is the same as that of UK Export Licensing.

The greatest impact of sanctions on British business results from trade sanctions administered by the US Treasury Department. The legislation prohibits virtually all trade and investment with Iran by US companies and persons, wherever they are located. Although US trade sanctions are not extra-territorial, they have an outreach effect on British trade.

During 2007, it is reported, US Treasury officials contacted banks with offices in the US to explain their potential liability under the legislation if their businesses outside the US dealt with Iran. This has persuaded the leading international banks to voluntarily close down their business with Iran. This is one of the consequences of globalisation, but it means that, in effect, the US has called on foreign banks to follow its policy on Iran. During 2007 this led to a withdrawal of Letter of Credit and other credit facilities from the market, but it remained possible to make and receive payments in currencies other than US dollars.

### Developments in 2008

Since this New Year financial restrictions on Iran have increased. I have received dozens of calls from exporters to say that now they can't receive or make payments to Iran. This seems to apply to general commerce. As far as I can tell it doesn't apply to payments for Iranian oil or possibly such things as airline sector payments. This is also the case in other parts of Europe and elsewhere. So widespread and sudden is this withdrawal of payments services that it may be the result of a further push by US officials since Christmas.

In certain currency areas some small banks without a US presence will clear payments in their own currency. So for the time being we are advising our Members to open accounts with such banks, receive Iran payments into them and then make a transfer to their UK banks: in this way the UK banks would not know the origin of the payment.

It is one thing to know the theory of how to trade legally in these circumstances; it is another to know which banks to approach. At BICC we are helping Members to find specific satisfactory ways of completing their business transactions with Iran.