

ECONOMIC FOCUS



**OBSERVATIONS ON THE UK'S
COALITION GOVERNMENT**

Also in this issue of Economic Focus

- Special Report on UN & EU Sanctions:
- How will export & import be affected?
 - Implications on the Oil & Gas Industry in Iran

RAK Free Trade Zone: world-class business hub

Ras Al Khaimah, only 45 minutes from business hub Dubai, is fast becoming the investment destination by choice of investors from across the globe.

With access to over 2 billion consumers and awarded "Best Emerging Free Zone" for the second year running, Ras Al Khaimah Free Trade Zone (RAKFTZ) has already developed into a world-class business hub with state-of-the-art infrastructure and hi-tech facilities for industrial growth and development in less than ten years of its inception.

The Free Zone, offers customized support services to its investors. It is one of the most cost-effective free zones in the region and, most importantly, it offers an absolutely trouble-free, customer-friendly environment, which is very important for the success of any enterprise.

RAK FTZ through its marketing and awareness campaign has created a name for itself known around the world. It has registered more than 4,500 companies that originate from 106 countries.

The Free Trade Zone Authority has created a system of four unique Free Zone Parks that will suit and serve every investor according to their requirements:

- The Business Park
- The Industrial Park
- The Technology Park
- Al Ghail Industrial Park

Situated at different locations each Park caters to specific business interests and requirements of investors.

Free Zone parks cater to investors' specific requirements

The RAKFTZ Business Park

The Business Park is located in the central business district of the city, close to the modern RAK Exhibition Centre, Hilton Hotel & Beach Club and Al Manar Shopping & Entertainment Mall.

The RAK Business Centre is a free zone facility which gives investors an opportunity to start a business with no hassles. Some of the key features of the RAK Business Centre are the furnished, fully-functional and ready-to-use offices, flexi-offices (shared office) & flexi-desks (shared desk). All are offered at highly cost-effective rates.

The RAKFTZ Industrial Park

Located along the coastal road, approximately 15km north of the city and adjacent to Hulaylah Island, about 6km from Saqr Port, covering an area of 300 hectares. Ideal for construction, heavy industries and warehousing.

Plot sizes are provided to suit individual requirements and are fully serviced



with water, electricity and communications.

Facilities include on-site employee accommodation, custom offices, operations supportive services centre and other administrative and service support centres located within the Park.

The RAKFTZ Technology Park

Located south of the city close to the Emirates Road Ras Al Khaimah International Airport.

Covering an area of 100 hectares, it is located opposite 5 Star resorts with an 18-hole golf course (Al Hamra Village &

resort). It is sited in a rapidly expanding area devoted to light industries and automated manufacturing and capital intensive quality lifestyle projects.

The Al Ghail Industrial Park

Covers an area of 400 hectares and caters for heavy industries that deal with the construction market such as steel fabrication.

It has a strategic location since it is close to Sharjah and Fujairah. The park is still under development and contains different size of plots that suits various companies' sizes.

Types of licenses issued by RAKFTZ

• Commercial - General Trading License:

Import, export, distribution, storage or warehousing of items specified on the License. Allows for more than seven different product lines

• Commercial License – Limited Activities

Import, export, distribution, storage or warehousing of items specified on the License. Maximum limit is seven similar product lines or two different categories. (Business Specific License)

• Industrial License

Import of raw materials, manufacturing,

processing, assembling, packaging, and exporting finished products, Feasibility and environmental impact studies and clearance from RAK FTZ are required

• Consulting and Service License

Offering consulting services in management, investment, economics, industrial development, marketing, and related subjects

Special Activities upon the approval of RAKFTZ's Management

For details of documents required, please visit our website

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The **Economic Focus** is the official publication of the British-Iranian Chamber of Commerce.

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Cover showing David Cameron and Nick Clegg

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FURTHER SANCTIONS AGAINST IRAN



“we hope relations, both political and economical return to normal”

Unfortunately, this last quarter has seen an increase in sanctions against Iran, which has further strained Iran’s political relations with the UN and the West and has had a negative effect on trade between the two countries.

UN sanctions, which were followed by US and EU sanctions, made life difficult for business in both Iran and West.

The sanctions will affect many sectors of industry and on page 20, Dr Mike Ala writes about the implications of the sanctions on the oil sector in particular.

We at the BICC are putting our efforts into assisting our members to overcome obstacles within the framework of the sanctions. A way in which the Chamber is assisting its members is by assisting in understanding the application process for export approval with the Export Control Organisation. We invited Tom Smith, Director of ECO to talk to members in July and outline the procedures and policies for export licenses. Further details can be found on page 16.

Iranian Counteraction: The Iranian government has also declared an un-official ban on trade with the UK. We have had reports of Iranian businessmen receiving import licenses from the Iran Ministry of Commerce after having ordered and paid for goods manufactured/produced in the UK, then being told by Iranian custom officials that their goods could not enter Iran. Furthermore some of their goods had been damaged while going through customs. Businessmen in Iran are at risk of losing their investments and we at the BICC are trying hard to help members experiencing these issues.

Regardless of this downcast news, we are wishing for a positive future and are hoping that relations, both political and economical, return to normal.

Also in this issue, Alun Evans, BICC’s Deputy Chairman writes a report on his observations of the UK’s coalition government, formed in May this year. Please see page 14.

On a final note, I wanted to remind you that this year’s annual reception will be held at the House of Commons on 15th October. This move, from our usual venue at the House of Lords, comes as a result of an ever-increasing demand for places. An invitation letter should have been received by all members by now, but please contact our offices if you have still not received a form. I look forward to welcoming many of you there.

Yousef (Joe) Daneshvar OBE
Editor-in-Chief, Economic Focus
Deputy Chairman, BICC

BICC SUPPORTING IT'S MEMBERS

Following the news of sanctions imposed by the EU and UN, Martin Johnston, Director General writes about how the BICC is helping it's members overcome obstacles when doing business with Iran.



Since the Spring we have been supporting Members by providing:

- General information on developments in the market
- Input for specific contracts with Iran made by individual company Members
- Continuing networking opportunities for Members' at our meetings and the provision of new services

The period was dominated by new UN and EU sanctions on trade with Iran. Details of these are shown on the BICC website (www.bicc.org.uk), but a very good overview is given here on the page no. 6 *Economic Focus* by Nigel Kushner of Whale Rock Legal Limited, who is a specialist in trade sanctions on Iran and who Members will remember for his comprehensive summary of the situation in March. I should mention that we recommend Members to ask for specific legal advice regarding their contracts or trading policy towards Iran and not to rely on summaries only. Also at the time of writing, the EU regulation listing additional Iranian persons and entities whose funds and economic resources are to be frozen is binding, but that full implementation of the Council EU Council Decision is to be expected in the Autumn. We will circulate Members with further information when it is available.

The EU sanctions represent a step-change in sanctions policy as prohibitions on exports to the oil and gas sectors, are an indirect sanction on the WMD industries – previously sanctions were focused to essentially prohibit direct exports to those industries or goods that might have a dual-use in them. Dr Mike Ala, a regular contributor to this magazine, writes about the implications of additional oil sector sanctions on page 16.

The Chamber has been very active with individual Members in helping them process applications for export approval with the Export Control Organisation (ECO) of the Department for Business Innovation & Skills. Also, as the banking markets have tightened largely as the result of the outreach effect of US sanctions legislation, the Chamber has become a source of information and opinion on how Members can be paid under contract for legitimate exports. Please call me to talk about this if you think we may be of help.

Despite difficulties associated with Iran trade, I believe it is important to be alert to the importance of the market, so in May, David Butter of the Economist Intelligence Unit (EIU), gave a very clear analysis of Iran's Economic Prospects. In July Tom Smith, Director of ECO, talked about the work of making decisions on export licence applications and how, the department has endeavoured to be as clear and as speedy as possible in its dealings with exporters. Tom repeats his talk on page 24. I hope both these meetings were useful to Members.

We were very pleased to invite our networks in the UK and then in Toronto to listen to one of our Members, the Ras Al Khaimah Free Trade Zone, explain how its services provide a hub for SME's wishing to do business in the Persian Gulf Regional markets and the Indian Sub Continent.

I thank both the EIU and Whale Rock Legal who are offering their services at a reduced price for BICC Members; the details of which can be seen on our website.

I look forward to the next few months with interest and a willingness to talk to individual Members frequently and I look forward to welcoming you to our annual dinner on 15th October.

IRAN SANCTIONS: RECENT DEVELOPMENTS IN THE UN, USA & EU

UN Overview of UNSCR 1929

On June 9, 2010, the United Nations Security Council passed Resolution 1929 (UNSCR 1929), available at <http://www.un.org/News/Press/docs/2010/sc9948.doc.htm>

The Resolution expands existing sanctions on Iran by:

- identifying additional persons (individuals and entities) subject to an asset freeze;
- identifying additional persons subject to a travel ban;
- banning the provision of financial services (including insurance and reinsurance) to Iran in certain cases;
- banning the sale or transfer of specified equipment and related services and technical data;
- calling for inspections of cargo to and from Iran where there is a reason to believe the cargo contains prohibited material;
- banning bunkering services to vessels owned by or contracted to, Iranian persons, where the vessels are transporting prohibited cargo; and
- prohibiting Iran from acquiring any commercial interest in uranium “mining, production or use of nuclear materials” and specified technology.

To monitor UN members’ compliance with this Resolution, the Security Council has also established a panel of up to eight experts. The panel will collect and review reports, due by August 8, from members detailing how they have implemented their obligations under UNSCR 1929.

Detailed Summary of UNSCR 1929 Asset Freeze

UNSCR 1929 calls on States to freeze the funds, financial assets and economic resources of:

- Persons designated in Annex I (see below) to the Resolution because of their involvement in Iran’s nuclear or ballistic missile activities;
- The Islamic Revolutionary Guard Corps;
- Persons acting for, or at the direction of, persons identified in Annex I (see below) to the Resolution or the Islamic Revolutionary Guard Corps;
- Any persons the Council identifies as having assisted designated persons in evading or violating Resolutions 1737 (2006), 1747 (2007), 1803 (2008) or 1929 (2010); and
- *First East Export Bank, P.L.C.*, (designated a subsidiary of Bank Mellat) *Irano Hind Shipping Company*, *IRISL Benelux NV* and *South Shipping Line Iran (SSL)* (designated subsidiaries of IRISL).

Following on from the recent expansion of the United Nations sanctions regime, the European Union announced in June that it will enact further tightening sanctions against Iran. Mr Nigel Kushner from Whale Rock Legal (a member of the BICC) provides the following bulletin, outlining the details.

Travel Ban

UNSCR 1929 also imposes a travel ban on persons identified in Annexes I and II (see below) of the Resolution and in Resolutions 1737 (2006), 1747 (2007) and 1803 (2008), given concern over participation by these persons in Iran’s nuclear or ballistic missile programs.

Financial Services Ban

UNSCR 1929 restricts Iran’s use of the international financial system to fund proliferation and nuclear activities. Specifically, it calls upon States to:

- Prevent the provision of financial services (including insurance or re-insurance) or the transfer to, through, or from their territory, or to or by their nationals or entities organized under their laws (including branches abroad) of any financial or other assets or resources, including by freezing any financial or other assets or resources in their territories or that come within their territories;
- Prohibit Iranian banks from establishing new joint ventures, taking an ownership interest in or establishing or maintaining correspondent relationships with banks in their jurisdiction; and
- Prohibit financial institutions within their territories from opening representative offices or subsidiaries or banking accounts in Iran.

All these prohibitions, however, are conditioned upon reasonable grounds for believing that the targeted activity could contribute to Iran’s proliferation-sensitive nuclear activities.

Export Ban: Equipment and Related Services and Technical Data

As an expansion of the export ban established in Resolution 1737 (2006) (which called on States to prevent the supply, sale or transfer to Iran of goods and technology that would contribute to enrichment-related, reprocessing or heavy water-related activities and the development of nuclear weapon delivery systems) the new Resolution calls on Member States to prevent:

- The sale or transfer to Iran of battle tanks, armored combat vehicles, large caliber artillery systems, combat aircraft, attack helicopters, warships, missiles or missile systems;
- The sale or transfer to Iran of material related to the above, including spare parts;
- The transfer to Iran of technical training, financial resources or services, advice, other services or assistance related to the supply, sale, transfer, provision, manufacture, maintenance or use of such arms or related materiel; and

- The transfer to Iran of technology or technical assistance related to ballistic missiles capable of delivering nuclear weapons.

Inspections of Cargo

To enforce the export restrictions listed above, UNSCR 1929 calls for the inspection of cargo to and from Iran where States have information that provides reasonable grounds to believe the cargo contains items prohibited by Resolutions 1737, 1747 or 1803. Such items include those which relate to Iran's enrichment-related reprocessing or heavy water-related activities, and the development of nuclear weapon delivery systems, arms and related material, or nuclear related dual-use material.

The Resolution also authorizes States to seize and dispose of prohibited cargo identified during authorized inspections.

Bunkering

To further enforce the export ban, UNSCR 1929 calls on States to prohibit the provision of bunkering services by their nationals or from their territory, including the provision of fuel or supplies, or other servicing of vessels, to Iranian-owned or Iranian-contracted vessels, including chartered vessels, where there is reason to believe that the cargo is prohibited by specified sections of Resolutions 1737, 1747 or 1803.

Interests in Uranium Mining or Production or Use of Nuclear Materials

UNSCR 1929 also calls on States to prohibit any Iranian investment (Iranian investment includes investment by Iran, Iranian nationals, entities incorporated in Iran or subject to its jurisdiction, persons or entities acting on their behalf or at their direction, or entities owned or controlled by any of the above) within their jurisdictions relating to uranium mining, production or use of nuclear materials and technology, including uranium-enrichment and reprocessing activities, all heavy-water activities or technology related to ballistic missiles capable of delivering nuclear weapons.

Annex I to UNSCR 1929 - Individuals and entities involved in nuclear or ballistic missile activities

Amin Industrial Complex
 Armament Industries Group
 Defense Technology and Science Research Center
 Doostan International Company
 Farasakht Industries
 First East Export Bank, P.L.C
 Kaveh Cutting Tools Company
 M. Babaie Industries
 Malek Ashtar University
 Ministry of Defense Logistics Export
 Mizan Machinery Manufacturing
 Modern Industries Technique Company
 Nuclear Research Center for Agriculture and Medicine
 Pejman Industrial Services Corporation
 Sabalan Company
 Sahand Aluminum Parts Industrial Company (SAPICO)
 Shahid Karrazi Industries
 Shahid Satarri Industries
 Shahid Sayyade Shirazi Industries
 Special Industries Group
 Tiz Pars
 Yazd Metallurgy Industries
 Javad Rahiqi

Annex II to UNSCR 1929 - Entities owned, controlled, or acting on behalf of the Islamic Revolutionary Guard Corps

Fater (or Faater) Institute
 Gharagahe Sazandegi Ghaem
 Ghorb Karbala
 Ghorb Nooh
 Hara Company
 Imensazan Consultant Engineers Institute
 Khatam al-Anbiya Construction Headquarters
 Makin
 Omran Sahel
 Oriental Oil Kish
 Rah Sahel
 Rahab Engineering Institute
 Sahel Consultant Engineers
 Sepanir
 Sepsad Engineering Company

USA

OFAC's Final Rule – Amending the Iranian Transactions regulations (16th June, 2010)

On June 16, 2010, the Office of Foreign Assets Control ("OFAC") issued a final rule amending the Iranian Transactions Regulations (the "ITR"), to expand the scope of Appendix A to Part 560 to encompass any person determined by OFAC to be the "Government of Iran," as the term is defined in the ITR. The final rule also adds to the appendix 22 persons OFAC has determined to be the "Government of Iran" and reformats and republishes in alphabetical order the entire list of persons in the expanded appendix. The following entities have been added:

Bimeh Iran Insurance Company (U.K.) Limited
 Iran Insurance Company
 Intra Chem Trading GmbH
 Iran Petrochemical Commercial Company
 Iranian Oil Company (U.K.) Limited
 Kala Limited
 Kala Pension Trust Limited
 MSP Kala Naft Co. Tehran
 Naftiran Trading Services Co. (NTS) Limited
 National Iranian Oil Company Pte Ltd
 National Petrochemical Company
 NICO Engineering Limited
 NIOC International Affairs (London) Limited
 NPC International Limited
 P.C.C. (Singapore) Private Limited
 Petrochemical Commercial Company International Limited
 Petrochemical Commercial Company FZE
 Petrochemical Commercial Company (U.K.) Limited
 Petroiran Development Company (PEDCO) Limited
 Petropars International FZE
 Petropars Ltd
 Petropars UK Limited.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 ("CISADA").

CISADA amends the Iran sanctions Act ("ISA") to create additional categories of activities that could subject non U.S. firms to sanctions, and it creates new types of sanctions that can be imposed on such firms. The new activities subject to sanctions include those that support the production of refined petroleum products in Iran and the importation of refined petroleum products into Iran. Also targeted are foreign financial institutions that facilitate Iran's nuclear

program, its support for terrorism, or the activities of Iran's Islamic Revolutionary Guard Corps.

The Implications

While U.S. companies have long been significantly restricted as to activities in Iran; the new restrictions could affect their operations through non-U.S. subsidiaries or affiliates and non-U.S. business partners and competitors. The legislation categorizes additional activities as sanctionable, adds new types of sanctions, mandates investigations into credible reports of sanctionable activity, and constrains the President's authority to waive sanctions.

Further information concerning the new legislation

The ISA applies to any person, including non-U.S. persons, but primarily targets non-U.S. persons because U.S. persons are already prohibited from investing or trading with Iran under other U.S. economic sanctions programs. Under the ISA, sanctions are imposed if an investigation concludes that prohibited activity occurred. The President, however, can waive the sanctions and in fact has done so in the past.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act (the "Amendments") creates additional categories of sanctionable activity and new types of sanctions.

Activity subject to sanctions

Prior to the Amendments, the ISA targeted investments of US\$20 million or more "that directly and significantly contributed to the enhancement of Iran's ability to develop petroleum resources of Iran." Now, the ISA potentially sanctions persons that "knowingly" engage in activities that could "directly and significantly" facilitate or contribute to Iran's domestic production of refined petroleum products or ability to import such products, if such activities exceed US\$1 million or more or an aggregate fair market value of US\$5 million or more in a 12-month period. Specifically, the Amendments potentially sanction the sale, lease, or provision to Iran of:

"goods, services, technology, information, or support that could directly and significantly facilitate the maintenance or expansion of Iran's domestic production of refined petroleum products, including any direct and significant assistance with respect to the construction, modernization, or repair of petroleum refineries"; and refined petroleum products or "goods, services, technology, information, or support that could directly and significantly contribute to the enhancement of Iran's ability to import refined petroleum products," including activities such as underwriting, insuring, reinsuring, financing, brokering, or providing ships or shipping services.

There is an exception for underwriters and insurance providers who exercise due diligence to ensure that they do not underwrite or contract to insure or reinsure prohibited activities.

Investigations

Until now, the ISA has directed that the President "should initiate" an investigation upon receiving credible information about violations and "should determine" if a person has engaged in the prohibited investment activity within 180 days of the initiation of the investigation. Going forward, the ISA requires that the President "shall initiate" an investigation and then "shall" make a determination.

Menu of sanctions

If the President determines that a person engaged in specified activities is subject to sanctions, the President must select from a menu of sanctions, absent a Presidential waiver. The ISA previously required the President to impose at least two of the following six sanctions:

Denial of Export-Import Bank loans, credits or guarantees;

Denial of licenses to export military or militarily useful technology;

Prohibition on U.S. financial institutions making loans or providing credit of more than US\$10 million in any twelve-month period (with minor exceptions);

Prohibition on obtaining U.S. Government procurement contracts;

Restrictions on imports into the United States; and

If the violator is a financial institution, prohibition on being designated as a primary dealer in U.S. Government debt and/or prohibition on acting as an agent for U.S. Government funds.

The Amendments add three new sanctions to this menu and require the President to select at least three of the nine sanctions now available. The new sanctions options would prohibit:

Foreign exchange transactions in the United States;
Transfer of credits or payments by financial institutions in the United States; and

Dealings in property in the United States.

Waiver authority

The Amendments both narrow and broaden the President's waiver authority. Since the ISA was enacted, no President has imposed sanctions and President Clinton exercised his discretion to waive such sanctions in one instance. The law required the President to certify that a waiver was "important to the national interest of the United States." Going forward, the standard for waiver is higher: the President must certify that a waiver is "necessary to the national interest."

The Amendments provide an additional avenue for waiver in certain circumstance, however. The President may waive sanctions with respect to persons from countries that cooperate in multilateral efforts concerning Iran. For up to 12 months (renewable under certain circumstances), the President may waive the imposition of sanctions if the government with primary jurisdiction over the person subject to sanctions "is closely cooperating with the United States in multilateral efforts to prevent Iran" from acquiring or developing chemical, biological, nuclear, or certain advanced conventional weapons and if doing so is "vital to the national security interests." It is contemplated that this waiver authority permits the President to waive sanctions against EU firms, and firms from other countries that have cooperated with U.S. efforts vis-a-vis Iran.

Expanded definitions of person and petroleum resources

The Amendments expand the definition of "person" to include financial institutions, insurers, underwriters, guarantors, and other business organizations. "Petroleum resources" is now defined to include "petroleum, refined petroleum products, oil or liquefied

natural gas, natural gas resources, oil or liquefied natural gas tankers, and products used to construct or maintain pipelines used to transport oil or liquefied natural gas."

Potential restrictions on government Procurement

The Amendments require prospective government contractors to certify that they do not engage in any of the above-described energy sector activities subject to sanctions. Contractors that submit false certifications are subject to debarment. Effectively, this requires foreign companies to cease such sanctionable activities in order to remain eligible for government contracts. The Amendments also prohibit federal procurement contracts with persons that export technology to Iran that is intended to restrict free speech in Iran.

Effective date

The Amendments take effect immediately. The Amendments provide a one-year grace period for the launching of investigations of persons engaging in activities related to the production or importation of refined petroleum products, however. Such persons are subject to investigation only for sanctionable activities that commence on the one-year anniversary date of the Amendment's enactment, or thereafter.

Financial institutions

The foreign subsidiaries of domestic financial institutions are barred from knowingly engaging in transactions that benefit Iran's Revolutionary Guard Corps or its agents or affiliates whose property is blocked pursuant to the International Emergency Economic Powers Act. If a foreign subsidiary engages in such prohibited activities, and the domestic parent has knowledge of such infractions, the parent company itself may be subject to civil and criminal penalties

Foreign financial institutions may not maintain correspondent and payable-through accounts in the United States if such institutions:

Have engaged in activities that facilitate the Government of Iran (including Iran's Revolutionary Guard Corps and its agents), the Central Bank of Iran, other Iranian financial institutions, or UN-sanctioned persons in developing weapons of mass destruction or supporting foreign terrorist organization; or

Have facilitated significant transactions or provided significant financial services for Iran's Revolutionary Guard Corps or Iranian financial institutions sanctioned under the International Emergency Economic Powers Act in connection with weapons of mass destruction or support for international terrorism.

In turn, domestic financial institutions that maintain correspondent and payable-through accounts for foreign financial institutions must:

Perform an audit of prohibited activities (as identified in the two preceding paragraphs) that may be carried out by the foreign financial institution;

Report to the Department of the Treasury regarding financial services provided with respect to prohibited activities;

Certify that the foreign financial institution is not knowingly engaging in prohibited activities; and/or

Establish due diligence policies, procedures, and controls to detect whether the Treasury Secretary has found the foreign financial institution to knowingly engage in prohibited activities.

With these provisions, the Amendments delegate a significant responsibility to domestic financial institutions in the implementation of the sanctions on foreign financial institutions.

EU EU Council Decision of 26 July 2010

Overview

Following on from our Iran Sanctions Bulletin No. 2 of 6th July 2010 which examined recent US sanctions, we summarise new EU sanctions against Iran adopted on 26 July 2010. They severely impact those in the EU who are involved in trade, financial services, energy and transport.

What 26th July 2010 EU sanctions are binding today?

In short, Regulation (EU) No. 668/2010 of 26th July 2010, which adds various Iranian persons and entities to the list of parties whose funds and economic resources are required to be frozen, is binding today. Please see our Iran Sanctions Bulletin No. 4 which provides a detailed analysis.

What 26th July 2010 EU sanctions are not binding on UK persons and entities today?

The EU Council Decision of 26 July 2010 ("EU Council Decision") requires implementing legislation and is therefore only immediately effective against those to whom it is addressed - the Governments of the Member States. We understand the UK Treasury has confirmed that the EU Council Decision is not currently binding on individuals or companies in the UK and that implementation will likely take place in September 2010 at the earliest. In anticipation of implementation you are well advised to take steps now to reduce your risks and exposures. A summary is below:

1. Oil & Gas in Iran

What are the Prohibited Items?

Key equipment and technology for the oil and natural gas industry in Iran linked to:

refining; liquefied natural gas; exploration; and production.

What is Prohibited?

- to sell, supply, transfer, finance, provide technical assistance or training;
- to grant any financial loan or credit;
- to acquire or extend a participation in, including the acquisition in full of such enterprises and the acquisition of shares and securities of a participating nature; and
- to create any joint venture with enterprises in Iran and with any subsidiary or affiliate under their control.

The prohibition applies to the above sectors in Iran and also to Iranian or Iranian-owned enterprises engaged in such sectors outside Iran. In most cases these provisions are not retrospective and will not prevent the performance of pre existing contracts.

2. Iranian Investment in Member States

Investment in Member States by Iran, its nationals, or entities incorporated in Iran or subject to its jurisdiction, or by persons or entities acting on their behalf or at their direction, or by entities owned or controlled by them in any commercial activity involving uranium mining, production or use of nuclear materials and technology is prohibited.

3. Restrictions on Financial Support For Trade

Member States shall exercise restraint in entering into new short term commitments for the provision of public and private financial support for trade with Iran, including the granting of export credits, guarantees or insurance, to their nationals or entities involved in such trade. In addition, Member States shall not enter into new medium and long-term commitments for the provision of public and private financial support for trade with Iran. This shall not affect pre existing commitments.

4. Financial Assistance to the Iranian Government

Member States shall not enter into new commitments for grants, financial assistance and concessional loans to the Government of Iran, including through their participation in international financial institutions.

5. Enhanced Monitoring of Iranian Banks

Member States shall exercise enhanced monitoring over all the activities of financial institutions within their jurisdiction with banks domiciled in Iran, their branches and subsidiaries within and outside the jurisdiction of the Member States of banks domiciled in Iran and financial entities that are not domiciled in Iran, but are controlled by persons and entities domiciled in Iran.

Financial institutions shall be required, in their activities with such banks and financial institutions to:

- (a) exercise continuous vigilance over account activity including through their programmes on customer due diligence and under their obligations relating to money-laundering and financing of terrorism;
- (b) require that all information fields of payment instructions which relate to the originator and beneficiary of the transaction in question be completed; and if that information is not supplied, refuse the transaction;
- (c) maintain all records of transactions for a period of five years and make them available to national authorities on request;
- (d) if they suspect or have reasonable grounds to suspect that funds are related to proliferation financing, promptly report their suspicions to the Financial Intelligence Unit (FIU) or another competent authority.

6. Authorisation prior to Transfer of Funds

Transfers of funds to and from Iran shall be processed as follows:

- any transfer above 40,000 Euros shall require the prior authorisation from the competent authority of the Member State concerned. The authorisation shall be deemed granted within four weeks unless the competent authority of the Member State concerned has objected within this time-limit; and
- any transfer above 10,000 Euros shall be notified to the competent authority of the Member State concerned.

7. Notification Requirements – Iranian Banks

Branches and subsidiaries of banks domiciled in Iran within the jurisdiction of the Member States shall also be required to notify the competent authority of the Member State where they are established, of all transfers of funds carried out or received by them, within five working days after carrying out or receiving the respective transfer of funds. Subject to information-sharing arrangements, notified competent authorities shall without delay transmit this data, as appropriate, to the competent authorities of other Member States, where the counterparts to such transactions are established.

8. New Bank Branches

The opening of new branches, subsidiaries, or representative offices of Iranian banks in the territories of Member States, and the establishment of new joint ventures, or the taking of an ownership interest, or the establishment of new correspondent banking relationships by Iranian banks, including the Central Bank of Iran, its branches and subsidiaries and other named financial entities, with banks in the jurisdiction of Member States, shall be prohibited. Financial institutions within the territories of Member States or under their jurisdiction shall be prohibited from opening representative offices, subsidiaries or banking accounts in Iran.

9. Insurance and Reinsurance

The provision of insurance and re-insurance to the Government of Iran, or to entities incorporated in Iran or subject to Iran's jurisdiction, or to any individuals or entities acting on their behalf or at their direction, or to entities owned or controlled by them, including through illicit means, is prohibited.

10. Public Bonds

The direct or indirect sale or purchase of, or brokering or assistance in the issuance of public or public-guaranteed bonds issued to and from the Government of Iran, the Central Bank of Iran, or other Iranian banks shall be prohibited.

11. Cargo and Vessel Inspection

Member States shall inspect, all cargo to and from Iran in their territories, including seaports and airports, or, may request inspections of vessels on the high seas with the consent of the flag State, if they have information that provides reasonable grounds to believe that the cargo or vessel contains items the supply, sale,

transfer or export of which is prohibited. Member States shall seize and dispose of items at the expense of the importer or, if it is not possible to recover these expenses from the importer from any other person or entity responsible for the attempted illicit supply, sale, transfer or export.

12. Pre-Arrival and Pre-Departure Information for Aircraft And Vessels

Aircraft and vessels transporting cargo to and from Iran shall be subject to the requirement of additional pre-arrival or pre-departure information for all goods brought into or out of a Member State.

13. Bunkering and Ship Supply Services

The provision of bunkering or ship supply services, or other servicing of vessels, to Iranian- owned or -contracted vessels, including chartered vessels, shall be prohibited if information provides reasonable grounds to believe that the vessels carry items the supply, sale, transfer or export of which is prohibited.

14. Access to Airports for Cargo Flights

Member States, in accordance with their national legal authorities and legislation and consistent with international law, in particular relevant international civil aviation agreements, shall take the necessary measures to prevent access to the airports under their jurisdiction of all cargo flights operated by Iranian carriers or those originating from Iran with the exception of mixed passenger and cargo flights.

15. Engineering and Maintenance Services to Cargo Aircraft

The provision by nationals of Member States or from the territories of Member States, of engineering and maintenance services to Iranian cargo aircraft shall be prohibited if they have information that provides reasonable grounds to believe that the cargo aircraft carry items the supply, sale, transfer or export which is prohibited

16. Training

Member States shall prevent specialised teaching or training of Iranian nationals, within their territories or by their nationals, of disciplines which would contribute to Iran's proliferation-sensitive nuclear activities and development of nuclear weapon delivery systems.

17. Export and import restrictions of Prohibited Items

With certain exceptions, the Prohibited Items are:

- items, materials, equipment, goods and technology contained in the Nuclear Suppliers Group and Missile Technology Control Regime lists;
- named additional items, materials, equipment, goods and technology, which could contribute to enrichment-related, reprocessing or heavy water-related activities, or to the development of nuclear weapon delivery systems;

- arms and related material of all types, including weapons and ammunition, military vehicles and equipment, paramilitary equipment and spare parts for such arms and related material, as well as equipment which might be used for internal repression;
- other dual-use goods and technology listed in Annex I to Council Regulation (EC) No 428/2009 of 5 May 2009 (except for category 5 - Part I and category 5 - Part 2).

What can Nationals of Member States not do in relation to Prohibited Items?

- supply, sell or transfer Prohibited Items to, or for the use in, or benefit of, Iran, or through the territories of Member States, or using their flag vessels or aircraft;
- provide technical assistance, training, investment, or brokering services;
- provide financing or financial assistance including in particular, grants, loans and export credit insurance; and
- participate knowingly or intentionally in activities the object or effect of which is to circumvent the prohibited activities set out above.

Important provisos:

For all Prohibited Items there may be an exception if the EU (or in the case of dual use goods which are Prohibited Items, the Member State) determines in advance and on a case by case basis that the items will "clearly not contribute" to the development of Iran's technologies in support of its proliferation-sensitive nuclear activities and of development of nuclear weapon delivery systems and provided that:

- contracts for delivery of such items or assistance include appropriate end user guarantees; and
- Iran has committed not to use such items for nuclear related activities

Items subject to authorisation on case by case basis

In addition, items which are not Prohibited Items but which could nevertheless contribute to enrichment related, reprocessing or heavy water-related activities, to the development of nuclear weapon delivery systems or to the pursuit of activities related to other topics about which the IAEA has expressed concerns or identified as outstanding, shall be subject to authorisation on a case-by-case basis by the competent authorities of the exporting Member State. The EU shall take the necessary measures in order to determine the relevant items to be covered by this provision. Such items will for all intents and purposes be treated as if they are Prohibited Items but without benefitting from the provisos listed above.

REGULATION (EU) No 668/2010 of 26th July, 2010 (“Regulation”)

The Regulation adds various Iranian persons and entities to the list of parties whose funds and economic resources are required to be frozen. This Bulletin summarises the impact of the Regulation within the United Kingdom and is designed to provide guidance to those who have dealings with Bank Saderat PLC and Persia International Bank PLC.

WHO MUST COMPLY WITH THE REGULATION?

Any person in the United Kingdom or any person elsewhere who is:

- a British citizen, a British overseas territories citizen, a British Overseas citizen, a British subject, a British National (Overseas) or a British protected person; or
- a body incorporated or constituted under the law of any part of the United Kingdom.

Other EU citizens and entities will likely have to comply under regulations set out by their own Members State.

WHAT CAN YOU NOT DO?

Under the Iran (European Communities Financial Sanctions) Regulations 2007 (“the UK Iran Regulations”) it is a criminal offence for any person to:

- deal with funds and economic resources owned, held or controlled by a designated person; or
- make funds or economic resources available, directly or indirectly, to or for the benefit of a designated person.

WHO IS A DESIGNATED PERSON?

There are many individuals and entities named as designated persons. A number were added on 26th July 2010. Please contact us for the full list.

WHAT DOES “DEAL WITH” MEAN?

We cannot “deal with” funds and economic resources owned, held or controlled by a designated person. In this context, “deal with” means:

in respect of funds-

- use, alter, move, allow access to or transfer;
- deal with in any other way that would result in any change in volume, amount, location, ownership, possession, character or destination; or
- make any other change that would enable use, including portfolio management; and

in respect of economic resources;

- use to obtain funds, goods or services in any way, including (but not limited to) by selling, hiring or mortgaging the resources.

A person is guilty of an offence if he participates, knowingly and intentionally, in activities the object or effect of which is, directly or indirectly, to circumvent, alternatively enable or facilitate the commission of an offence of the above prohibitions.

INTERNATIONAL TRADE

Importantly for those involved in international trade, “funds” and “economic resources” are broadly defined and include bills of lading and rights of set off.

There is a risk that if a shipper or subsequent consignee receives or transfers to its buyer a bill of lading issued by a vessel that is owned or controlled by a designated person then this may be considered as breaching the requirement to freeze funds and could expose the shipper or consignee to penalties.

You will note that IRISL, its subsidiaries and a number of entities related to IRISL have been added to the list of designated persons although certain subsidiaries of IRISL were already on the list. However, the freezing of economic resources of designated IRISL entities does not require the impounding or detention of vessels owned by such entities or the cargoes carried by them insofar as such cargoes belong to third parties.

REPORTING

Additionally, all financial institutions and other bodies and persons in the UK must check whether they maintain any accounts or otherwise hold any funds for Bank Saderat Iran, Bank Saderat PLC or Persia International Bank Plc and, if so, they should report to the Treasury details of all funds or economic resources that they have frozen.

BANK SADERAT PLC AND PERSIA INTERNATIONAL BANK / EXEMPTIONS TO THE ASSET FREEZE

Payments from a person to Bank Saderat PLC or Persia International Bank Plc under contracts concluded before 27 July 2010

- The asset freeze does not apply to payments due under a contract, agreement or obligation which was concluded or arose before the date of designation if payment is made into a frozen account.
- Payment must be made into a frozen account with a relevant institution which is held or controlled by a designated person. A relevant institution is defined in regulation 2 of the UK Iran Regulations.
- If your payment fits into this category you do not need to apply to the Treasury for a licence.

Financial institutions crediting frozen accounts

Article 11 of Regulation 423/2007 states that the prohibition on making funds or economic resources available directly or indirectly to or for the benefit of designated persons:

- shall not prevent financial or credit institutions in the Community from crediting frozen accounts where they receive funds transferred by third parties to the account of a designated person provided that any such additions to those accounts are also frozen; and

- does not apply to interest or other earnings on frozen accounts provided that such interest or other earnings are also frozen.

LICENCES – BANK SADERAT PLC AND PERSIA INTERNATIONAL BANK PLC

HM Treasury are able to grant licences to exempt payments from the asset freeze, allowing payments to and from Bank Saderat PLC and Persia International Bank Plc in certain circumstances, as follows:

Payments due from Bank Saderat PLC and Persia International Bank Plc under contracts concluded before 27 July 2010

- Payments from Bank Saderat PLC or Persia International Bank Plc under a contract, agreement or obligation concluded before 27 July 2010 (a prior contract) may be made if licensed by HM Treasury. HM Treasury may grant a licence as set out in Article 9 of Regulation 423/2007 once they have determined that:
 - I the funds or economic resources shall be used for a payment by a designated person;
 - II the contract, agreement or obligation will not contribute to the manufacture, sale, purchase, transfer export, import, transport or use of goods and technology listed in Annexes I and II of Regulation 423/2007 (proliferation-sensitive nuclear activities); and
 - III the payment is not made available, directly or indirectly, to or for the benefit of a designated person.

Payments are therefore subject to a vetting procedure before a licence can be granted.

The main categories of payments that fall within the prior contracts exemption are set out below.

Payments due to depositors with Bank Saderat PLC or Persia International Bank Plc

HM Treasury are notifying the European Commission that they intend to issue Bank Saderat PLC and Persia International Bank Plc with a licence to make payments to depositors. HM Treasury will be liaising with Bank Saderat PLC and Persia International Bank Plc as to the procedure to be put in place for those depositors who may wish to make withdrawals from their accounts. A further notice will likely be issued by HM Treasury in the next few days.

Payments due from Bank Saderat PLC or Persia International Bank Plc under letters of credit or other trade finance transactions

HM Treasury are notifying the European Commission that they intend to allow payments under prior contracts, including letters of credit, where HM Treasury are satisfied that certain conditions are met.

- Applications for payment from persons holding a letter of credit with Bank Saderat PLC, should be made to HM Treasury using the their pro forma application form.

- Applications for payment from persons holding a letter of credit with Persia International Bank Plc, including its Dubai branch, should be made to HM Treasury using their pro forma application form.

Should you require copies of the form, please contact us.

HM Treasury intend to prioritise letters of credit under which payment has become, or is shortly to become, due. You may wish to alert the Asset Freezing Unit if your payment is urgent. Once an application form and supporting documents have been reviewed, further information may be required on a case-by-case basis from the relevant parties.

It is not an offence to present Bank Saderat PLC or Persia International Bank Plc with a letter of credit, bill of lading, bill of sale, document providing evidence of an interest in funds or financial resources or any other instrument of export financing relating to a contract entered into before 27 July 2010. It is the payment out under the letter of credit that requires the licence.

LICENCES – BANK SADERAT IRAN

HM Treasury are able to grant licences to exempt payments from the asset freeze, allowing payments to and from Bank Saderat Iran in certain circumstances, as follows:

Payments due from Bank Saderat Iran under letters of credit

Applications for payment from persons holding a letter of credit issued by Bank Saderat Iran before 27 July 2010 should be made to HM Treasury using their pro forma application form. This is to ensure that there is no issue as to an unwitting circumvention of the prohibitions by a UK person where such person receives monies from Bank Saderat Iran.

LICENCES ISSUED BY COMPETENT AUTHORITIES FROM ANOTHER EUROPEAN ECONOMIC AREA

There may be circumstances where UK companies or individuals receive a licence from another European Economic Area (“EEA”) competent authority to deal with funds or economic resources of Bank Saderat Iran, Bank Saderat PLC or Persia International Bank Plc. Should this occur the UK company or individual should contact the Treasury to establish whether a further licence under the UK Iran Regulations is required.

Should you require guidance on any applications for payment, alternatively, to check whether particular entities are subject to sanctions please get in touch with us.

*For further information please contact
nigel.kushner@whalerocklegal.com*

This Bulletin is a guide and is not intended to be a substitute for taking legal advice. Whale Rock Legal Limited and the author accept no responsibility for any actions taken or not taken in reliance on it.

OBSERVATIONS ON THE UK'S COALITION GOVERNMENT



In May 2010, Britain took a leap into the political unknown when the Conservatives and Liberal Democrats formed the first full coalition government in Britain since 1945. Alun Evans, BICC's Deputy Chairman writes about his observations during the past few months.



The United Kingdom has, since the general election in May this year, been governed by a coalition for the first time since 1945. This unusual outcome arose when no single party won an overall majority in the House of Commons. In a desperate bid to hold on to power the Labour Prime Minister attempted to form a coalition with the Liberal Democrats. The latter, led by Nick Clegg were not prepared to serve under a discredited Gordon Brown and found it easier to reach agreement with the Conservatives under David Cameron. The Conservatives could have formed a minority administration and then done deals with the other parties to achieve a majority issue by issue. But this would have produced unstable government with the Conservatives vulnerable to blackmail from a range of small parties and even from its own members when attempting to produce a majority for a particular vote. Firm government will be essential to implement the corrective measures required to replenish the state's empty coffers.

Labour's financial policies worked well in the party's first administration, less well in its second and disastrously in the third, so that the UK has suffered more than France and Germany from the world financial crisis. In 2009 the UK reported a government deficit of £159.2 billion or 11.4% of GDP and by the end of the year government debt was £950.1 billion or 68.1% of GDP. To illustrate the dire state of the finances, the UK, as a member of the EU, has a target of 3% for the deficit and 60% for debt. Any incoming government from any party would have been forced to take painful remedial measures to ensure that both debt and deficit were reduced: without determined action the cost of government borrowing would rise to dangerous levels. In his budget of 22 May the new Chancellor, George Osborne, made clear his aim of balancing the budget in 5 years. This was to be achieved by massive reductions in government spending and tax rises – primarily a rise in VAT from 17.5% to 20% at the beginning of 2011.

It is easy of course to announce plans but difficult to ensure successful implementation. There will undoubtedly be concerted opposition from public sector unions to staff reductions and a two year pay freeze. For the government to succeed the unions will have to be faced down when they make unreasonable demands. The government also has to ensure there is sufficient stimulus for growth to counter the adverse impact of its cuts in government expenditure and tax rises.

Only time will show if Osborne has struck the right balance between growth and cutbacks and has avoided a return to recession.

The Coalition, representing a majority of the British electorate, should find it easier to persuade the country of the need for belt-tightening and harsh measures than a minority Conservative one. There are however rumblings of dissent in both parties. Those on the left of the Liberal-Democrats are concerned about proposed cuts in welfare benefits and many in the Conservative party are unhappy with the increase in capital gains tax. For the present these rumblings present no threat to the survival of the Coalition as its break-up would be likely to lead to another general election which no one wants. The Coalition will face a crisis if, as is likely, the country rejects the proposal for a form of proportional representation (known as the alternative vote) in a referendum.

In its first 100 days the Coalition has impressed by its determination to take the right measures to cope with the financial crisis and its courage in risking severe unpopularity. The Prime Minister and Nick Clegg, the Deputy Prime Minister, are working constructively together as statesman more than politicians. They both have an understanding of the give and take required in leading a government of two parties which in themselves are coalitions of opposing ideas and interest groups. Although companies and businesses are not finding it easy to borrow money at a time when banks are rightly concerned to build up their reserves, the Coalition is a business-friendly government which wants to encourage enterprise. The country faces a demanding future but it is less bleak than it was at the time of the election. Providing that the government keeps its nerve and is ready to cope with both anticipated and unanticipated crises we can expect better times in the years ahead.

“In its first 100 days the Coalition has impressed by its determination to take measures to cope with the financial crisis..”

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FURTHER UN & EU SANCTIONS: HOW WILL EXPORT CONTROL BE AFFECTED?

Following the UN resolution on 9th June and the adoption of new sanctions by the EU on 18th June, Tom Smith, Director of Export Control Organisation (part of BIS), spoke to Members on the 16th July at a well-attended Members meeting. Here, he writes directly to BICC members and outlines his thoughts on the latest position on export controls to Iran.



I am grateful for the opportunity to set out in writing to BICC members some thoughts on the latest position on export controls to Iran. This is based on the presentation that I gave at your meeting on 16 July.

This article is predominantly about export controls – which my organisation is responsible for - as opposed to sanctions. There are a wide range of sanctions in place on Iran and exporters will need to ensure that any business dealings that they engage in do not contravene these.

The ECO and Export Controls

Let me recap briefly who we are and what we do. The ECO sits within the international trade directorate of the Department of Business Innovation and Skills. While we are not an executive agency, we have a clear and distinct identity and task – to discharge the Secretary of State's responsibilities to license the export of military and dual use goods from the UK (and certain aspects of the "brokering" of military and dual use goods from the UK). We run the process, working closely with colleagues in the Foreign and Commonwealth Office and the Ministry of Defence in particular.

There are two reasons why your goods might need an export licence. Firstly, if they appear on one of the "control lists" – lists of military and dual use goods which are largely defined by the four international export control regimes. Secondly, if the goods are not listed but if you have been informed, are aware, or suspect, that they are going to be used for military purposes or in a Weapons of Mass Destruction (WMD) programme – these are the "end use" controls. Being "informed" may mean that we have contacted you and made you aware. It is worth stressing that "export" does not just mean shipping goods.

Transfers of controlled technology are also covered. So taking your laptop overseas with tech specs on it is an export and may need a licence. So is imparting technical information in an email or phone call to someone overseas.

Specific Export Controls relating to Iran

The normal export control regime applies to exports to Iran, with some additions.

Firstly, the EU operates a complete embargo on military exports to Iran.

Secondly, there are tighter controls on the export of dual use goods, reflecting the concerns of EU Governments about the Iranian nuclear and ballistic missile programmes. These are set out in the EU Iran Regulation 423/2007, which contains two lists of goods. The "Annex I" list consists of goods of particular concern which cannot be exported to Iran. The "Annex II" list consists of goods which do not appear on the normal dual use list, which have legitimate commercial uses, but which could also do harm in the wrong hands. (Note: the overall EU dual use list also has an Annex I, which is a list of all dual use goods: don't get them confused).

In addition to the control lists, the end use controls still apply. So, even if your proposed export does not appear on any of the lists, there is a chance that it will end up needing a licence if you know – or if we tell you – that there is a risk it will be diverted to a WMD programme.

Finally, there are the brokering controls. You need a licence if you are based in the UK and arranging the transfer of goods listed in Annex I of the EU Dual Use list which you know have a WMD purpose from anywhere in the world to Iran (and, again, one way that you may find this out is if we contact you and tell you).

How are these controls applied?

This article is not the place for a full exposition of UK Government policy towards the current Iranian regime. But it is necessary to say something in order to set the context to how we go about considering applications for export licences.

The key points are as follows. We see the Iranian WMD programmes as a major threat to world peace. We know that these programmes are actively seeking to procure a wide range of goods and technology, including from the UK – and we are not just talking about specialised kit, but the kind of things that all large industrial plant need, such as technology for power generation. We know that those who operate

the WMD programmes also control large swathes of the Iranian economy, giving them ready access to a wide range of front companies for their activities. It follows that there is a high risk that anything that could be of use to Iranian WMD is likely to find itself in the wrong hands once it reaches Iran.

It follows from this that we have to be cautious. We look carefully, not just at what the export is meant to be used for, but what it could be used for. Where we have doubts, we don't issue a licence.

We co-operate closely with other Governments, especially within the EU, to seek a consistent approach. All EU Governments work to the same control list. Where one EU Government refuses a licence, this information is available to the others and we consult each other as necessary. Ultimately, however, the decision is for each Government to take.

What this means for you: the process

My objective as head of ECO is to provide a service to exporters that is transparent, predictable and as quick as it can be. In the context of exports to Iran, this can be very difficult to do. Anyone who is thinking of doing the kind of business with Iran that might need export licences needs to be prepared for a process that brings certain frustrations.

In terms of licence turnaround times, ECO advertises that we aim to process 70% of licences within 20 working days. In practice, licences to Iran tend to fall within the 30% that take longer. This is because we have to go through the thought process – set out above – of considering whether your export is likely to fall into the wrong hands, and how much damage it could do if it does. This by definition takes time. Sometimes it takes more time than it should because we only have a small pool of specialist advisers who can at times get overwhelmed by high levels of demand. Sometimes it takes more time than it should because we have to consult another EU Government, whose response time is not within our control. And, for all the reasons set out above, we have to take our time and not give a decision until we are sure.

The other part of our process that is currently taking longer than it should is the Rating service, by which we advise an exporter whether or not their goods need a licence. This is because our technical officers have to give top priority in the first instance to advising HMRC on shipments that they have detained at the border, and in the second instance to processing actual licence applications.

In terms of the predictability of the process, exporters often make to me the very reasonable point that ECO should at least be able to decide whether or not their goods need a licence and stick to that decision. Unfortunately we cannot always do that. Especially in respect of exports to Iran, our view of the export is influenced by our view of the Iranian customer and our view of the customer can change over time. If we receive new information, we can – and will – stop a shipment to which we had previously given a green light.

Finally, there is the fact that shipments heading for Iran are likely to be detained by HMRC at the border. If HMRC feel they need to check out the export control status of the goods, they contact us. We treat these enquiries as top priority, in the knowledge that any delays at this point cause expense for the exporter. If we knew about the shipment and had decided that there were no concerns, we try to unblock it within a couple of days. If the shipment came as a surprise to us and, at first sight, raises concerns, this process can take a lot longer.

What this means for you: the decision

Once you have navigated the process of seeking advice on whether an export licence is needed, you need to be prepared for the decision when it comes. It may be that we issue a licence, or advise you that no



Martin Johnston introducing Tom Smith to the audience

licence is needed. However, you may well get a message back from us to say that a licence has been refused because of the risk of diversion for WMD use.

What are your options then? We do have an appeal process, which you can use to put any new information to us to persuade us that we are wrong. But it is important to manage your expectations here. We do not refuse licences lightly. Where we do, it is often because we have some information that has made us worried. Exporters often tell us

- that they know and trust their customer
- that they are certain that the goods are going to be used for the stated purpose

but, if we have concerns, these arguments are unlikely to cut any ice with us. The bottom line: if we are worried about your customer, we are likely to stay worried.

How you can make the process easier

Getting a licence for an export to Iran is problematic. It is not possible to make it easy. But there are ways in which you can help yourself through the process.

The first step is to know the control rating of your goods – in other words, do they appear on a list. You probably only need to do this once. If you establish that your goods do not appear on a control list, the likelihood is that this will not change.

Be aware that our Rating service is currently under extreme pressure. I would only recommend that you use it if you are not working to the deadline of a contract. If you have concrete plans to make a shipment – and are unsure about whether the goods are controlled or not – you should apply for a Standard Individual Export Licence (SIEL).

If you discover that the goods are not listed, you then need to get a view from us about the end user to whom you are planning to ship. Your first port of call should be the published "Iran list" on our website, which contains a list of entities which are publicly known to be of concern. But be clear: the fact that your customer is not on this list does not mean that they are OK. You should then take advantage of our Iran end user advice service, which offers a 48 hour turnaround by email. If you have recently used this service – and I stress "recently" – and been told that there are no concerns, you will probably be clear to export (subject only to the fact that our information can change at any time).

What is going to change

On 26 July, the EU Council of Ministers adopted a Decision to the effect that further measures should be taken against Iran. These new measures include an extension of sanctions and a tightening of export controls.

So far as export controls are concerned, a range of goods will move from being “licensable” to being “prohibited” when the destination is Iran. Anything which appears on the general EU Dual Use Annex I list may not, henceforth, be exported to Iran: so we will not issue licences for any such goods from now on.

We anticipate also that a range of goods which currently appear on the EU Iran “Annex II list” will move to the “Annex I list” (in other words, they will change from “licensable” to “prohibited”). This change will take effect with a new Regulation which will come into force in the autumn. We will publicise the detail of this proposed regulation once we have it.

So far as non-listed goods are concerned, we will continue to give these applications very close scrutiny, weighing up the likelihood that the goods might end up in the wrong hands, and the damage that they could do in the wrong hands. The EU Council Decision reflects the seriousness of our determination to ensure that nothing reaches Iran which could be of value to the WMD programmes.

In terms of the changes on sanctions, you should be aware in particular that the EU has also decided to ban the export to Iran of goods of particular use to the Iranian oil and gas sectors, with an exemption for exports under contracts entered into before 26 July. The EU will be producing a Regulation to give effect to this over the next couple of months. We anticipate that it will involve a prohibition on the export of a defined list of goods. Because this is a sanction not an export control, it will not be a question of exporters applying for licences – rather the exporter will have to apply a legal test of whether their export falls within the Regulation and is therefore prohibited.

Conclusion

As I said during my presentation to the 16 July BICC Members Meeting, talking about export controls and Iran means delivering a downbeat message. There is no way round the fact that exporting a wide range of goods to Iran is going to be problematic, and is likely to get harder rather than easier. Government policy overall is not to encourage or promote trade between the UK and Iran. Specifically in the area of dual use goods, you need to be aware of the risks and weigh them up before deciding whether or not this is a market you want to engage in. Be especially careful – and get good advice - if you are planning to enter into any new contracts with the Iranian oil and gas sector, as you may not be able to honour them.

That said, we are not in business to put gratuitous bureaucratic obstacles in the way of legal trade, and we will help you navigate your way through the export control jungle to the extent that we can. My team and I really value our dialogue with BICC and will continue to work closely with you as these issues develop.

***“we will help to
navigate your way
through the export
control jungle to the
extent that we can”***



Members and guests listening to the speech given by Tom Smith

UK AMBASSADOR'S MESSAGE TO MEMBERS

Simon Gass CMG, HM Ambassador in Tehran writes to members about the connection between the UK and Iran and how, despite obstacles, trade is ongoing and strong links are being maintained.



Britain and Iran share a long and sometimes troubled history. But there are also strong ties between our two countries. Many people in Iran and in Britain have longstanding friendships and links with the other country - whether in the form of business associations, education, shared cultural interests or simply friendships which have grown over many years.

Because of differences between Britain and Iran on the subject of Iran's nuclear programme, there is a UN-backed sanctions regime which limits business links in some areas. That is why the British Government has decided not to promote British exports to Iran at present. If Iran complies with the UN Security Council Resolution, this situation will change. I hope that happens soon, both because of the loss of business opportunities and because business can act as a shock absorber when political relations are at their most difficult.

This does not mean, of course, that there is no significant trade between Britain and Iran - there is. I congratulate those in the business communities of both countries who are able to keep their connections in good working order, despite the obstacles.

I look forward to a time when relations between Iran and Britain make it possible for us to have much closer commercial ties. I do not doubt that the British-Iranian Chamber of Commerce will be at the heart of matters when that day comes.

In the meantime, I wish all members of the BICC prosperity and success in their business ventures.

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THE IMPLICATIONS OF ADDITIONAL SANCTIONS FOR THE FUTURE DEVELOPMENT OF THE IRANIAN OIL AND GAS INDUSTRY

INTRODUCTION: A REVIEW OF IRAN'S OIL AND GAS RESERVES

Iran's oil industry is by far the oldest in the Middle East, following the discovery of oil at Maidan-e Naftun (Masjed-e Soleyman) by Darcy in 1908. Since then, more than 110 oil and gas fields have been discovered in Iran's onshore areas and its territorial waters in the Persian Gulf. Oil reserves stand at 138.4 billion barrels, amounting to nearly 12% of the global total. Gas reserves are placed at 26.845 trillion m³ (1,046 trillion ft³), accounting for nearly 15% of the world's total (Fig 1).

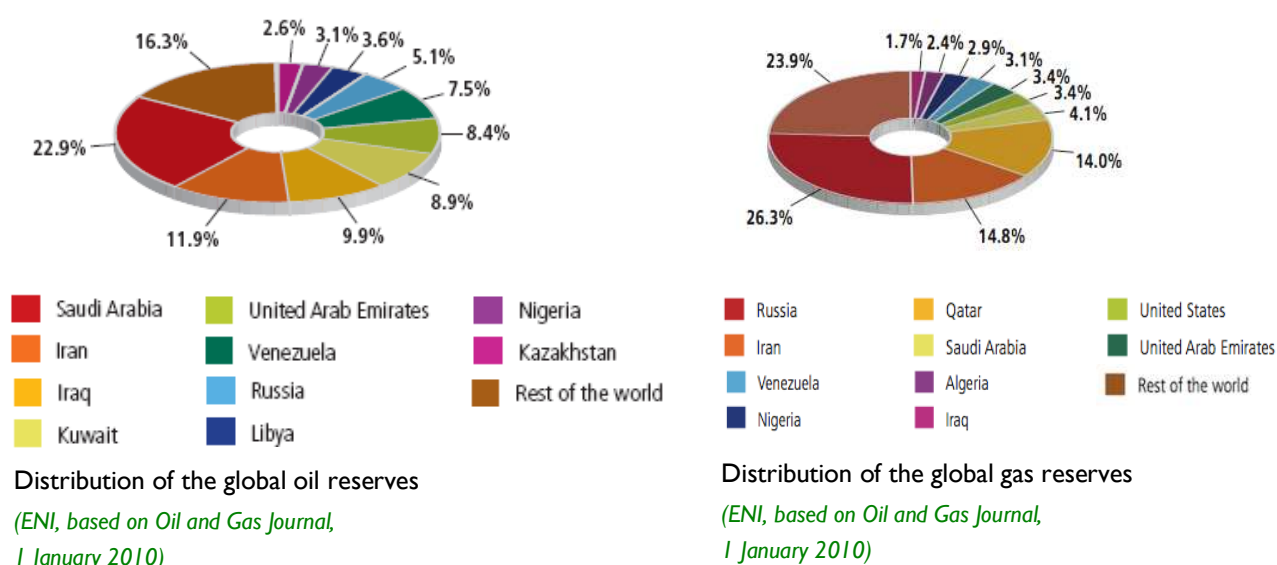


Fig 1 Global distribution of oil and gas reserves

Estimates of potential future discoveries of oil, gas and natural gas liquids in Iran are shown in Table 1.

ESTIMATES OF IRAN'S UNDISCOVERED PETROLEUM RESOURCES											
OIL (10 ⁹ barrels)				GAS (TCF)				NATURAL GAS LIQUIDS (10 ⁹ barrels)			
P95	P50	P5	MEAN	P95	P50	P5	MEAN	P95	P50	P5	MEAN
16.29	49.84	100.54	53.11	99.24	293.46	599.73	314.57	4.03	12.64	28.30	13.96

Table 1 (United States Geological Survey World Petroleum Assessment 2000, Digital Series 60)

A BRIEF SURVEY OF THE SANCTIONS AND THEIR CONSEQUENCES

In varying degrees, sanctions have been formally in place since 1995 (Iran Libya Sanctions, ILSA) but until recently many non-American international oil companies were willing to ignore them. Iran opened the upstream sector of its oil and gas industry to foreign investment in 1998, emerging from a 20 year self imposed isolation. President Khatami had been elected in the previous year; there was hope and optimism. Ambitious oil production targets were set: raising production capacity to 5 m b/d by 2010 and to 7 m b/d by 2020. To achieve these targets, four licensing rounds were held between 1998 and 2007. The early rounds were successful: many European, Far Eastern and South American international oil companies entered into exploration and oil and gas field development and rehabilitation agreements with the NIOC. These efforts resulted in several significant oil and gas discoveries, field development and rehabilitation of fields damaged during the 8 year war with Iraq.

A reversal of this encouraging trend occurred from 2006 due to the development of an unfavourable political climate arising from Iran's stance on the nuclear issue and pursuit of confrontational foreign policies. The outcome has been the unwillingness by the major oil companies to invest in the country's oil and gas industry, exodus of the foreign licence holders (with the exception of Chinese companies) and Iran being denied access to the international financial markets. Consequently, Iran has scaled back its oil production capacity increase to 4.5 m b/d by 2015 and many oil and gas development projects are behind schedule. Iran's plans to increase oil production capacity is presented in Table 2. This envisages a modest increase of 180,000 b/d by 2015.

New Iranian Upstream Crude Projects through 2015			
Field	Company	Thousand bbl/d	Online
^B Azadegan (south)	NIOC	10	2010
Jofeir Phase I	NIOC & Belarusneft	15	2010
Yadavaran Phase I	NIOC & Sinopec	85	2013
Resalat	NIOC, Amona* & CNPC	40	2014
^B Azadegan Phase I (north)	NIOC & CNPC	30	2014
New Potential Total		180	

Table 2 (FACTS Global Energy, cited in EIA, 2010)

* *A supergiant oil field, discovered in 1999. Capable of peak production of 450,000 b/d.*

* *A Malaysian conglomerate. Core activity: Property development and management. Also involved in engineering, procurement, construction and installation and/or management ("EPCI-M"), especially in oil and gas upstream and downstream activities and power generation.*

EFFECTS OF 'UNDECLARED' SANCTIONS ON OIL EXPORTS

Currently, Iran produces 3.585 m b/d of oil from 40 fields - 27 onshore and 13 offshore (Persian Gulf), while its OPEC quota is 3.800 m b/d. Buyers of Iranian oil in 2009 are listed Below:

Since the beginning of 2010, China has reduced its purchase of Iran's oil by 40% (replacing it with increased imports from Saudi Arabia, Angola and Russia). Reliance, a major Indian company, has discontinued its purchase of 90,000 b/d of heavy crude from Soroosh and Nowrooz. Japan is reported to have reduced its import of Iranian oil by an as yet unspecified quantity. In total, Iranian oil exports are reported to have fallen by an average of about 378,000 b/d in 2010. At \$70/b, this represents a projected loss of income of about \$6 b in 2010 compared with 2009.

BUYER	QUANTITY (b/d)
Japan	480,000
China	430,000
India	410,000
South Korea	210,000
Italy	160,000
Spain	130,000
France	100,000
South Africa	90,000
Netherlands	90,000
Greece	80,000
TOTAL	2,180,000

NATURAL GAS AND GASOLINE IMPORTS

Despite holding the world's second largest gas reserves, Iran is a net importer of gas. Currently, it imports 8 million m³/d by pipeline from Turkmenistan. Discussions are underway to construct a second pipeline to increase this import capacity to 40 million m³/d.

Iran consumes about 400,000 b/d of gasoline, of which approximately 130,000 b/d (over 30%) is imported since it lacks sufficient refining capacity to meet its domestic gasoline and other light fuel needs. This makes Iran particularly vulnerable to any escalation of the sanctions in this regard. Tables 3 and 4 list Iran's refineries and their refining capacities and the country's suppliers of gasoline respectively.

Iran Crude Refining Capacity, 2009	
Refinery	Thousand bbl/d
Abadan	350
Isfahan	280
Bandar Abbas	230
Tehran	220
Arak	170
Tabriz	100
Shiraz	40
Kermanshah	30
Lavan Island	30
Total Existing	1,450

Table 3 (Oil & Gas Journal, cited in EIA, 2010)

Iran: Company (Country) Source of Gasoline Imports 2008 & 2009	
2008	2009
BP (U.K.)	CNPC (China)
ENOC (UAE)	Glencore (Switzerland)
Glencore (Switzerland)	IPG (Kuwait)
IPG (Kuwait)	Litasco (Russia)
MEP (UAE)	Petronas (Malaysia)
Reliance (India)	Reliance (India)
Shell (Netherlands)	Shell (Netherlands)
SPC (Singapore)	Total (France)
Total (France)	Trafigura (Switzerland)
Trafigura (Switzerland)	Vitol (Switzerland)
Vitol (Switzerland)	Zhenhua Oil (China)

Table 4 (Various sources cited in EIA, 2010)

US politicians have passed legislation to penalise gasoline suppliers to Iran. Reliance, Petronas and Total have discontinued their gasoline supplies to Iran, although, it is reported, that the Russian oil company, Lukoil, has resumed gasoline sales in partnership with Zhuhai Zhenrong of China.

EFFECTS OF SANCTIONS ON IRAN'S GAS PRODUCTION AND EXPORT POTENTIAL

Iran's natural gas resources are greatly underdeveloped and under-utilised - it is a sleeping 'giant' in terms of the production and export potential of its gas. Its current reserves/production ratio is 278 years. Iran exports only a small amount of gas by pipeline to Turkey. Its gas exports amounted a little more than 6 billion m³ in 2008, less than one-twentieth and one-thirteenth of those of Russia and Norway respectively.

Stepping up production (in up to 30 phases) from the super-giant South Pars gas and condensate field is behind schedule. The work is now in the hands of Iranian contractors but they lack the financial resources to complete the task. Developing production from North Pars (discovered in 1967) as well as the more recent onshore gas discoveries such as Homa, Tabnak, Assaluyeh, Gardan, Mokhtar (to mention just a few) is languishing. Collectively, these fields contain substantial reserves and will help to meet the rising domestic demand for gas and eliminate, or at least reduce, imports from Turkmenistan.

Under US pressure, India withdrew from the 1,724-mile Iran-Pakistan-India gas pipeline project (under discussion since 1994) in 2009. The project is now reduced to building a 560-mile pipeline from South Pars to Pakistan's Sindh province.

Iran produces no LNG. LNG production requires Western technology and large scale investment, neither of which is available to Iran under the current sanctions regime. Global LNG demand is expected to grow strongly in future (Fig 2) and Iran will be excluded from supplying this market. The demands of this expanding market will be met by Iran's competitors: Qatar, Algeria, Libya and Malaysia.

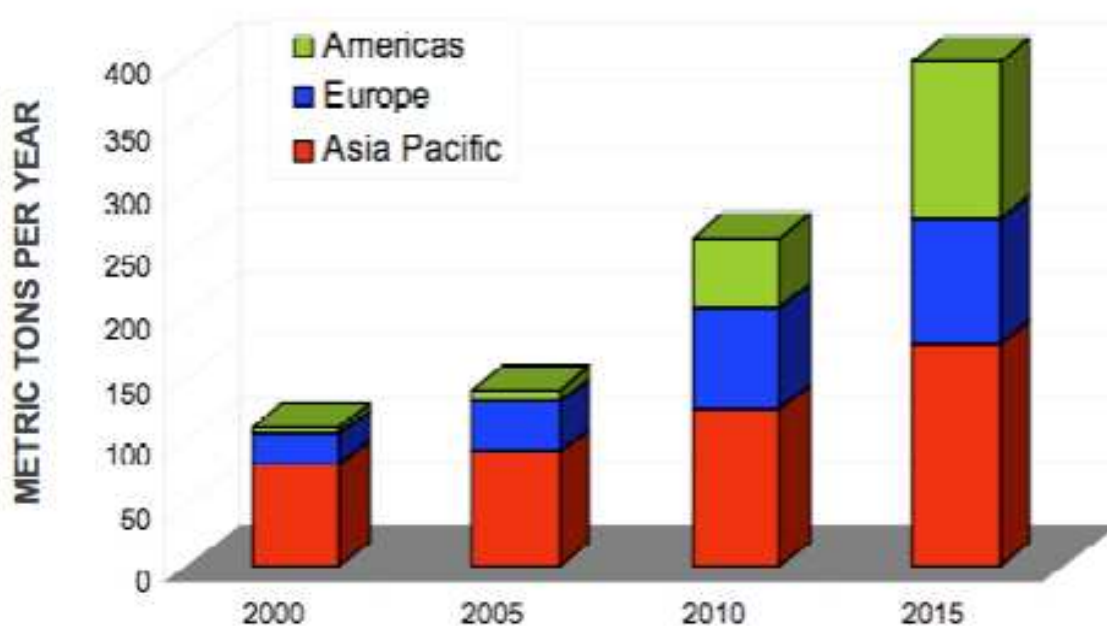


Fig 2 Global LNG demand 2000 - 2015

SUMMARY AND CONCLUSIONS

- **Oil** has been the economic life blood of Iran for 95 years. From its infancy in the twilight of the Qajar era, through the 52-year Pahlavi period and sustaining the Islamic Republic for the past 31 years, Iran's oil industry has been the supplier of this 'blood'. Currently, it provides 80% of country's foreign exchange earnings.
- **It** is worthy of note that Iran is among the top 20 oil consuming countries. In 2007, Iran's total internal crude oil consumption averaged 1.833 m b/d, ahead of the UK, Italy and Spain (Fig 3). Due to their age and the inadequacy of gas injection pressure maintenance measures, Iran's major producing fields face an average annual production decline rate of 10%. Because of the constraints imposed by the sanctions on the growth of its gas industry, Iran is unable to allocate the quantities of gas required for this purpose. Any further escalation of the sanctions will worsen this situation. Together with the rising internal consumption (Fig 4), this does not bode well for future oil export earnings.

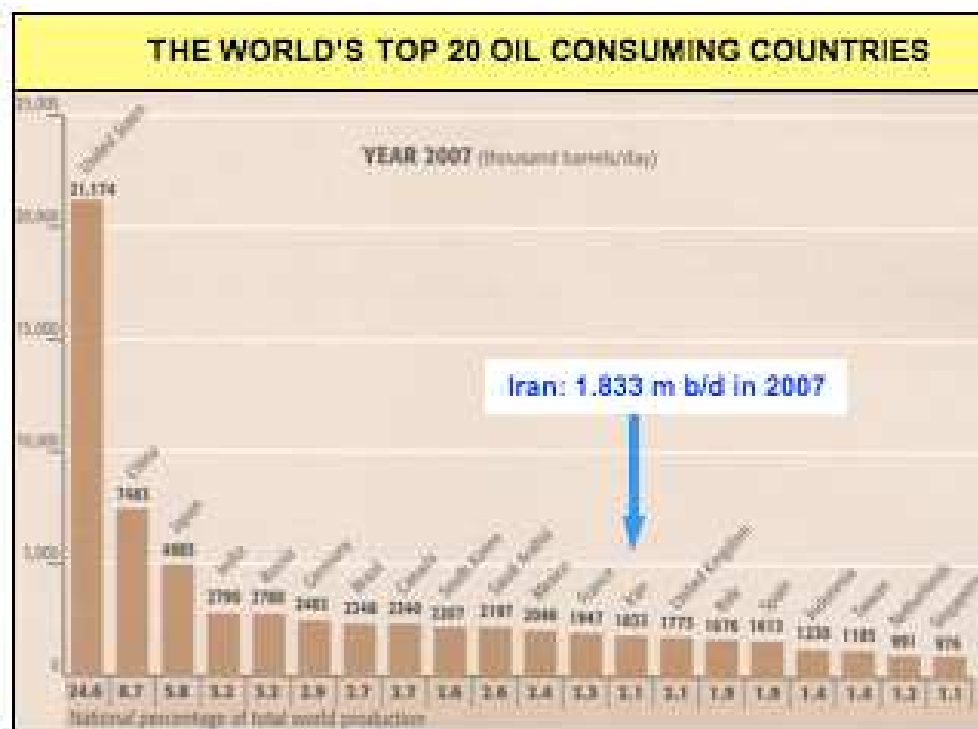


Fig 3

(ENI, 2008)

- **Currently**, Russia supplies about 25% of Western Europe's gas requirements by pipeline through Ukraine. This represents a large dependency and has associated security issues. The security of the supply has come into question twice in the last three years by disputes over prices between Russia and Ukraine in the winters of 2006 and 2008.

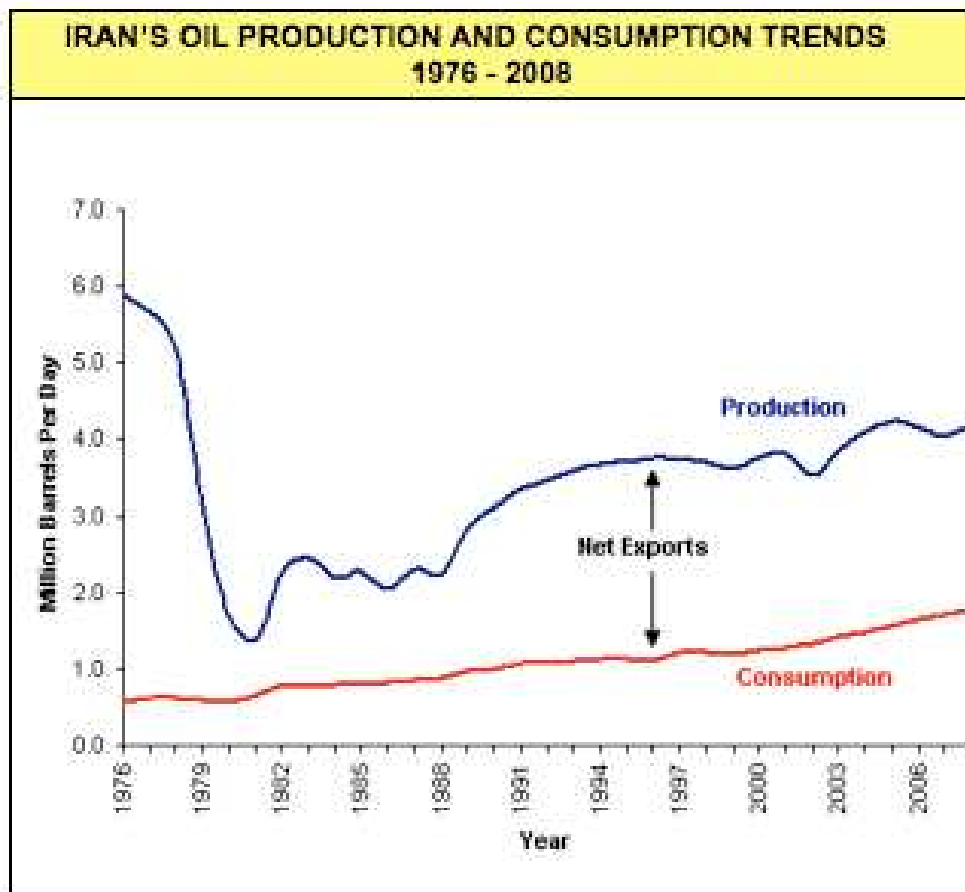


Fig 4

(EIA, 2010)

- **W**estern Europe would like to reduce its dependence on Russian gas by diversifying its sources of supply and the magnitude of Iran's reserves makes it a potential alternative. Iranian gas could be transported westward through a proposed Turkmenistan-Iran-Turkey-Europe pipeline.
- **A**t best, this must be regarded as a long term prospect. It cannot be contemplated under the present conditions and the possibility will recede even further by any future tightening of the sanctions regime.
- **P**roper investment and efficient management would transform Iran's gas industry into a dynamo of the country's economic growth.
- **T**he fortunes and prosperity of the country are inextricably intertwined with its oil industry. That prosperity is threatened by the sanctions and the threat will grow with the escalation of the sanctions.

Epic of the Persian Kings: The Art of Ferdowsi's Shahnameh



Presented with the support of Iran Heritage Foundation

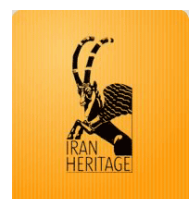
This autumn, a landmark exhibition at the Fitzwilliam Museum explores the monumental artistic legacy of one of the world's greatest literary epics: the 1000 year-old Persian 'Book of Kings', or *Shahnameh*.

Completed by the poet Ferdowsi in 1010 AD, this vast narrative poem telling the 'Iranian version' of the history of the world is an icon of Persian culture, inspiring some of the world's most exquisite manuscripts. To mark the passing of a millennium since its completion, *Epic of the Persian Kings: The Art of Ferdowsi's Shahnameh* now brings together nearly one hundred paintings from these lavishly illustrated manuscripts spanning 800 years, in the most comprehensive exhibition of *Shahnameh* art yet mounted in this country.

Bringing together a spectacular range of richly illustrated manuscripts and of Persian miniature paintings - drawn from public and private collections in the UK including the Royal Collection at Windsor Castle, the British Museum, the British Library, the V&A, the Royal Asiatic Society, the Bodleian Library and collections within Cambridge - *Epic of the Persian Kings: The Art of Ferdowsi's Shahnameh* presents a captivating literary and artistic tradition that for many in the West has remained hidden. A diverse programme of events will accompany the exhibition, from talks and lectures by international authorities on the *Shahnameh* and creative workshops for all ages, to concerts of Persian music, film and theatrical performances bringing these tales to life.

The exhibition is presented with the support of Iran Heritage Foundation, and is also supported by the Bahari Foundation, Denis and Minouche Severis, Parsa Community Foundation, Princess Guity Qajar Fund, Monica and Ali Wambold, the ILEX Foundation and the Islamic Manuscript Foundation.

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<p>Traditional Services</p>	<ul style="list-style-type: none"> ■ Litigation ■ Corporate/commercial ■ HR/employment ■ Property 						
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IRANIAN OFFICIAL HOLIDAYS IN 2010

(Holidays & Anniversaries in 1388

(21 March 2009 – 20 March 2010) in Iran

21-24 March	Iranian New Year
1 April	Islamic Republic Day
2 April	Sizdah Bedar (Nature Day)
28 May	Martyrdom of Fatima
4 June	Anniversary of the Passing of Imam Khomeini
5 June	Anniversary of the uprising against the Shah
6 July	Anniversary of Imam Ali
20 July	Mission of Muhammad
7 August	Anniversary of Imam Mahdi
11 Sept	Martyrdom of Imam Ali
20 Sept	End of Ramadan - Eid-e-Fitr
2 October	National Day of Love
14 October	Martyrdom of Imam Sadeq
28 November	Eid-e-Qorban
6 December	Eid-e-Ghadir
26 December	Tasoa-ye Hosseini
5 February	Arbain (40th day after Ashura)
11 February	Iranian Revolution Day
13 February	Demise of Muhammad and Martyrdom of Imam Hassan
15 February	Martyrdom of Imam Reza
4 March	Anniversary of Muhammad and Imam Sadeq
20 March	Nationalization of the oil industries

Facts



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British Embassy - Tehran Holidays in 2010

Sunday, 3 January	In lieu of New Year's Day
Sunday, 14 February	In lieu of Prophet Mohammad's death
Sunday, 21 March	Noruz
Monday, 22 March	Noruz
Sunday, 4 April	Easter Sunday & in lieu of Sizde Bedar (Nature Day)
Sunday, 2 May	In lieu of May Day Bank Holiday
Thursday, 10 June	Queen's Birthday
Sunday, 9 July	Eve of the Prophet's all to mission
Thursday, 29 August	In lieu of August Bank Holiday
Sunday, 12 September	In lieu of Eid-e-Fitr
Sunday, 3 October	In lieu of Martyrdom of Emam Sadegh
Thursday, 18 November	In lieu of Eid-e Ghorban
Thursday, 16 December	Ashura
Sunday, 26 December	In lieu of Christmas Day



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BICC DIARY 2010

22nd January	Board & Members' meeting Speech given by Rouzbeh Pirouz on 'The Tehran Stock Exchange' and 'Iran Business School'
February	No Board
12th March	Board & Members' meeting Speech given by Nigel Kushner 'Sanctions: An Update'
April	No Board or Members' meeting
21st May	Board & Members' meeting Speech given by David Butter, <i>Economist Intelligence Unit: Iran's Economic Prospects</i> & Presentation given by The Ras Al Khaimah Free Trade Zone in London – The SME International Trade Hub for Gulf regional markets & The Indian Sub Continent
June	No Board
16th July	Speech given by Tom Smith, Director of Export Control Organisation on 'EU & UN Sanctions: The Implications on Export Control'
August	No Board or Members' meeting
17th September	Board Meeting
15th October	No Board <u>Annual Dinner at the House of Commons</u>
19th November	Board & AGM
10th December	No Board

Members will receive invitations for meetings and events closer to the date.

The next meetings are highlighted above if members have not received their invitations please contact the BICC offices to register for a place. An on-line diary of BICC events is also available at www.bicc.org.uk

Persian Gold – First Mover Advantage in Gold Exploration in Iran

Persian Gold, which is listed on the London Stock Exchange (AIM: PNG), was created to take advantage of outstanding gold opportunities in Iran. Iran is a large geological province containing an array of world-class minerals that has been significantly under explored over the past 30 years. Not alone has there been little exploration, but almost none of the new exploration techniques developed in the past generation have been used in Iran. Very few international mining companies are working there creating a unique opportunity for an exploration company like Persian Gold. Persian Gold began operations in 2004 and is currently active in three areas of the country.

Chah-e-Zard near Yazd, is a late stage gold project where a 15 hole-drilling programme produced good results finding gold in 13 of 15 holes. The target is an open cast heap leachable deposit. A further detailed programme of trenching and drilling to define the ore body will get underway by September 2007. The project is a joint venture with the local license holder who holds 30%. Recent drilling on this project catapulted Persian Gold's share price to over 40p valuing the company at over USD\$50m.

At Dalli South of Tehran, Persian Gold will shortly begin a drilling programme on a gold/copper porphyry project where soil sampling has shown significant gold values over a large area. The property has never been drilled. Persian Gold has an option to acquire 70% of the concession.

The Takestan area in Northwest Iran is the third area of focus. The Takestan area is particularly exciting. Modern gold exploration techniques have discovered gold associated with silica and alunite. Some of the largest gold mines in the world have been developed or are being developed in silica-alunite deposits in the Andes of South America. The Takestan area of Iran contains over 1 billion tonnes of alunite, the second largest deposit in the world. It has never been systematically prospected for gold. After sampling over 1800 sq km Persian Gold has zeroed in on 4 license areas the most advanced of which is Twin Hills near Qazvin.

The in country operations are over seen by Iranians with specialist support from external consultants. Persian Gold is currently looking to augment its commercial management team in Iran to support its increasing portfolio of projects. The board which has over 30 years experience in the Natural Resources industry and contains the founders of Petrel Resources plc, an Oil and Gas Company operating in Iraq, is privileged to have the technical advice of Monir Davoudzadeh and the board support of Manouchehr Takin to call on. As one of the very few international explorers working in Iran, Persian Gold sees a continuous flow of projects and is interested in discussing any opportunities to increase its operations in Iran. Over the coming years, Persian Gold expects to become a significant Iranian gold producer.

For more information please visit Persian Gold plc website – www.persianguardplc.com.

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