

ECONOMIC FOCUS



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A SAD LOSS FOR THE
CHAMBER

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

Editorial Team:

Publisher/Editor-in-Chief:
Alun Evans CMG

Editor:
Asmha Hussain

Editorial Director:
Martin Johnston

Magazine Photographer:
Siamak Nikoopour

Events Co-ordinator:
Mitra Taheri

Editorial Consultant:
Dr Cyrus Mehdizadeh

The British-Iranian Chamber of Commerce
No. 1A Tothill Street
London
SW1H 9LJ

Tel: 020 7233 4441
Fax: 020 7233 4442

Email: asmhah@aol.com/admin@bicc.org.uk
Web: www.bicc.org.uk

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Death of the Editor in Chief of Economic Focus Mr Yousef Daneshvar OBE



" We owe it to Joe Daneshvar to continue the work that was so close to his heart "

Many of our readers will already know that the Editor in Chief of Economic Focus and our senior Deputy Chairman, Joe Daneshvar died at the end of March. All of us involved in the British-Iranian Chamber of Commerce send our deepest sympathy to Joe's widow Farideh Daneshvar and his two sons Kooros and Cambiz.

Joe was a loyal friend to many in both the United Kingdom and Iran and he worked tirelessly to promote trade between the country of his adoption and the country of his birth. It will be difficult to imagine the BICC without Joe as he was involved in the organisation from a very early stage and devoted immense time, energy and his own resources to building it into the respected and important body it is today. Not everything in the garden of British-Iranian relations is as rosy as Joe or we would wish. Times are difficult for anyone attempting to do business with Iran. But it will not always be like this. Joe firmly believed that our difficulties would ease over time and that the BICC should remain available to help our members now and in the future. We owe it to Joe Daneshvar to continue the work that was so close to his heart.

Our Chairman, Lord Lamont, gave a very moving and heart-felt tribute to Joe at the Memorial Gathering held on 19 April 2012. As many of our readers would not have been present the text appears in full on page 15. All the members of the Board of the Chamber mourn the passing of our dynamic and much admired colleague and fully share in the sentiments expressed by Lord Lamont.

Finally as this is the final issue of 2012 the Chamber would like to pass on our good wishes for the coming season and good fortune in 2013 both in your business and private lives.

Mr Alun Evans CMG

Acting Editor-in Chief, Economic Focus

Deputy Chairman, The British-Iranian Chamber of Commerce

STATUS AND FUTURE OF THE P5+1 NEGOTIATIONS WITH IRAN - A GERMAN PERSPECTIVE BY Dr HANS-JAKOB SCHINDLER

In June we had the good fortune to have Dr Hans-Jakob Schindler speak to our members and guests, discussing German trade with Iran and how British companies could learn from those trading in Germany.

The Bi-lateral Relationship: Germany and Iran have had a long standing political and economic relationship which has recently been overshadowed by the nuclear issue. Germany like its partners is committed to a diplomatic solution in which sanctions is an indispensable element. There is currently no government support for trade with Iran, but trade continues largely in the hands of middle-sized regionally based companies that have minimal or no links with the USA. Few goods for export are covered by sanctions, but the sanctions on financial transactions make it impossible to receive payment. After the closure of the European Iranian Trade Bank no guaranteed way exists to receive payments. The volume of goods traded has reduced significantly, but because of inflation the value is about the same.

New Negotiations: The parties were able to return to the negotiating table in the second quarter of 2012 in part because the Supreme Leader had become aware that sanctions were impacting on the Iranian economy, the EU postponed the implementation of the new sanctions and President Obama made it clear that the US was opposed to Iran possessing nuclear weapons and not a nuclear capability. The technical talks held in Baghdad, Moscow and Istanbul however only clarified the positions of the two sides. Real progress is hard to achieve when there is serious distrust between the US and Iran and during a US election when making concessions is difficult. Avoiding a breakdown was in itself modest progress.

Way Ahead: The global oil prices remained stable after the sanctions were implemented and Iranian exports declined. An increase in Saudi production clearly helped, but the Kingdom's spare capacity has now been reduced and an oil embargo on all Iranian oil exports would seriously disrupt international markets. Since 1 July 2012 European insurance is no longer available for Iranian shipping though Japan offers sovereign shipping insurance and China and India accept it from Iran. China and India have also negotiated barter deals which



will harm domestic Iranian production.

Coping with the Current Situation: International companies using barter deals will need to have good contacts in Iranian government agencies. In all they do companies need to be aware of reputational risk and ensure that the legality of their deals has been checked carefully by lawyers. For its part Iran is likely to end up with large rupee deposits.

Long Term Expectations: A negotiated solution to the nuclear issue is on the cards. The possible way forward is enrichment capped at 3.5%, the Additional Protocol in force and enhanced IAEA inspections in Iran. The period between the inauguration of the US President and the Iranian Presidential elections in June 2013 provides a window of opportunity to strike a deal. Ending sanctions is not however simple. UN Security Council sanctions require a suspension of all nuclear enrichment which is unlikely to happen. In the USA sanctions covered by Executive Orders can be curtailed by the White House, but an end to Congressional sanctions will require a vote in both Houses. The EU will not act unilaterally. The risk of war remains low. Israeli rhetoric has toned down since new sanctions were introduced in January and war indicators are absent i.e. no spike in oil futures or tanker insurance, no relocation of US aircraft carriers outside the Persian Gulf and no discernible Israeli military preparations. Escalation could nevertheless arise if there were retaliation following covert cyber attacks on Iran and the assassination of Iranian nuclear scientists.



Disclaimer: this talk should not be interpreted as an official position of the German Government or of the Institute for Strategic Dialogue. The analysis is based on the speaker's professional involvement with the issues discussed and all statements and analytical conclusions are his. The presentation should not be taken as a substitute for detailed legal advice on the international sanctions regime concerning the Islamic Republic of Iran.

Dr Schindler is Director of the Institute for Strategic Dialogue's Europe in the World-focused programming. He also works as a consultant on political, economic and security issues concerning Iran and the Gulf, the Middle East, North Africa and Central Asia. From 2005-11 Hans was First Secretary (Political Affairs) at the German Embassy in Tehran. He frequently negotiated with Iranian governmental agencies. In addition, he managed the political, economic and security reporting of the German Embassy. Dr Schindler studied in Germany, the USA, and Israel, and holds a Doctorate and a Master's degree in International Relations/International Terrorism from St Andrews University.



Snapshot Summary of EU Sanctions on Iran

Ban on the import, purchase and transport of Iranian crude oil and petroleum products – including financing and insuring, directly or indirectly. However:

- Contracts already concluded may be executed until 1st July 2012;
- Contracts already concluded which call for Iranian crude oil and petroleum products to be supplied for reimbursement of outstanding amounts may be executed – including after 1st July 2012; and
- A review of the measures will take place before 1st May 2012.
- Ban on the import, purchase and transport of Iranian petrochemical products – including financing and insuring, directly or indirectly. However:
 - Contracts already concluded may be executed until 1st May 2012;
 - Contracts already concluded which call for Iranian petrochemical products to be supplied for reimbursement of outstanding amounts may be executed – including after 1st May 2012;
- Ban on the sale, supply or transfer of key equipment and technology for the petrochemical industry in Iran or to Iranian or Iranian owned enterprises outside Iran – including technical assistance or training and other related services, or financing related to it. However:
 - Contracts already concluded for the sale, supply, or transfer of such equipment may be executed.
- Ban on new investments in petrochemical companies in Iran and related joint ventures. However:
 - Obligations prior to 26 July 2010 may be executed.
- Additional asset freeze on 3 individuals and 8 entities (including Bank Tejarat and Tidewater Middle East Company). However:
 - For a period of 2 months from 24th January 2012, payments to and from Bank Tejarat may be authorised on a case by case basis by member states so long as the payment is not received directly or indirectly by an entity subject to the asset freeze.
- Assets of the Central Bank of Iran in the EU are frozen. However:
 - Transfers may be authorised on a case by case basis by Member States for specific trade contracts so long as no other sanctioned bank is involved and no person or entity subject to the asset freeze will receive the monies.
- Ban on direct or indirect sale, purchase, transportation or brokering of gold, diamonds and other precious metals to, from or for Iranian public bodies and the Central Bank of Iran;

Note on Tidewater Middle East Company (“Tidewater”)

This entity must not be confused with a US entity with a similar name. Tidewater is subject to an asset freeze and is reported to have operations at seven of the main ports in Iran, namely (i) the Shahid Rajaei Container Terminal at Bandar Abbas, (ii) Bandar Imam Khomeini Grain Terminal, (iii) Bandar Anzali, (iv) one terminal at Khorramshahr Port, (v) Assaluyeh Port, (vi) Aprin Port and (vii) Amir Abad Port Complex. The asset freeze states “No funds or economic resources shall be made available, directly or indirectly, to or for the benefit of [Tidewater].....” This means that any EU entity or individual involved “directly or indirectly” in a payment to Tidewater is potentially in breach of the EU sanctions. This will include payment of port dues.

The oil embargo

The EU crude oil ban mainly impacts Greece, Italy and Spain, the only EU members who import Iranian oil (although EU traders are also impacted) but in fact this ban will not take effect until 1st July.

Subject to other factors, we expect to see a decrease in the price of Iranian oil. This emanates not only from the EU ban but more likely as a result of pressure being placed by the US on other buyers of Iranian oil to cease doing so. The US has had mixed success to date. However, we may see a shift in approach with the US facing reality that they cannot force the likes of China and India to cease buying Iranian oil. The US may instead request that those who buy Iranian oil insist on steep discounts, in an attempt to damage the Iranian economy.

Nigel Kushner is CEO of Whale Rock Legal, a law firm specialising in international trade.



Whale Rock Legal

Email: nigel.kushner@whalerocklegal.com

Telephone: + 44 (0) 207 726 5092

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NUCLEAR SECURITY AND IRAN: AN INTERVIEW WITH PETER JENKINS

Peter Jenkins CMG is former British Permanent Representative to the International Atomic Energy Agency (2001-06) and is now a partner at ADRg Ambassadors LLP, an international partnership of former Ambassadors who provide representation and strategic advice to businesses and governments

[Diplomatic Courier]: What are Iran's motivations for pushing forward on its uranium enrichment plan?

[Ambassador Peter Jenkins]: American intelligence experts believe Iran wants the means to make nuclear weapons (a nuclear weapons capability) but not nuclear weapons. A uranium enrichment capability would be a vital component of a nuclear weapons capability.

I sense that Iran's main motive is security-related. Iran's leaders want to feel confident that, if ever there were a threat to Iran's "supreme interests", they could withdraw, legally, from the NPT and manufacture nuclear devices. They may also want the enrichment program to bear witness to the intellectual calibre and organizational skills of the Iranian people and to show that Iran, an ancient Asian civilization, is – like China and Turkey – back in business.

[DC]: What are a country's rights to uranium enrichment under the Non-Proliferation Treaty (NPT)?

[PJ]: NPT parties may develop an enrichment capability provided they respect all other provisions of the NPT, especially

The beat of the drums of war is growing steadily once again, and this time the public and private debates are swirling about Iran and its uranium enrichment program. So when an article appeared in The Daily Telegraph, titled "The deal the West could strike with Iran," advocating for allowing Iran to enrich uranium, albeit with the toughest safeguards, it set off a flurry of international attention. Is it wise to trust Iran? How would such negotiations play out? What are Iran's motives? A journalist from The Diplomatic Courier sat down with the article's author, Ambassador Peter Jenkins, to find out.



the obligations to refrain from manufacturing nuclear devices and to place all fissile nuclear material under IAEA safeguards.

For at least 12 years prior to 2003 Iran failed to respect its safeguards obligation. The NPT does not call for a non-compliant state to forfeit its rights. It requires only that the non-compliance be corrected; this Iran has done.

Following the discovery of its non-compliance Iran suspended a range of enrichment-related activities. It did so voluntarily, as a confidence-building measure, since the NPT does not require suspension in such circumstances.

[DC]: In your article in The Daily Telegraph, you state that Western powers should work toward an agreement – similar to the 2005 offer Iran made to the UK, France, and Germany – that would allow Iran to continue to enrich uranium if they agree to the strictest of IAEA standards. How would such a deal benefit western powers?

[PJ]: My experience leads me to doubt that the current Western policy – essentially to coerce Iran into giving up its enrichment capability – will work, and to fear that it will lead to a third Gulf War, which would cost the West lives and economic growth. So in my article I argued for a change of tactics and a change of objectives.

Tactically, what I suggest is the abandonment of coercion and a return to persuasion – diplomacy instead of sanctions, in essence. Being heirs to an ancient civilization, Iranians feel insulted by coercive measures and saloon-bar

language; they react better to good manners, mutual respect, and a rational search for shared interests.

As for objectives, it seems to me that Western security interests do not require the West to insist on Iran surrendering its enrichment plants and work-shops provided all these are subject to intrusive international monitoring. So I favour the West negotiating for an agreement that is based on the balance of rights and obligations enshrined in the NPT, and on Iran volunteering measures to reassure neighbours who have been alarmed by Iran's past "policy of concealment".

The ultimate aim would be to minimize the risk of Iran deciding to use its nuclear capabilities for military purposes, by influencing Iranian motives and perceptions, especially perceptions of the costs and benefits of becoming nuclear-armed. Specifically the aim would be to:

- increase the probability that any move towards being nuclear-armed will be detected by IAEA inspectors
- increase the probability that the UN will react as one, and forcefully, to any such detection, inflicting real harm on Iranian economic and political interests
- reduce Iran's sense of isolation, insecurity, resentment and anger over Western handling of the nuclear problem since 2005
- increase the value to Iran of international trade and investment so that Iran would have more to lose if it were to become nuclear-armed
- strengthen the reformist tendency in Iran by denying the more conservative tendencies a cause around which to rally Iranian nationalists.

There is no perfect policy response to the Iranian enrichment program. That's why the debate still rages nine years after Dr. El Baradei first visited the enrichment site at Natanz. But some policies may be better adapted to the realities of a complex, multi-dimensional problem than others, and more likely to ensure the non-occurrence of potentially catastrophic conflict in a region vital to global prosperity.

[DC]: Aren't you overlooking the "international obligations" that the Security Council has created for Iran, under Chapter VII of the UN Charter, especially the obligations to suspend all enrichment, apply the IAEA Additional Protocol, and resolve all nuclear questions on the IAEA file? Iran has failed to comply, surely?

[PJ]: Yes, Iran has failed to comply. It's deplorable that a UN member should ignore demands made by the Security Council. But there is something troubling about these demands. As you say, they are "international obligations" thanks to the use of the powers Chapter VII confers on

the Security Council.

What is often overlooked, however, is that the drafters of Chapter VII, no doubt wanting to guard against the Security Council abusing this extraordinary power to make international law, ensured that the chapter opens with the following sentence: "The...Council shall determine the existence of any threat to the peace, breach of the peace, or act of aggression and shall...decide what measures shall be taken... to maintain or restore international peace and security."

No such determination has been made in respect of Iran's enrichment activities, and it is not obvious that these do constitute a threat to the peace. So it could be said that the use of Chapter VII has been disproportionate and therefore unjust.

I suppose it could be argued that Iran must abandon enrichment to maintain the peace, since Israel has repeatedly threatened to breach the peace by committing an act of aggression to destroy Iran's enrichment plants. But the logic of that argument is questionable. It would be more rational to remind Israel that, as a UN member, it is obliged to refrain from threatening other members with aggression, and may only use force defensively in the event of "an armed attack" on Israel.

I am confident Iran would agree to most of the UN's demands – but not suspension – in the course of the balanced negotiation for which I am arguing.

[DC]: If Iran were to use a deal to cheat, and ultimately produce enough high-grade uranium for a weapon, what recourse would the international community have?

[PJ]: There would be time for UN-backed diplomacy to persuade Iran to step back. If that failed, there would be time for the UN to approve measures to raise high the political and economic costs of becoming nuclear-armed. There would also be time for the UN to approve military action, though the costs and benefits of this would have to be weighed very carefully.

[DC]: Tensions have been escalating between Iran and Saudi Arabia as they both vie to become regional leaders of their respective Islamic sect. Do you see an opportunity to ease these tensions between the countries through the enrichment negotiations?

[PJ]: Saudi fears of Iran represent a significant political obstacle to a peaceful settlement (though these fears are not shared by other neighbours of Iran such as Turkey,

[DC]: Relations between Iran and the United Kingdom have also worsened since the student attack on the UK Embassy in Tehran, and recently since Iranian intelligence agents interrogated a BBC Persian staff member in London. Relations between the U.S. and the Islamic Republic have never been good. Who is in the best position to lead negotiations?

[PJ]: Iran would have no confidence in an agreement to which the US was not a party. So the US must be at the negotiating table. The UK could be represented by the European Union but would probably prefer to speak for itself.

[DC]: Iran's government is currently undergoing a seeming leadership crisis, as supporters of President Ahmadinejad and Supreme Leader Ayatollah Khamenei escalate the rhetoric against each other. Do you believe this political situation could affect negotiations?

[PJ]: Yes. The outlook for the next few months is unpromising. It could improve, though, after the convening of a new Iranian parliament in June.

[DC]: What is your opinion on why the West is accepting of some countries' (such as Brazil) uranium enrichment programs, but sees Iran's program as an inherent threat?

[PJ]: A good question. It brings us back to motives. Brazil has no discernible reason to use its enrichment plants to produce material for weapons. The West needs to work towards feeling equally confident about Iran. Working to affect motives can deliver durable solutions to problems; imposing constraints and restrictions to deny capacity cannot.

[DC]: The sanctions the U.S. and EU are currently levying on Iran are creating a rough economic situation for the Iranian people, dramatically devaluing the rial and making access to everyday goods difficult. Are such sanctions useful and effective? Or could they create an environment that could prevent a diplomatic solution?

[PJ]: Yes, the West seems to have become indifferent to the suffering of ordinary Iranians. It used to boast that its sanctions were so carefully targeted that only members of the elite would suffer. No longer. It also seems indifferent to the harm it is doing to its own economic interests.

These prices could be worth paying if sanctions were likely to bring about peacefully a lasting settlement. They are not, however, as I have already explained. Not only do Iranians bridle when subjected to pressure; in the majority of cases since 1945 sanctions have been ineffective.

ANNUAL RECEPTION

October 2012 -

House of Commons

Members and guests of the BICC met once again in the Members' Room of the House of Commons for the Chamber's Annual Dinner. This was the first occasion that Yousef Daneshvar was sadly not present and to mark the Chamber's great loss and the debt it owed to Yousef the evening was dedicated to his memory. It was a privilege to welcome Farideh and members of his family to the occasion. Over 140 people were present which is yet again a record for this popular event.

Our Chairman Lord Lamont welcomed members and guests to the Dinner. He noted that LV Shipping, BIBA, PIB Bank, IBCCIM, Bank Julius Baer and Danlesco Group had taken tables. He also welcomed the guest speaker, Prof. Hashem Pesaran, Ardeshir Naghshineh, Urs Schmid of Bank Julius Baer and Lady Renwick to the Dinner. He went on to note the sad decline of 70% over six years to 2011 in UK exports to Iran and it was certain that because of sanctions there would be a further decline in 2012. It was however not at all clear that sanctions would force Iran to change its nuclear policies.

The reduction in trade had led inevitably to a reduction in members but we were grateful that we still had a strong membership base. Lord Lamont reported that Dr Touradj Amir Soleymani had been appointed Deputy Chairman in the place of Yousef Daneshvar and Cyrus Mehdizadeh was contributing significantly in the BICC office. We were also planning to expand services we offered our members.

Lord Lamont went on to introduce Professor Pesaran. The Chamber was indeed fortunate to have secured the presence of such a distinguished British-Iranian. He had recently been an Economics Professor at Cambridge and also at the University of Southern California, his distinctions were many including being Fellow of the Journal of Econometrics and Fellow of the British Academy.

In his talk Professor Pesaran gave us a fascinating summary of how he saw the problems facing the Iranian economy at the present time, noting that Khatami, when President had relied on expert technocrats to help him solve the problems of the Iranian currency. This had been achieved by insuring that the country's oil revenues were not fully spent in good years and a surplus was put aside for lean years. President Ahmadinejad on the other hand tended to spend oil revenues up to the maximum which produced serious problems in the lean years. This had led to serious inflation which was now averaging 18 percent per annum compared to 2 percent in the USA. The sanctions introduced by the USA and the EU were a factor but were not the main cause of Iran's economic problems. Inflation was now seriously affecting international Iranian business making imports much more expensive and leading to a rise in the cost of living. The one area of sanctions which was becoming an increasingly serious problem was US financial sanctions as the US was involved in more than 50 percent of Iran's financial transactions. The main weakness in US policy was that the Americans had too many objectives appearing to want not only an end to nuclear enrichment but an end to Iran's involvement in Iraq and Lebanon, a change in the regime and the emergence of a pro-US government. It was far from certain that sanctions would achieve any of these objectives.



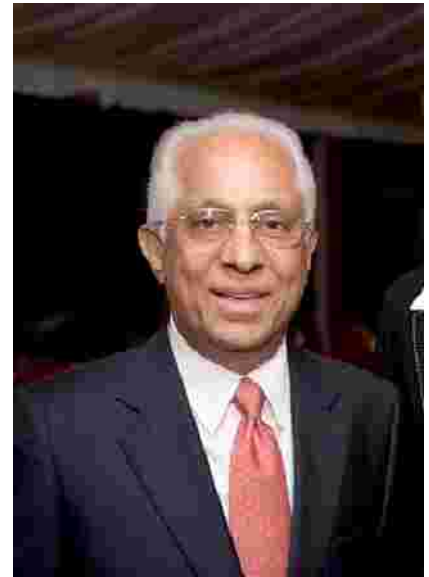


A TRIBUTE TO YOUSEF DANESHVAR

By The Rt. Hon. Lord Lamont of Lerwick

Ladies and Gentlemen, it's a great honour and a great responsibility to be asked to speak at anyone's memorial let alone someone like Joe. But how can one possibly do justice for even part of a person's life in just five or six minutes? It is a very difficult task. What can I say about Joe, who was a very dear friend, whom I admired very much and to whom I am very much indebted.

Joe was a big man, maybe not in stature but he was in every other way. He was big hearted, had a big voice, big vision and a very big personality. If Joe was in a room, you knew he was there, even if you couldn't see him! He was there, going around introducing people, making jokes with a twinkle in his eye. He was always making connections between people. He was the ultimate networker, not for his own advantage but, in my case, for the advantage of the British- Iranian Chamber of Commerce. Of course he was so well connected. He knew so many people and got to know so many people, in London, in the House of Commons, in the House of Lords and in Dubai, in Tehran - even in the government of the United States.



The Late Mr Yousef Daneshvar OBE

I worked with Joe in the BICC, but of course Joe was the BICC, as was said he either started or revitalised it. When he took over it functioned in a room in his own house. Farideh, I am told, got extremely fed up with the endless correspondence which was flooding into the house, so he had to move out and find an office. The Chamber eventually moved to offices in the NIOC House in Victoria Street, next to Westminster Abbey and the House of Commons. It was built up to a membership of 200 including some of the world's biggest companies.

What particularly impressed me about Joe was that he never believed in asking people to do something that he wasn't prepared to do himself. He gave enormous attention to detail in all the functions the Chamber organised. Were the microphones turned on? Were there enough seats? Nothing was too much for him, he even organised delicious Persian food, from Behesht in North London to be delivered all the way to Westminster in time for our members meetings in the BICC office. Needless to say that put up the attendance remarkably and it also introduced me to the delights of Gormesh Sabzi for which I'm eternally in his debt.

In 2003 Joe organised a large Anglo-Iranian trade conference, which was hosted by the then Secretary of State for Trade and Industry, Patricia Hewitt, in the offices of the then DTI and now BISS. The Iranian delegation were led by Dr Mazaheri, the Economics Minister, later the governor of the Central Bank, four other Ministers came and that conference, which Joe organised, really put us on the map. In those days, of course, trade between Britain and Iran was encouraged by the British Government; it was a very different atmosphere. I remember during that conference, or just before it, Joe came into the office and he'd completely lost his voice, he explained to me

that he'd been shouting down the telephone to Dr Mazaheri, because Dr Mazaheri didn't want to come unless he had a meeting with Gordon Brown and Gordon Brown was unable to see him and the conference was in great danger of not happening, but Joe persuaded him that he still had to come even if he couldn't see Gordon Brown! And come he did and it was a very successful conference indeed.

Joe started and regularly produced the Chamber's magazine. It's often very difficult to get reliable information about the Iranian economy, but in no time Joe had produced this glossy magazine, full of photographs, illustrations, graphs and articles about the Iranian economy.

In 2004 and 2005 there were moves in Iran to start an informal boycott of British goods. Yes, Iran was proposing to put sanctions on Britain, rather than the other way round. It could have inflicted great damage on the UK, but Joe went to Tehran and played an important part in persuading the Iranian Foreign Affairs ministry to use their influence against this boycott. Joe frequently helped British firms. He also helped the British Embassy in Tehran to cope with a lot of day-to-day administrative problems relating to security, traffic and parking – all those sorts of things. For all those reasons Joe was rightly awarded the OBE. I know he was very proud of that.

Joe believe passionately that trade and development exist for mutual advantage and help promote good relations, peace and harmony between countries. Sanctions and isolating countries are very rarely successful but in fact counterproductive. It is by allowing people to get to know each other that they realise that the stereotypes that are peddled by the media, and sometimes by politicians, are so often false. Joe was rightly proud of the country of his birth and also of his adoptive country as well. He loved them both and he worked for them both, but he was not blind to the faults of either of them. He knew that to love one country does not require you to hate another and he worked tirelessly for better relations and cooperation and peace between Iran and the UK.

I enjoyed enormously working with Joe and am profoundly thankful for having known him. I am profoundly grateful to him. I salute him and I thank him. Joe has gone on a journey: a journey that all of us will, one day, have to undertake. I would like to read, as part of the tribute to Joe, an extract from a poem by Rumi called 'Starting the Journey', which has a reference to being in exile.

It is time to start the journey, we have seen enough of this world, it is time to see another.

These two gardens may be beautiful, but let us pass beyond them and go to the gardener.

Let us kiss the ground and flow like a river towards the ocean.

Let us go from this valley of tears.

Let us bring the colour of blossom to our pale faces.

Our hearts shiver like autumn leaves about to fall.

In this world of dust, there is no avoiding pain or feeling exiled.

Let us become like beautifully coloured birds and fly to the sweet land of paradise.

Everything is painted with the brush of the invisible one, let us follow the hidden signs and find the painter.

It is best to travel with companions, on this perilous journey.

We are like rain splashing on a road, let us find our way down the spout.

We are like an arched bow with the arrow in place, let us become straight and release the arrow towards the target.

Let us begin the journey home.

IRAN - THE UK'S NATIONAL INTEREST ASSESSED

On the 2nd March the BICC was pleased to have Patrick Seale, Writer, Journalist & Academic who gave an interesting speech to members and guests. The talk was followed by a Q&A session and a buffet lunch.

Patrick Seale is a leading British writer on the Middle East and the author of many books. He was educated at Balliol College and St. Anthony's College, Oxford. He studied Arabic at MECAS at Shemlan, Lebanon. He has been a journalist with Reuters and a renowned journalist for The Observer. He has run his own literary agency and art gallery in London. He helped HRH Prince General Khalid bin Sultan bin Abdul Aziz write *The Desert Warrior*.¹

He is a specialist in Middle East regional matters. He lives in the South of France and the United Kingdom.

I think many of you here today would agree with me that the policies towards Iran of the United States and its main allies—Israel, Britain and France—are fundamentally mistaken and potentially very dangerous.

Instead of engaging with Iran, and seeking to resolve the concerns over its nuclear programme by negotiation, they are waging an undeclared war against it—a war of sanctions,

boycotts, subversion and assassination, which seemed designed to bring about regime change.

Iran is now under great pressure. This raises the very real possibility of a hot war. An accident—a misunderstanding—could trigger a regional conflict, with potentially catastrophic results for all concerned. As we all know, wars tend to have unintended and often painful consequences.

We should prepare for a sharp rise in oil prices, a severe blow to the economies of the industrialised world, as well as large-scale casualties and great physical destruction in Iran, and also possibly in Israel, in Lebanon, in the vulnerable Gulf States, which might find themselves in the line of fire, as well as among US troops in Afghanistan and at various bases in the Gulf. If Iran is attacked, it will fight back in many different ways.

I hold the pessimistic view that, absent a miracle, we are heading for some sort of a violent confrontation.



There is currently some talk of renewed negotiations between Iran and the P5 plus Germany. But the prospects don't look hopeful because what the Western powers seem to be seeking is an Iranian collapse or admission of defeat, which is unlikely to happen.

You will recall that when Obama came to power he pledged to engage with Iran and work to bring about a Palestinian state. On the Palestinian issue, however, he collapsed abjectly in the face of Netanyahu's obduracy. Israel's land grab on the West Bank continues relentlessly and the two-state solution which Obama, together with much of the world, sought to implement, is now virtually dead. Will Obama now collapse on the question of Iran as well?

There is a way out of the crisis, which several people have canvassed. It would require launching a real good faith negotiation with Iran on a wide variety of issues, and not just the nuclear one. But in the present climate, any such development is difficult to envisage.

The terms of a deal would look something like this:

Iran would pledge to enrich uranium only to the levels needed for electricity generation (3%) and perhaps also for medical purposes (20%) but it would also agree to unhindered IAEA access to all its nuclear sites for inspection and verification.

In return, the US would acknowledge Iran's right, under the NPT, to enrich uranium on its territory for peaceful civilian purposes.

The crippling sanctions on Iran's oil exports and its Central Bank would be lifted, and Iran's assets in the US would be unfrozen. Perhaps most important of all, the US would recognise and address Iran's security concerns and would pledge not to seek regime change in Tehran by subversion or military force.

Needless to say, this is a utopian scenario. There seems to be no will in the international community to bring it about. On the contrary, developments are all heading in the other direction.

The West—and Israel in particular—want to impose on Iran a policy of 'zero enrichment' - that is to say they want to eliminate all uranium enrichment on Iranian soil. Only a defeated Iran would accept such terms. Indeed, to demand a suspension of all Iranian enrichment is to rule out the possibility of a peaceful resolution of the Iranian nuclear question.

A peaceful settlement could probably have been reached nearly a decade ago when Iran agreed, after 2003, to suspend all enrichment-related activities. But Iran resumed the production and testing of centrifuge machines in January 2006 when it reached the conclusion that the EU3 were not open to compromise on the future of Iran's enrichment programme.

And once Iran resumed enrichment, the Board of the IAEA asked the Security Council to turn enrichment suspension into an 'international obligation' under Ch. VII Of the UN Charter. That effectively put an end to the possibility of a fruitful negotiation.

Why are the US and Israel now putting such extreme pressure on Iran? The answer, I think, is that having suffered major setbacks in the Middle East, they now see an opportunity to restore their regional primacy.

Let me first say a word about Israel under its current far right leadership. Israel has suffered recent setbacks. It tried and failed to destroy Hizballah by its assault on Lebanon in 2006; it tried and failed to destroy Hamas by its assault on Gaza in 2008-9. It has quarrelled with Turkey, formerly an important ally.

It is alarmed at the rise of the Muslim Brothers in Egypt because this could threaten the Egyptian-Israeli peace treaty of 1979, which has been a pillar of Israel's regional supremacy for the past three decades.

The immediate challenge to Israel lies in the Tehran-Damascus-Hizballah axis, which has emerged in recent years as the main obstacle to Israeli and American hegemony. Viewed from Israel, the axis looks all the more threatening because Iran appears to have mastered the technical problems involved in uranium enrichment. It is close to the threshold of a nuclear capable state.

Iran has not yet diverted nuclear material to a weapons programme nor has it yet decided, so far as one knows, to manufacture nuclear weapons. US National Intelligence Estimates of the past several years concluded that Iran had halted its military nuclear programme in 2003, and had not re-started it.

But Israel has been particularly alarmed by Iran's progress at mastering uranium enrichment. It has therefore chose to demonise Iran, portraying its nuclear programme as an 'existential threat' to itself and a mortal danger to the whole world. And it has repeatedly threatened to attack Iran itself if the US failed to do the job on its behalf.



Much the same forces which pushed the US into war with Iraq—that is to say pro-Israeli neocons (such as Paul Wolfowitz and Douglas Feith at the Pentagon—the real architects of the Iraq war—and David Wurmser and others in the Vice-President's office) are now pressing for war against Iran with the goal of shutting down its nuclear programme, bringing about regime change, and restoring Israel's unchallenged supremacy.

Israel's immediate goal would seem to be to bring down, not only the Iranian regime, but the Syrian regime as well, indeed the whole Tehran-Damascus-Hizballah axis. If Israel managed to do so, its somewhat dented regional supremacy would be restored.

I think it is evident that Israel's clamour about facing an 'existential threat' from Iran is pure propaganda with little or no basis in fact. With its large nuclear arsenal, together with its submarine-based second-strike capability, Israel has ample means to deter any Iranian attack – even if Iran managed to acquire a nuclear weapon and was suicidal enough to attempt to launch one against Israel.

THE NON-CONVENTIONAL OIL REVOLUTION



Dr Mahammad Ali Ala writes for the Focus on the major upward revisions of the world oil reserves witnessed in the first decades of the 21st century.

INTRODUCTION

The first decades of the 21st century have witnessed a major upward revision in world oil reserves. Unlike the previous increases in the mid-1980s, however, these upward adjustments were not in the Middle East but in Canada and Venezuela. Canada upgraded its proven oil reserves from 5b barrels in the early 2000s to 173.6b barrels in January 2012 and Venezuela announced proven oil reserves of 211.2b barrels in January 2012 compared with 99.4b barrels in January 2009 (*Worldwide Look at Reserves and Production, Oil and Gas Journal, 2000-2012*). On this basis, Venezuela and Canada become, respectively, the second and third largest holders of global oil reserves after Saudi Arabia (264.5b barrels), pushing Iran's reserves of 151.2b barrels into fourth position.

Hydrocarbon resources may be classified into first class, lower grade and lowest grade categories, as shown in Figure 1. The first class category includes oil and gas that are stored in pores in permeable rocks (the reservoir) from which they are extracted by drilling normal production wells. These are known as conventional reserves and more than 95% of the current global production is from oil and gas accumulations of this kind.

The lower grade and lowest grade categories fall into the non-conventional class and include oil or tar sands, oil shales and shale oil. The oil reserves in the Middle East fall exclusively into the first class conventional category, whereas the upgrading of the Canadian and Venezuelan reserves is based very largely on the inclusion of their non-conventional resources, production from which was not commercially viable until major advances in technology and increase in the price of oil in the 2000s.

THE NON-CONVENTIONAL OIL RESOURCES

The earliest record of commercial production of oil from non-conventional sources dates from 1838 in France, marking the dawn of the modern oil shale industry. This was followed by the launch of the Scottish oil shale industry in 1859, in a region immediately to the west and southwest of Edinburgh, covering an area of 50 sq mi. The Scottish oil shale industry survived for more than 100 years. At its peak in 1913 it employed 10,000 people and until 1962 the oil produced was exempt from excise duty. The withdrawal of this concession and the availability of abundant supplies of 'cheap oil' made the operation uneconomic and the enterprise closed down in 1964.

From the 1960s interest in non-conventional oil resources waned and they became generally regarded as of little significance. The quadrupling, in the wake of the Yom Kippur War, of the price of crude oil to \$11.65 by the OPEC producers during October-December 1973 served as an impetus to the revival of interest by Western oil companies in these resources in north America and later in south America. Major investments were made in acquiring non-conventional assets in the US and Canada as well as in running oil production pilot pro-

jects. However, the level of technical expertise available at the time was insufficient to meet the challenge of commercial extraction. Consequently, activity declined and the oil companies looked elsewhere for investment opportunities. It would take a further two decades for the exploitation of non-conventional oil resources to come of age as the result of technological breakthroughs and post-2000 oil price increases.

As mentioned above, the non-conventional oil resources include oil or tar sands, oil shales and shale oil. The best studied and documented occurrences of these resources are in Canada, the US and Venezuela but there is no reason why they should not have a wider global distribution. A review of the current production status and the potential oil reserves associated with these non-conventional resources is presented below.

OIL OR TAR SANDS

The largest known concentrations of oil or tar sands are in Canada and Venezuela. The Canadian deposits, consisting of sand and clay heavily impregnated with highly viscous bitumen, are situated in the northern part of the province of Alberta, centred largely an area known as Athabasca. The location of the Canadian oil sands is shown in Figure 2. In the early stages of the operation, the sand was excavated and transported on fixed conveyer belts to processing plants where the bitumen was separated. From the late 1990s, the mining process was modernised, expanded in scale and giant trucks were used to convey the sand to the separators. The bitumen was then upgraded into a high quality, low sulphur 'synthetic crude' or 'syncrude', which can be processed in a conventional refinery into petrol, diesel, aviation fuel and other products.



Source: Wikipedia Figure 2 Location of the Canadian oil sands

A most recent technological breakthrough has made it possible to produce the bitumen in situ (in place) which avoids the environmentally undesirable mining method. In situ production involves injecting super-hot steam, generated by burning natural gas, to heat the bitumen underground. This reduces the viscosity of the bitumen, enabling it to flow via production wells to the surface. Figure 3 presents an aerial view of oil sand operations near Fort McMurray, Alberta. Since 1997, over \$120b has been invested in the Canadian oil sand operations. Production more than doubled from 600,000 b/d in 2000 to about 1.5m b/d in 2010 and is projected to double again to 3m b/d by 2020. This would be higher than the current crude oil production of either Venezuela or Kuwait. Adding its output of conventional oil to this, Canadian production could reach nearly 4m b/d by 2020 (Yergin, 2011).

Venezuela's non-conventional oil resources occur in a region called the Orinoco oil belt and cover an area of 54,000 sq mi (Figure 4). Like the Canadian deposits, they consist of bitumen impregnated sand and clay. The first attempt to extract oil from these was in the 1970s but the operation was abandoned due to constraints on costs and technology.

Figure 3 oil sand operations near Fort McMurray, Alberta

The area was opened up to foreign investment in the 1990s and several Western firms, in partnership with PDVSA, the state oil company, poured about \$20b into developing production from the oil sands. Production reached 600,000 b/d within a decade, with significant projected potential increases. However, the enterprise was nationalised in 2007 and those Western oil companies that chose to remain were reduced to subordinate roles. Russian and Far Eastern operators were brought in and the Venezuelan government announced the objective of raising production to 2m b/d by 2013. So far, however, the indications are that this objective is unlikely to be achieved.

OIL SHALE

Oil shale, not to be confused with shale oil (see below), contains large concentrations of organic material which, on being subjected to heat over millions of years in nature, is converted into the crude oil that is stored in conventional reservoirs. This natural process can be replicated by heating the oil shale under ground to convert its organic content into oil, paralleling the in situ production method applied to oil sand.

As the result of the oil price shocks following the Yom Kippur war in 1973 and the Iranian revolution in 1979, industry attention turned to the exploitation of oil shale deposits. Petroleum companies announced major oil shale projects and the US government allocated tens of billions of dollars to an oil shale development programme in an attempt to achieve energy independence. By the early 1980s, however, these projects were terminated without any commercial production having begun due to rising supplies of oil in the world markets, falling prices and steeply increasing oil shale develop-

ment costs. Nonetheless, it should be noted that oil shale remains potentially an enormous source of petroleum. Global oil shale resources are estimated at 8 trillion barrels, of which 6 trillion are in the US, much of it in the Rocky Mountains area (Yergin, 2011).

SHALE OIL

This is the newest and potentially a substantial source of oil in the US. That vast amounts of oil are locked up in shale rocks has been known for a long time, but its recovery in commercially viable volumes had until recently eluded the industry. What has made the difference is the development of the technology for liberating gas from shale rock – horizontal drilling and hydraulic fracturing (BICC Economic Focus, Winter 2012/12 Issue). Since this kind of oil occurs in other low permeability rocks as well as shale, it is referred to by some investigators as ‘tight oil’ rather than shale oil.

The distribution of oil bearing shale rocks in the US is shown in Figure 5. The Bakken shale was the first to be developed, with production beginning at the modest rate of 10,000 b/d in 2005. It expanded to 400,000 b/d in 2010 and is projected to reach 800,000 b/d in the next five years.

Although in its infancy, shale oil development is advancing rapidly in the US and deposits such as the Niobrara, Mississippi Lime, Bone Spring-Spraberry, Barnett, Haynesville-Bossier, Eagle Ford and Marcellus are becoming the focus of exploration attention. Initial estimates place the recoverable reserves of American shale oil reserves at 20b barrels. A resource base of this magnitude could add an additional 2m b/d to US

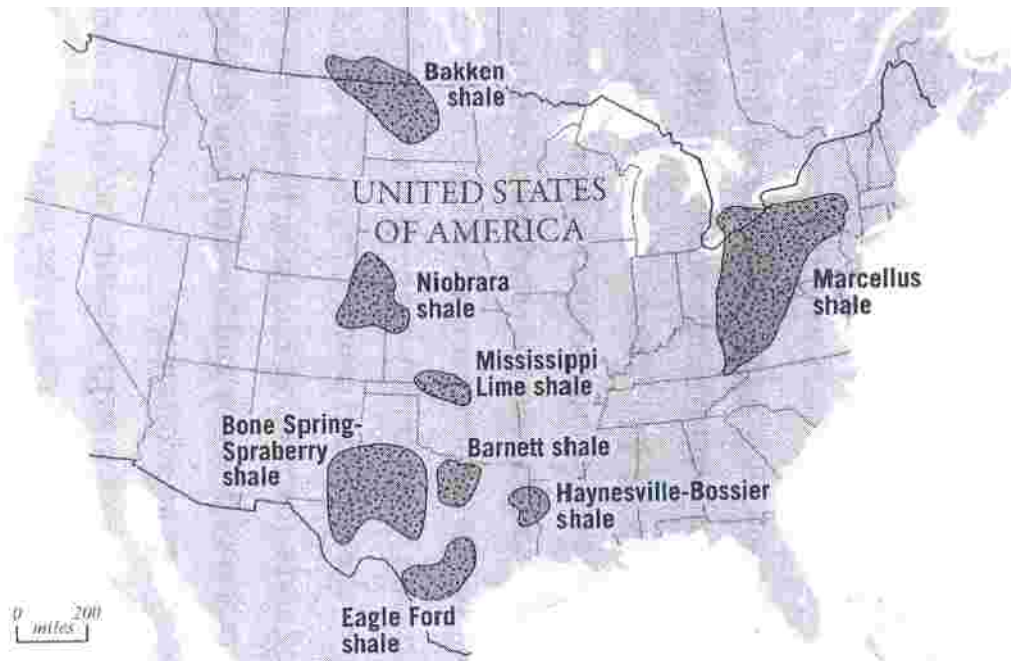


Figure 5 Location of shale oil rocks in the US

Modified from Yergin, 2011

production by 2020. Little is known about the distribution of shale oil deposits outside north America but they are expected to be of common occurrence elsewhere in the world.

CONCLUSIONS

- The recoverable reserve figures currently quoted for non-conventional oil resources may well turn out to be an underestimate. For the Canadian oil sands, the 173.6b barrels of recoverable reserves amounts only to 10% of the estimated 1.8 trillion barrels of oil sands in place; the recovery factor of 10% could increase with future advances in extraction technology.
- Non-conventional oil resources are often located in remote areas and their development is a high cost operation dependent on elevated oil prices. On the positive side, there is no exploration risk and the projects have a long life which make them economically attractive in the long term.
- With little or no prospect of replacing fossil fuels as the primary source of energy over the next two and a half decades, the non-conventional oil resources will play an important role in ensuring energy availability and security for the foreseeable future.

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BICC DIARY

2012

- 2nd March Board & Members' Meeting
Speaker Patrick Seale ,Writer, Journalist & Academic
'Iran - The UK's National Interest Assessed'
- 27th April Board & Members' Meeting
Speaker Unal Cevikoz, Turkish Ambassador to the UK
Turkey's Relations with Iran
- 22nd June Board & Members' Meeting
Speaker Dr Hans-Jacob Schindler German trade with Iran
and how British companies could learn from those trading
with Germany .
- 11th October Annual Dinner at the House of Commons
Guest of Honour Professor Hashem Pesaran
- 7th December Annual General Meeting and Members' Meeting
Speaker Christopher de Bellaigue .Writer and Journalist
Author of Patriot of Persia: Muhammad Mossadegh and a
very British Coup

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INFORMA UK
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Southgate Business Centre
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