Client**Alert**

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Deal or no deal?

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Energy and resources companies that have been steering clear of the complexities of three distinct but overlapping Iran sanctions regimes would have been encouraged by an interim deal between Iran and international community representatives announced on April 2, 2015.

The 'Parameters for a Joint Comprehensive Plan of Action (JCPOA) regarding the Islamic Republic of Iran's nuclear program' lays a foundation for a final deal to be agreed by June 30, 2015. It also establishes Iran's agreement to curtail its nuclear program significantly. In return – and provided that the International Atomic Energy Agency verifies implementation of Iran's key nuclear commitments – the UN, EU, and US would give Iran relief from certain nuclear-related sanctions.

Some US and EU sanctions – for example, those relating to certain trade in gold, precious metals and petrochemical products – are already temporarily suspended under an interim agreement reached in November 2013 that expires on June 30, 2015. Some of these suspensions could be extended, and the underlying sanctions even lifted, under a final deal.

That's why companies are paying attention: broader relief for mining companies may be in the pipeline.

The details – that is, what sanctions relief will be provided in exchange for Iran taking steps to curb its nuclear program – remain subject to ongoing negotiations. The final agreement will likely provide for lifted or suspended sanctions to be immediately "snapped back" into place if Iran violates the deal. In the meantime, sanctions that have not been suspended remain in place.

The issue facing miners and traders is what sort of sanctions relief is on the cards after June 30, 2015. Will trade in gold, precious metals, diamonds, graphite, raw and semi-finished metals, oil, gas and petroleum be liberated? Will it be possible to invest in major resources projects with Iran-related persons or entities, including companies owned or controlled by Iranian companies outside Iran? White & Case is monitoring developments, but in the interim it is possible to recap on what is expected to come and how that might affect and benefit miners and traders.

If you have questions or comments about this client alert, please contact:

John Tivey
Global Head of Mining and Metals
Partner, Hong Kong
T: + 852 2822 8779
M: + 852 6050 0225
jtivey@whitecase.com

Rebecca Campbell
Partner, London
T: + 44 20 7532 2315
M: + 44 79 1259 6131
rebecca.campbell@whitecase.com

James Killick
Partner, Brussels
T: + 32 2 239 25 52
jkillick@whitecase.com

Nicole Erb
Partner, Washington, DC
T: + 1 202 626 3694
nerb@whitecase.com

Sally Tucker
Associate, Hong Kong
T: + 852 2822 8727
sally.tucker@whitecase.com

Cristina Brayton-Lewis
Associate, Washington, DC
T: + 1 202 729 2407
cbraytonlewis@whitecase.com

Sara Nordin
Associate, Brussels
T: + 32 2 239 25 70
snordin@whitecase.com

Assessing temporary sanctions relief amid nuclear negotiations

The EU has tentatively agreed to "terminate the implementation of all nuclear-related economic and financial sanctions" which includes asset freezes; import and export bans relating to oil, gas, petroleum, petrochemicals, diamonds, graphite and raw or semi-finished metals; investment/financing restrictions in the Iranian oil and gas, uranium mining/enrichment and petrochemical industries; and fund transfer monitoring requirements.

The US Congress has taken an active interest in the negotiations. In May, the US Congress approved a bipartisan bill giving themselves the power to review any deal before sanctions can be waived or lifted and the power to disallow a deal if they enact a joint resolution. President Obama is expected to sign the bill imminently.

Against this backdrop, US officials have been reluctant to give details of the particular sanctions that could be lifted or suspended. Under the 'Parameters for a JCPOA', the US tentatively agreed to "cease the application of all nuclear-related sanctions" but not sanctions related to terrorism, human rights abuses and ballistic missiles.

Relief is therefore likely to relate to "Secondary Sanctions" that target activities with no US nexus. It is unclear whether any deal will provide relief on sanctions applicable to US persons.

Although core nuclear restrictions relating to "sensitive technologies and activities" (such as cargo inspections and a special procurement channel for certain nuclear-related and dual-use items) would remain under a new UN Security Council (UNSC) resolution, the final deal is expected to include substantial UN sanctions relief. All past UNSC resolutions relating to Iran's nuclear program would be terminated if Iran completes specific nuclear-related actions and replaced with the new core nuclear restrictions UNSC resolution.

Trading with Tehran…A new market for miners?

Thanks to the interim suspension of sanctions in 2013, trade in gold, other precious metals and petrochemical products is permitted until June 30, 2015. However, the 2013 selective suspension did not extend to trade in diamonds, graphite, raw and semi-finished metals (such as iron ore, aluminium, steel and coal), which is currently sanctioned. In 2013, Iran was the world's third largest importer of coke, semi-coke of coal, lignite or peat (accounting for 7.5% of world imports) and the world's fourth largest importer of ingots and other primary forms of iron or steel and semi-finished products (accounting for 6% of world imports by value).

If a deal is struck with Iran before June 30, 2015, producers and traders may have the opportunity to satisfy fresh demand for diamonds, graphite, raw and semi-finished metals. In this distressed commodities environment, we expect that miners and traders will be keen to understand the trade opportunities to come and position themselves to satisfy Iran's demand when it comes to market.

A deal would also impact companies importing from Iran. In 2013, Iran's list of exported commodities (where types were specified) was topped by petroleum oils, crude and gaseous hydrocarbons including petroleum gases. In the same year, the World Steel Association ranked Iran as the 15th largest steel producing country, accounting for 15.4Mt of global crude steel production.

Currently, trade in steel is sanctioned and the suspension of sanctions in relation to trade, transport and insurance for oil, gas and petroleum is both very limited and complicated by overlapping and differing sanctions regimes. If these sanctions are more broadly – and uniformly – suspended under a final deal, additional steel, oil & gas supply will come onto the market and may drive prices down further. This will likely reduce transport costs across multiple commodities and, for example, provide further welcome cost relief for seaborne iron ore exporters.

Furthermore, if a final deal suspends or lifts sanctions on fund transfers, doing business with Iran-related persons or entities, including companies owned or controlled by Iranian companies outside Iran, will become much easier. Existing joint ventures with such companies may be able to ease measures/protections introduced due to sanctions regimes, and farming-out joint venture interests to an Iran-related person or entity may be an option that is back on the table.

It should be assumed that existing relief will expire on June 30, 2015 and existing sanctions will continue until a deal is struck. But if a deal is struck, more sanctions relief and therefore trade and investment opportunities can be expected. Miners and traders alike will be affected and potentially stand to benefit.

Brussels
White & Case LLP
Avocats-Advocaten
62 rue de la Loi Wetstraat 62
1040 Brussels
Belgium
+ 32 2 219 16 20

Hong Kong
White & Case
9th Floor Central Tower
28 Queen's Road Central
Hong Kong
+ 852 2822 8700

London
White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom
+ 44 20 7532 1000

Washington, DC
White & Case LLP
701 Thirteenth Street, NW
Washington, DC
20005-3807
United States
+ 1 202 626 3600