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ALERT MEMORANDUM

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U.S. Provides Limited Relief from Secondary Sanctions Against Iran Pursuant to the P5+1 Agreement

This note provides high-level guidance regarding the recently implemented agreement suspending certain sanctions against Iran. It does not provide a full summary of existing Iranian sanctions.

The United States has provided very limited (in duration and scope) relief from "secondary" U.S. sanctions (i.e., sanctions targeting transactions outside U.S. jurisdiction) in connection with the "P5+1" interim agreement to suspend Iran's nuclear program. However, most U.S. sanctions against Iran remain in place and unchanged. In brief:

- Secondary sanctions temporarily suspended on Iranian petrochemical and automotive sectors, as well as trades in precious metals.
- Existing "significant reduction" exceptions to secondary sanctions for purchases of Iranian oil extended – no change to prior requirements and conditions to qualify for exception.
- No change to rules for U.S. persons and entities they own or control, though there is a change in licensing policy for civil aviation safety.
- No change to treatment of frozen Iranian funds, unless an institution is directly contacted by the U.S. Government and asked to participate.
- No change to any other provision of U.S. sanctions unless explicitly provided (for example, automotive-related transactions with Iranian entities specifically designated for U.S. sanctions are still sanctionable).

On November 24, 2013, the P5+1 (comprising the United States, United Kingdom, China, France, Russia, and Germany) reached an interim agreement with Iran to halt Iran's progress on its nuclear program. In exchange for Iran's compliance with the restrictions on Iran's nuclear program, the P5+1 agreed to provide "limited, temporary, targeted, and reversible relief to Iran" as outlined in a Joint Plan of Action ("JPOA"). On January 20, 2014, when the JPOA became effective, the U.S. Government released guidance regarding its implementation, which has since been supplemented by remarks from various officials.

The United States is temporarily suspending secondary sanctions for transactions involving Iran's petrochemical exports, gold and precious metals, and its automotive sector, as well as associated services. In the case of the petrochemical industry, qualifying transactions with a list of Iranian SDN petrochemical companies are also exempted from secondary sanctions; in the case of transactions in gold and precious metals, related transactions with

Iranian financial institutions (including Iranian government institutions) designated solely as "[IRAN]" on the SDN list are similarly exempted. "Secondary sanctions" are provisions in United States law providing that companies engaging in certain transactions with U.S.-sanctioned parties entirely outside U.S. jurisdiction may themselves become the targets of U.S. sanctions; it remains the case that all transactions within U.S. jurisdiction involving any of these sectors (including all transactions involving U.S. dollar clearing through the U.S. financial system) are prohibited. The suspension applies only to transactions initiated and completed – including payment – during the period from January 20, 2014, to July 20, 2014, at which time the suspension will expire automatically unless further action is taken. Furthermore, the suspension does not exempt transactions that are sanctionable both pursuant to a suspended authority and pursuant to one of the authorities remaining in place – for example, a payment in connection with an automotive transaction made to an Iranian bank sanctioned in connection with weapons of mass destruction or terrorism.

The U.S. Government has also indicated that countries currently benefiting from a "significant reduction" exemption from U.S. secondary sanctions applying to the purchase of Iranian oil will maintain that exemption for the duration of the JPOA, even if those countries do not further reduce their purchases of Iranian oil. However, the extensive network of restrictions surrounding such exempt transactions, including the requirement that all proceeds be channeled to restricted accounts used only for bilateral trade in goods and services originating in the country purchasing Iranian oil pursuant to the exemption, remain in place. Although it is not fully apparent from the language of the JPOA guidance, we understand that the rules with respect to Iranian oil transactions conducted under this exemption are completely unchanged; the effect of the new guidance is simply to give assurances that the existing exemptions will remain in place for at least another six months even if Iranian oil purchases are not further reduced.

The JPOA guidance also, in principle, establishes a favorable licensing policy for specific licenses permitting transactions ensuring the safe operation of Iranian commercial passenger aircraft, including transactions with Iran Air but not with other airlines listed as Specially Designated Nationals. Such transactions are not permitted automatically; a license from the Office of Foreign Assets Control ("OFAC") still must be sought. However, as a practical matter, six months may not be enough time to in fact obtain a license from OFAC with respect to such transactions.

Finally, the U.S. Government and its allies will release specific Iranian funds blocked abroad on a pre-established schedule and will also make provision for certain financial transactions for humanitarian purposes. These provisions do not provide any general relief from U.S. sanctions. Only institutions that are specifically and affirmatively contacted by the U.S. Government are authorized to undertake further transactions under these provisions, in accordance with the instructions they are given.

U.S. officials have been at pains to emphasize that this limited relief can be revoked at any time in light of developments in negotiations with Iran, and there will be no "grandfathering" authority for transactions initiated but not completed prior to the revocation or expiration of the relief. More importantly, they have been emphatic in correcting misguided reports concluding that U.S. sanctions policy against Iran is easing in any other respect and in reiterating the U.S.

Government's commitment to vigorous enforcement of all sanctions against Iran other than those specifically enumerated.

If you have any questions, please feel free to contact Paul Marquardt or any of your regular contacts at the firm. You may also contact any of our other partners and counsel listed under Banking and Financial Institutions located in the "Practices" section of our website at http://www.clearygottlieb.com.

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