Global Counsel

# A state-controlled Rosneft privatisation under BP watch

**Blog post by Associate Adviser Thomas Gratowski, 20 July 2016**

The nuclear deal between Iran and the West was no 'grand bargain'. It was a narrow agreement to curb the Iranian nuclear programme in return for Western sanctions relief. Tehran continues its support for organisations such as Hezbollah and collides with the West over Syria. Its missile programme still angers NATO and violates at least the spirit of the deal. With the deal's first anniversary on Thursday, it is worth asking why it has had relatively limited effect in restarting commercial links between the two sides, which was both a rationale for the deal but also part of the calculus for what might make it stick.

The main business concern is that the deal might still unravel. Especially as presidential elections loom in both the US and Iran in the next twelve months. Republican frontrunner Donald Trump has been ambiguous, and at times outright hostile, towards the deal. President Rouhani, who will certainly face a hardline opponent next spring, still needs to convince his electorate of the economic benefits of the accord. Regular attempts by the Republican-dominated Congress to torpedo the deal have sent signals of legal and political unpredictability. We can expect another burst of such attempts before the Iran Sanctions Act expires at the end of the year. US primary sanctions also largely prohibit American firms from any activities with Iran, and also scare European banks and companies from undertaking transactions with the country.

The environment in Iran has not helped. Economic reform and liberalisation in Iran is more complicated than it has been in countries where elites have been united to a greater degree in seeking a political realignment towards the West, like in Eastern Europe, to some extent in Vietnam and most recently in Myanmar. While the government of President Rouhani wants a greater role for international firms, Supreme Leader Ali Khamenei and his conservative supporters continue to insist on building a 'Resistance Economy' which is more protectionist and inward-looking, and, above all, sceptical of strong economic ties with the West. Nowhere has this been demonstrated more than in the oil sector. The landmark Iran Petroleum Contract has been delayed several times due to hardline opposition to perceived favourable terms for international companies.

For its part, the EU has had only limited effectiveness in getting European businesses to reengage. This is not only to do with the existential question of whether the deal will stick, but with issues that the EU has little influence over. Pressure on Washington to provide assurances for European banks has not yielded substantial results because of domestic US politics. The EU can offer Iran technical expertise such as in the financial sector, but its direct leverage over domestic developments is low. Brussels' support for Iranian WTO membership is an important gesture, but the experience of other countries has shown that the full impact of WTO membership takes time, even up to a decade. At the rate seen since the removal of sanctions, it would take five years until EU-Iranian bilateral trade surpasses the level it reached in 2005.

However, there is reason for optimism that many of the obstacles for businesses will be gradually addressed despite continuing disagreements between Iran and the West. Led by the European Parliament, the European Commission and national capitals, the EU appears ready to invest a good deal of political capital in sorting out the remaining banking issues that have become apparent since the lifting of sanctions six months ago. The Iranian Government and many in the new parliament are also committed to reform. Even if progress will be slow and gradual, the opportunities for business might yet start to outweigh the risks.