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The U.S. Issues New Iran Secondary Sanctions, Placing Europe in the Cross-Fire

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May 13, 2019 – On May 8, 2019, the Trump Administration announced sanctions against the industrial-metals sector of Iran's economy, leaving European countries caught in the middle as tensions escalate between the United States and Iran. The new Executive Order, in pertinent part, authorizes secondary sanctions on persons determined to have "knowingly engaged" in "significant transactions" involving Iranian-origin iron, steel, aluminum, or copper, or goods or services used in connection with those sectors of Iran's economy. The sanctions also include a 90-day period for companies and countries to wind down their business with Iran.

The sanctions potentially impact nearly $5 billion of Iranian exports, which is about 10% of Iran's total exports. While the new round of sanctions may not be as commercially significant as existing sanctions on the oil industry, it illustrates the United States' ongoing strategy to apply economic pressure on Iran through a comprehensive and severe sanctions regime. The new round of sanctions is even more sweeping than sanctions imposed on Iran's metal industry by the United States in the years prior to the 2015 Joint Comprehensive Plan of Action ("JCPOA"), from which the U.S. withdrew almost exactly one year ago. Further, the new sanctions come only a few weeks after the United States ended sanctions waivers that had allowed certain countries to continue importing Iranian oil.

The sanctions come on the same day that Iranian President Hassan Rouhani announced that Iran would begin walking away from its commitments under the JCPOA if it did not receive relief from severe U.S. sanctions in the next 60 days. President Rouhini warned that, without assistance from European countries still party to the agreement, Iran would disregard the 3.67% cap on uranium enrichment established by the JCPOA and possibly resume construction of the Arak nuclear reactor.

In the months leading up to Iran's ultimatum, European countries have tried to rescue the JCPOA and find a mechanism to bypass U.S. sanctions in Iran, but European companies are reluctant to risk the steep fines imposed by the United States if they violate sanctions. Europe has also consistently opposed the U.S. withdrawal from the

JCPOA and imposition of unilateral sanctions. The European Union has repeatedly emphasized its commitment to the JCPOA, recently issuing a press release disapproving of the United States' re-imposition of sanctions. However, even though the EU's objective is to preserve the deal, EU leaders have rejected President Rouhani's ultimatum and have urged Iran to continue adhering to the terms of the agreement.

Through these increasingly severe and broad sanctions, the United States aims to apply maximum pressure on Iran to meet a variety of demands, including dismantling its uranium enrichment programs, halting Iran's military support for the Houthi militia, ceasing support to paramilitary groups, and recognizing the sovereignty of Iraq. According to some experts, Iran might incrementally breach its commitments in the JCPOA but not fully withdraw, potentially giving the country more leverage for a future deal if there is a new U.S. president after 2020. If Iran does pursue that strategy, the Trump Administration could respond with additional measures to further isolate Iran from the world economy.

If you have questions about how imposition of these secondary sanctions may affect your business, please contact one of Hughes Hubbard's experienced economic sanctions attorneys.

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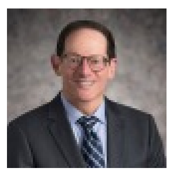

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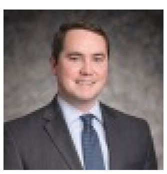

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