The story of the Naftiran Intertrade Company echoes the history of Iran's relationship with the west. It also shows just how difficult it is for Iranian firms and Western companies to untangle their affairs

FOR IRAN OIL TRADER, WESTERN TIES RUN DEEP

EMMA FARGE, CHRIS VELLACOTT AND STEPHEN GREY LONDON, FEBRUARY 16

SUNSET: Naftiran Intertrade Company has said it will relocate to the island of Labuan, a tax haven off Malaysia

he newspaper notice sat next to advertisements for tarot-card readings, Alcoholics Anonymous meetings and children's tap-dancing lessons. The Naftiran Intertrade Company, an oil-trading firm owned by the Iranian government, announced plans to close its registered headquarters in the British tax haven of Jersey and move to a tax haven in Asia.

That advertisement, in a Jersey newspaper last September, came as Iranian companies were stepping up efforts to get around Western sanctions designed to slow or stop Iran's nuclear programme. But the Iranian oil

trader's retreat from the West has been only a partial one.

Reuters has learned that on Feb. 1, Naftiran Intertrade increased its holding in British oil giant BP Plc by 245,000 shares. It now holds a stake worth more than \$190 million.

In addition to the shareholding, the Iranian company's ties to BP include the Rhum gas field in the North Sea, a venture that's now suspended due to sanctions. It also has active projects like a gas field with BP in Azerbaijan, and an investment with Royal Dutch Shell in fuel distribution in Senegal.

An examination of the operations of Naftiran Intertrade, or NICO as it is known,

shows just how difficult it is for Western companies to untangle their ties with Iran. NICO is under pressure to leave Europe, but it has a web of assets, joint ventures and relationships with Western firms that will likely prove difficult and expensive for either side to break.

A spokesman at BP said the company would not comment on individual shareholders. "However we regularly review and take legal advice to ensure our compliance with sanctions legislation. We remain confident that BP is in full compliance with all applicable sanctions regimes including UN, EU regulations and US law, and will remain

REUTERS/BAZUKI MUHAMMAD

in compliance," he said. "We continue to monitor the situation closely."

"A BIT TOO CLOSE"

NICO jumped from Jersey before it was pushed. The firm, which is essentially the offshore arm of the National Iranian Oil Company (NIOC), dissolved its base on the Channel isle on Jan. 8 with a "certificate of continuance" that indicated it would move to the tax haven of Labuan, an island off the coast of Malaysia.

"The company decided it would be best to move their business elsewhere," said a person close to the Jersey government. "They were aware of government concerns. They had very close links to the Iranian regime, a bit too close."

A spokesman for Jersey's financial regulator JFSC declined to comment.

NICO has been under U.S. sanctions since 2008, deemed an entity "owned or controlled by the Government of Iran." It had moved its headquarters to Jersey from London in 1991, after decades of operations in Britain in the days before Iran's Islamic revolution and "long before the days when (Britain) grew a conscience," as one veteran oil trader put it.

The National Iranian Oil Company relies on NICO as an important source of foreign exchange. If NICO was to shut altogether, analysts say, it would starve the NIOC of cash and put it at the mercy of Iran's squabbling political elites and clerics.

"NICO is a way for the National Iranian Oil Company to raise capital without having to rely on budget allocations approved by the Iranian government," said Valerie Marcel, an associate fellow at think tank Chatham House and an expert in nationally owned oil companies.

To get around the sanctions, NICO uses offshore financial havens and a web of asset and industrial holdings in the West. While it was based in Jersey, the firm operated through a "service company" based in Switzerland. But even there, in a country that has not yet signed up to the trade sanctions against Iran, the company's future could be in doubt.

LAKESIDE OUTPOST

Tucked behind a pebble beach on Lake Geneva in Pully, a chic suburb of Lausanne, NICO's remaining active European base is housed in a five-storey glass and marble office block. The office was set up in 2002 after the company moved its oil trading and energy investment activities to Switzerland



PLAY TIME: Expatriates in a bar on Labuan earlier this month. The island is known for its oil and gas fields, banking services and relatively liberal regulations

from London.

A profile page on professional networking website LinkedIn states that NICO's Swiss office has between 11-50 employees; one of those workers posted that the firm's annual trading profit was \$23 billion, although this figure could not be independently verified.

NICO's Swiss base has played a key role in maintaining an international presence beyond the reach of Western powers seeking to choke it, say oil traders familiar with its operations.

Switzerland is neutral and not a member of the European Union. It is also divided into semi-autonomous 'cantons' which compete with each other to attract companies and are often reluctant to interfere in their affairs.

Officials in the canton of Vaud, which contains Lausanne, said they saw no reason for NICO to leave.

"It's not because of cowardice or indifference, it's just that we don't have the authority or the right to have a position on foreign policy," said an official in the canton's department for economic development.

That could change. Switzerland tends to copy sanctions passed by its largest trade partner, the European Union, and trade experts think that it will eventually pass a law aimed at curtailing the "import, purchase or transport" of Iranian oil.

But even then, pressure on NICO's Swiss hub could be blunted by the realities of Switzerland's special status as a neutral nation in international affairs, as well as a variety of loopholes. A former Swiss diplomat now working in Brussels said that "the general plan has been for Switzerland to try to converge on what the EU does, but Iran is a case of its own."

Historically, Switzerland has helped the U.S. in its relations with Iran, he said. "I think the Swiss will be extremely careful about taking any decision on this matter. The overriding concern is the representation of U.S. interests and Switzerland's role as a gobetween... although this has been a difficult undertaking for years."

To avoid creating a loophole in the EU sanctions regime "the trading functions (of Iranian companies) could be moved elsewhere," he said.

LONDON HEYDAY

NICO's roots in Europe are deep. Its former European hub in London is a sparsely occupied seven-floor building a few doors down from New Scotland Yard and within sight of Westminster Abbey. It still belongs to parent company NIOC, according to Land Registry documents.

The building – NIOC House – was bought in 1975, four years before the overthrow of the Iranian Shah. Its scale speaks of the thencosy business relations between London and Tehran. Though NICO left a decade ago, traces of it linger in the Iranian-linked companies that remain. Current occupants include NPC International, which provides management consulting and data to the Iranian petrochemical industry, the British Iranian Chamber of Commerce, and the

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NIOC Pension Fund, according to a list of occupants at the building.

There is no restriction on Iranian companies in Britain as long as they are not on the UK's list of sanctioned entities. The problem comes when a company wants to deal with the United States or agree deals in U.S. dollars. Even so, as sanctions tighten life has become harder for many Iranian firms in London. NPC International's financial statements to March 20 2011 state that the company had "encountered difficulties in acquiring new financing facilities during this past year." NPC blamed sanctions and the credit crunch but said that it had "managed in part to overcome some of these issues".

The NIOC building is only half occupied now, but as late as the 1990s it was the biggest hub of Iranian oil trading outside Tehran. Iran wanted to make money from the spike in crude oil prices after the Iraqi invasion of Kuwait. NICO, it hoped, would become the financial engine for NIOC. Setting it up was risky, experts say; the OPEC oil cartel frowns on members who engage in oil trading that might undermine the cartel's effort to control prices.

But profits fell short of hopes, and NICO instead deepened its ties with European oil majors, handing a big portion of spot oil sales to them.

Some of those links survive. Ongoing deals include a number of joint-owned exploration ventures.

NICO, for instance, owns a 6.4 percent stake in a project previously run by Shell in Senegal, according to a source at Shell. In 2011, Shell sold most of its shares in the project but still has a near 20 percent indirect stake in new owners Vivo Energy Senegal.

A Shell spokesman declined to comment.

Links with Shell's main British rival, BP, run much deeper. The U.S. Department of the Treasury has identified the Rhum gas field in the North Sea, jointly developed by BP and NICO, as a problem project. The gas field, 390 km (240 miles) off the coast of Scotland, produced up to 6 million cubic meters of gas a day in the first six months of 2010. NICO's share was run by a subsidiary called Iranian Oil Company UK, based in Aberdeen.

Hojat Heidari, executive director of the subsidiary declined to respond to guestions.

"The options are pretty limited. The only way out would be for them to sell but the Iranians are bloody minded enough not to care," said an insider at BP.

Another collaboration between BP and NICO is the Shah Deniz project in Azerbaijan,

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which is co-led by BP and Norway's Statoil. The project, 10 percent owned by NICO, works a field estimated to contain 1.2 trillion cubic metres of gas. The British government, the EU and BP have lobbied U.S. lawmakers to have the project exempted from new sanctions, people close to the matter say, arguing it is important to European energy security and reducing dependence on Russia.

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And then there's the matter of NICO'S 25 million shares in BP. NICO's stake entitles the Iranian firm to a dividend payment of \$7 million a year based on last year's dividend, a payment that some sanctions experts say could be illegal.

Under the European sanctions, if a corporate entity is believed to have reasonable cause to suspect that it may be making funds available – either directly or indirectly – to someone on the sanctions list, British or European authorities could investigate or even prosecute. Legal experts point to British media company Pearson, which in March last year froze a stake belonging to Libya's sovereign wealth fund. The company was worried that the ultimate beneficiary of the stake was likely to have

been a sanctioned person.

Harriet Territt, partner at law firm Jones Day and an expert in international sanctions regulations, says a firm paying dividends to a shareholder, even if that shareholder isn't identified on a U.S. or European sanctions list, must consider the ultimate beneficiary.

"It's not as simple as just saying the entity receiving the dividend is not on the EU sanctions list," she said.

A HAVEN FOR FIGHTING PIRATES

As NICO left its registered home in Jersey, it said it would set up a new base in Labuan, a Malaysian tax haven nearer to customers in China, India, Japan and South Korea. Collectively those four nations buy around half of Iran's daily 2.6 million barrels in oil exports.

On the surface, the small, remote island off the north coast of Borneo seems like a good place to hide from the scrutiny of U.S. authorities. A British base for fighting pirates in the Bay of Brunei during the 1840s, Labuan is now known for its offshore oil and gas fields and its wild night life as much as its banking and trust services.

It is also secretive. The Tax Justice Network, a Europe-based group which campaigns against tax havens, gives the island a "secrecy score" of 77 out of 100, making it one of the world's most opaque jurisdictions, alongside the Cayman Islands. There is no public corporate register online. A visit to the island's regulator, based on the top floor of its financial park, yields little information

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SECRETIVE: A road sign outside NICO's Swiss headquarters. The office would not comment for this story

about a company beyond confirmation of a firm's existence.

For now, NICO has yet to officially appear in Labuan. Despite the Iranian firm's announcements in Jersey, Labuan's Financial Service Agency (FSA) says that no company by that name has been registered locally.

Tehran already has a significant presence in Labuan: the Southeast Asian offshoot of Iran's First East Export Bank (FEEB).

U.S. authorities have been hunting FEEB in Labuan for more than two years. A U.S. diplomatic cable acquired by WikiLeaks and dated August 2009 urges Malaysian authorities to revoke FEEB's licence. The cable, addressed to the U.S. embassy in Kuala Lumpur and attributed to current U.S. Secretary of State Hillary Clinton, points to evidence that FEEB was helping NICO "circumvent U.S. sanctions by providing financing that could be used to invest in

the Iranian energy sector", via a new NICO holding company and a subsidiary, not subject to U.S. sanctions.

Shortly afterwards, the United States added FEEB to its sanctions list, alleging it had facilitated the movement of hundreds of millions of dollars to fund Tehran's nuclear weapons programme.

A shiny plexiglass plaque next to a locked black door is the only trace of FEEB in Labuan. Late in the morning on Feb. 8 there was little sign the bank was facilitating any kind of transaction at all. Staff at the Standard Chartered office across the corridor said they rarely saw anyone come or go from the unit at all.

"We see a few people ringing the bell, but it's rarely answered," said one female employee.

Labuan's FSA did not respond to emails on FEEB.

In Washington, U.S. officials continue to monitor Malaysia and Labuan. Daniel Glaser, assistant Treasury secretary for terrorist financing, said that Malaysia "understands its obligations in implementing the U.N. sanctions."

Speaking of FEEB, he continued: "I think it's important for (the) Malaysians to be very careful about their financial relations with Iran. We've narrowed and narrowed Iran's options and now we're at a point where I think it's really kicking in."

(Emma Farge reported from Pully, Switzerland, and Chris Vellacott and Stephen Grey from London; Additional reporting by Rachel Armstrong in Labuan, Mark Hosenball, William Maclean and Tom Bergin in London, Martin de Sa'Pinto in Zurich, and Tabassum Zakaria in Washington; Editing by Simon Robinson and Sara Ledwith)



NEW PORT: Sleepy Labuan houses a financial park that includes banks and trust services

FOR MORE INFORMATION

SIMON ROBINSON ENTERPRISE EDITOR

+44(0)2075425458

simon.robinson@thomsonreuters.com

STEPHEN GREY
SPECIAL CORRESPONDENT

stephen.grey@thomsonreuters.com

EMMA FARGE CORRESPONDENT

emma.farge@thomsonreuters.com

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