

# Why John Kerry can't bank on EU banks

Blog post by Associate Adviser Thomas Gratowski, 20 May 2016

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Right after John Kerry met with the CEO's of Europe's largest banks last week in London, HSBC's chief legal officer reflected the general mood among UK banks when he said that his firm had "no intention of doing any new business involving Iran". Given that this was the point of the meeting, one wonders why Kerry bothered showing up.

Kerry's motivation is not hard to divine. After the nuclear deal was implemented in January, the lifting of sanctions has so far not caused the rush among foreign investors that many in Iran expected. Lack of bank support is often cited as part of the issue. The Iranians are getting increasingly frustrated because they feel the West is not living up to its end of the bargain. The governor of the central bank Valiollah Seif complained recently that his country had gotten "almost nothing" from scaling back its nuclear programme.

This situation puts US policymakers in a difficult position. While the US presidential election in November makes it politically difficult for Democrats to make any meaningful concessions to Tehran and the US primary sanction regime remains in force and highly punitive for any US bank crossing the line. When senior officials played with the idea of allowing offshore US-dollar clearing in Asian financial centres for specific transactions, Republican and Democratic members of Congress opposed any more changes to the existing US primary sanctions.

And yet Iran's moderate President Rouhani needs tangible economic benefits from the nuclear deal to guarantee his re-election next spring. A political backlash in Tehran next year could be fatal for the agreement. Yet any kind of loosening seems improbable before the US presidential election is out of the way. Even then, a President Trump is unlikely to make concessions quickly enough to help Rouhani and Hilary Clinton would not seek early confrontation with Republican-dominated Congress over Iran. Obama could use the lame duck period to loosen some restrictions, but he has no guarantee this would stick.

Hence the Kerry mission and the request that EU banks get back to business with Iran. But as the man from HSBC implied, for global banks, or any bank even potentially in the sights of the US Treasury, walking this line makes no sense. Without Jack Lew standing beside him, Kerry's appeal invitation was always going to be declined.