showCASE
No. 76 | 21.05.2018

CASE – Centrum Analiz Społeczno-Ekonomicznych
CASE – Center for Social and Economic Research

Overview: This week, our experts take a closer look at the potential effects of the US withdrawal from the Iranian deal for the EU companies. What can the EU do to minimize damage and what are its chances of succeeding?

Damage Minimization

By: [Sara Skejo CASE Analyst](); [Katarzyna Sidło, Political Economist]()

Last Friday (May 18th), the European Commission announced the measures it will take to protect the European Union (EU) companies from adverse effects of United States' withdrawal from the Joint Comprehensive Plan of Action (JCPOA). The deal, signed between the United States, China, France, Russia, the United Kingdom, Germany, and the EU on the one hand and Iran on the other, was designed to limit the latter's nuclear activities in return for relief from economic sanctions. Having pulled the US out of the JCPOA, Donald Trump gave companies until August 6th (for automobile and civil aviation sectors) and November 4th (for energy and finance sectors) to scrap all existing contracts in Iran or face punitive measures.

Photo: Tehran, Iran. Kamyar Adl Flickr, Attribution 2.0 Generic (CC BY 2.0)

For the EU, US withdrawal from the deal is worrying on many levels, most importantly because it threatens the agreement's very existence. Not less crucial, however, is the fact that the US sanctions, being extra-territorial, affect all businesses – no matter where located – provided that they are controlled by Americans, have a subsidiary in the US, or conduct their transactions using US dollars. They are also more than likely to affect European companies to a far greater extent than the US ones. The US total trade with Iran in 2017 was worth only USD 201 million. In case of the EU, this number stood at EUR 20.1 billion (USD 24.6 billion), marking 83.9% and 31.5% increases in the value of EU imports from and exports to Iran, respectively. While the former are mostly energy-related, with more than 89% being mineral fuels, EU exports to Iran are mostly machinery and transport equipment (51%), chemicals (18%), and manufactured goods (9%).

Among the companies in dire straits because of the sanctions is Airbus, a French-based plane manufacturer, which in December 2016 closed a USD 18-20 billion deal to deliver 100 planes to the Iranian national flag carrier, IranAir. Another French company, the oil firm Total, will need to decide on the future fate of the provisional agreement to develop the South Pars gas field, signed in 2017 as the first engagement by a western oil major since the sanctions were lifted. Last week, the company announced that it will pull out of the deal should it not be able to secure a sanctions waiver. Royal Dutch Shell, which also signed a provisional agreement in relation to oil and gas exploration with Iran, is still evaluating its options.

A number of car manufacturers have reasons to worry as well. Renault struck a EUR 660 million trilateral production agreement with Industrial Development and Renovation Organization of Iran and a local private company Negin Khodro. Group PSA's Peugeot and Citroen signed two separate joint venture deals with two main Iranian car companies, IKCO and SAIPA. Germany's Mercedes-Benz Trucks entered into agreement with the Iranian company Iran Khodro, and Volkswagen sealed a deal with a local Iranian importer Mammut Khodro.

In a bid to secure the interests of these and other companies and to protect the European economic sovereignty – as well as to save the Iranian deal – the EC announced that it would introduce a number of measures, most importantly activating the so-called Blocking Statute. The Statue will prohibit EU companies from complying with the US-imposed sanctions, any measures adjudged by American courts will be abolished in the EU, and the companies which suffer material damage from the sanctions will be able to claim damages. The statue is to be effective before August 6th, when the first round of sanctions is to come into effect, but to enter into force it still needs an approval from the European Parliament and the Council.

The current Blocking Statue resembles the EU action to deflect a 1996 US embargo against Cuba, when the EU's threat to introduce a similar measure caused the US to back down and allow European companies to trade with Cuba. Whether the Europeans manage to achieve the same effect this time is not very likely, although the current US foreign policy is unpredictable enough to discourage one from making bets.

What is certain, however, is that if the Statue comes into force, it may very well help to mitigate the effects of the sanctions on small and medium companies; many of them will be able to go around them simply by switching into conducting their business in euros in any case. Big multinationals can find themselves in a Catch-22, though. If they do comply with the American sanctions, the will face punitive measures from the EU. If they do not, they will be punished by the US courts. The best solution (both for the EU and for the continuity of the Iranian deal) would therefore be to convince the US to grant EU companies sanction waivers, but judging by Mr. Trump's latest comments, European leaders should not hold their breath. As the European Council President Donald Tusk observed, in this situation one "could sit and think, with friends like that, who needs enemies".

This week: According to preliminary data, Poland's GDP in Q1 2018 grew by 5.1% y/y (seasonally unadjusted; 4.9% seasonally adjusted) compared to 4.9% y/y in Q4 2017 and 4.4% y/y in Q1 2017. In other news, according to the data published by the National Bank of Poland, current account deficit in March 2018 amounted to EUR 982 million, compared to EUR 972 million in February 2018 and EUR 280 million in March 2017.

GDP (Q1 2018)

5.1% y/y (est.)

Up from 4.9% in Q4 2017

Inflation (April 2018)

1.6% y/y

Up from 1.3% in Mar 2018

Unemployment (Apr 2018)

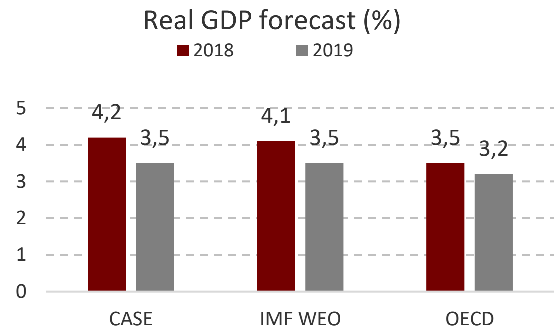
6.3%

Down from 6.6% in Mar 2018

NBP Base rate

1.5%

From 2% in Mar 2015



This week: According to the Finance Ministry's amended draft federal budget for 2018, Russia expects a budget surplus of 0.45% of GDP or RUB 440.6 billion (EUR 6.01 billion) this year, instead of the previously expected deficit of 1.3% of GDP, due to the unexpectedly high oil prices. In the first four months of this year, the price of oil rose to an average of USD 66.15 (EUR 55.96) per barrel. The exports of oil and gas account for more than 40% of the Russian budget revenues.

GDP (Q1 2018)

1.3% y/y (est.)

Up from 0.9% in Q4 2017

Inflation (April 2018)

2.4% y/y

Unchanged since Mar 2018

Unemployment (Mar 2018)

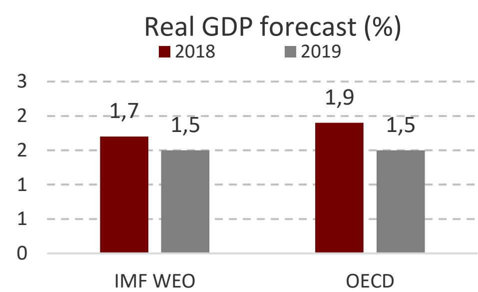
5.0%

Unchanged since Feb 2018

CBR Base rate

7.25 %

From 7.5% in Feb 2018



This week: The IMF stepped up pressure on Chancellor Angela Merkel's government to reduce Germany's persistently large current account surplus by hiking public investment. The debate has heated up since the election of US President Donald Trump, who has repeatedly criticized Germany's export strength. The IMF also added that boosting productivity growth and investment would raise the German economy's long-term growth potential and reduce its "persistently large current account surplus".

GDP (Q1 2018)

2.3% y/y

Down from 2.9% in Q4 2018

Inflation (April 2018)

1.4% y/y

Down from 1.5% in March 2018

Unemployment (Mar 2018)

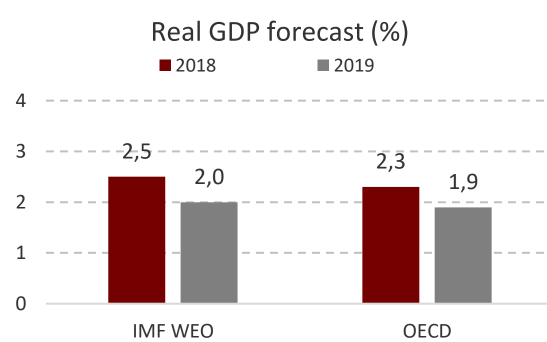
3.5%

Down from 3.8% in Feb 2018

ECB Deposit rate

-0.4%

From -0.3% in Dec 2015



This week: Deputy Director of the Institute of Agrarian Economics Mykola Pugachev stated that in the period of January-March 2018, the trade turnover of agricultural products between Ukraine and the EU amounted to USD 2.2 billion. In Q1 2018, there was an increase in imports – up to USD 669 million (+27%) and in exports – up to USD 1,513 million (+15%) compared to the corresponding period in 2017. Ukraine's six largest agrifood trading partners in the EU are (alphabetically) France, Germany, Italy, the Netherlands, Poland, and Spain.

GDP (Q1 2018)

3.1% y/y

Up from 2.2% in Q4 2017

Inflation (Apr 2018)

13.1% y/y

Down from 13.2% in Mar 2018

Unemployment (Q1 2018)

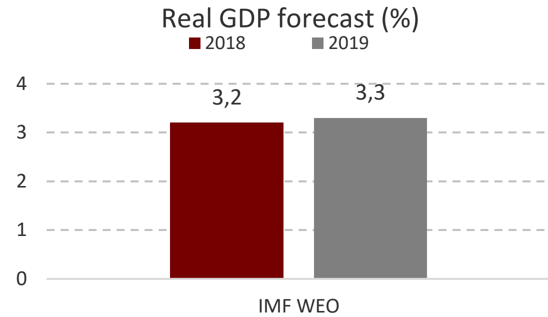
9.9%

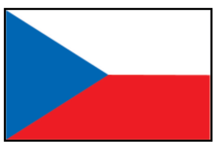
Up from 8.9% in Q4 2017

NBU Base rate

17.0%

From 16.0% in Jan 2018





This week: Czech Government decided that Czech Aeroholding will be merged with Prague Airport and thereby dissolved, Prime Minister Andrej Babiš announced. It is expected that operating and administrative costs will be reduced, with the internal processes simplified. In the past, Czech Aeroholding was a majority shareholder in Czech Airlines (CSA), but sold off its position in 2016 to the state-owned company Prisko, following a rescue package of CZK 150 million (EUR 5.86 million) extended to the airline in 2014.

GDP (Q1 2018)

4.5% y/y (est.)

Down from 5.5% in Q4 2017

Inflation (Apr 2018)

1.9% y/y

Up from 1.7% in Mar 2018

Unemployment (Q1 2018)

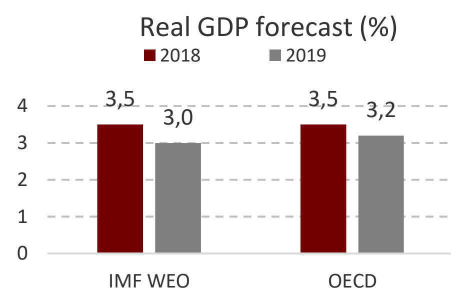
2.4% (est.)

Unchanged since Q4 2017

CNB Base rate

0.75%

From 0.5% in Jan 2018



This Week: In the first quarter of this year, gross domestic product of Hungary grew by 4.7% according to seasonally and calendar adjusted data and by 4.4% according to raw data, compared to the same period of 2017. It is higher than the average growth in the UE (2.4% in the first quarter of 2018).

GDP (Q1 2018)

4.7% y/y (est.)

Up from 4.4% in Q4 2017

Inflation (Apr 2018)

2.3% y/y

Up from 2.0% in Mar 2018

Unemployment (Q1 2018)

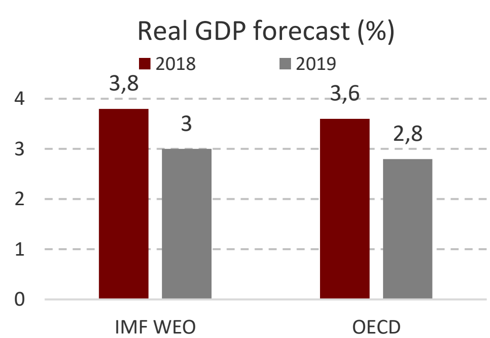
3.9%

Up from 3.8% in Q4 2017

MNB Base rate

0.9%

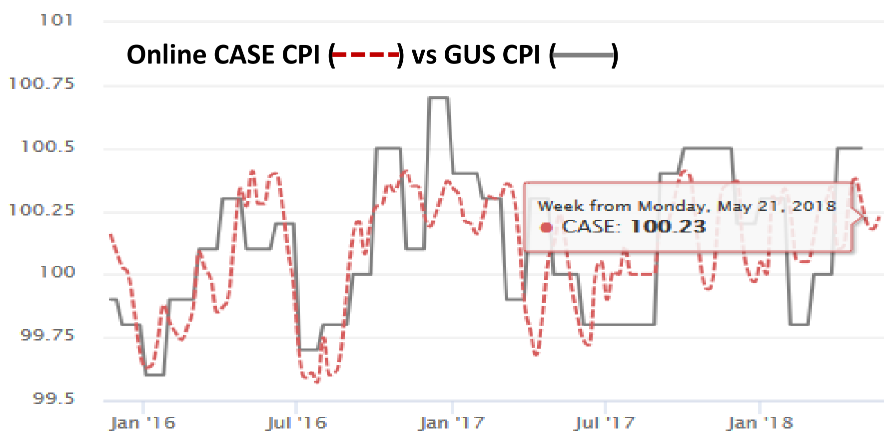
From 1.05% in May 2016



The weekly online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly.

Our weekly online CASE CPI



Monthly CASE forecasts for the Polish economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, and the CPI.

CASE economic forecasts for the Polish economy

(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2018	4.2	4.1	4.9	3.7	2.5
2019	3.5	3.6	3.3	3.8	2.3
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2018	4.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

For more information on our weekly online CASE CPI, please visit: http://case-research.eu/en/online-case-cpi To **subscribe** to our weekly showCASE newsletter, please click here. To see **previous issues** of showCASE, please visit: http://case-research.eu/en/showcase

Contributions: Stanislav Bieliei, Krzysztof Głowacki, Łukasz Janikowski, Katarzyna Sidło, Sara Skejo, Klaudia Wolniewicz-Slomka, Karolina Zubel **Editors:** Katarzyna Sidło, Krzysztof Głowacki