A NEW DAWN FOR SWEDISH BUSINESS IN IRAN

Business Sweden
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On 16 January 2016, the EU lifted most of its sanctions against Iran. Coupled with the limited easing by the US of its trade embargo, this move ended Iran’s international isolation and has paved the way for rapid modernisation. Many of the conditions required for economic prosperity are already in place. A commercial centre dating back thousands of years, Iran has a rich tradition of trade and business. Today’s large, young population is eager to improve its standard of living. Knowledge and education are prized assets. A substantial industrial base and acknowledged expertise in engineering sit alongside Iran’s strategic location and its abundance of natural resources in the form of oil, gas and minerals.

At the same time, Iran is in many respects a conservative society where openness is limited. Human rights abuses are rife. Influential groups exercise control over key parts of the state-run economy. Corruption is widespread and infrastructure underdeveloped. Women have a subordinate status in society in general – notably in the labour market – even though they account for a majority of university-level students.

Oil exports will give Iran the necessary revenue to embark on overhauling its infrastructure and modernising its economy. However, what are needed most are new trading partners and foreign investment – a fact that is widely appreciated in Iran. Only time will tell whether the country truly does open its economy to international trade and industry.

This report by Business Sweden shows Iran’s special place in the world economy and highlights its ability to take a giant step forward in its economic development. As a result, a large market is now opening up for international businesses.

Iran was an important export market for Swedish companies before the imposition of sanctions. Business Sweden hopes this report will help to rebuild and restore business relations between Swedish enterprises and their Iranian counterparts.

Ylva Berg
President & CEO Business Sweden
CHECKLIST FOR SWEDISH BUSINESSES IN IRAN

1. Is the export in compliance with the company's own statutes and guidelines for doing business in Iran?

   - Inspectorate of Strategic Products (ISP)
     a. Classification of product
     b. Due diligence of business partner

   - Office of Foreign Assets Control (OFAC)
     a. Dual-use products
     b. Sensitive products

2. Potential areas of conflict with EU export controls and sanctions

   - Scope of EU export controls
     - Dual-use products
     - Sensitive products

   - Scope of EU sanctions against Iran
     - Defence material and missile technology
     - Products subject to sanctions
     - Unauthorised business partners

3. Possible areas of conflict with US sanctions against Iran

   - Scope of US sanctions against Iran
     - US territory and citizens
     - US owners and interests
     - US banks and financial institutions

   - Scope of US sanctions against Iran
     - US currency (USD)
     - US content in exports
     - Unauthorised business partners

4. Questions regarding exports

   - Customs and terms of trade
     - What product requirements apply to the export?
     - What documents are required for the export?

   - Payments, financing and logistics
     - How can secure payment for the export be guaranteed?
     - What terms of delivery and mode of delivery are appropriate for the export?

5. Export declaration

THE IRAN
1. Is the venture in line with the company’s own statutes and guidelines for doing business in Iran?

2. What type of company is appropriate for establishing a business? What is required to register the company? How is the protection of intellectual property rights guaranteed?

3. Is the company entering into a contract with the Iranian government regarding an investment project?

SUMMARY

This report by Business Sweden, *A New Dawn for Swedish Business in Iran*, sets out the political, economic and legal parameters for Swedish companies in the Iranian market. It shows the steps Swedish companies need to take to manage export activities in Iran and to establish business operations there. It also points up market opportunities and incentives provided by the Iranian government to foreign investors across multiple sectors.

Iran has a long history as a political and cultural power in Central Asia. It stands today as the world’s 28th largest economy, with a young population of 80 million people, a significant and relatively advanced industrial base, and sizeable assets in the form of oil, gas and minerals.

Since the revolution of 1979, Iran has been an Islamic republic and operates as a strong, centralised state in which ultimate political and religious power rests with the supreme leader. There is an ongoing tug-of-war within the state between various formal and informal centres of power, and this also has a significant impact on the economy. The dividing line politically is between conservatives on one side and reformists, who have seen their influence grow in recent times, on the other.

The international economic sanctions that targeted Iran’s nuclear energy programme during the last decade hit the economy hard. Since 2006, Swedish companies have gradually scaled back their business operations or else have left the country. In early 2016, the EU and the US partially lifted sanctions in the wake of an international accord on Iran’s nuclear programme. If the Iranian government opens up to international business, the economy could see rapid growth over the next few years thanks to rising foreign investment and the resumption of oil exports.

Potential Swedish exporters to Iran have a number of obstacles in their path, however. Companies interested in exporting to Iran need to examine whether their trade is subject to the EU’s export controls and the EU sanctions still in place against Iran. To ensure sanctions compliance, companies should classify their export products and establish more closely the identity of their Iranian business partners. Here, businesses can receive assistance from the Swedish Inspectorate of Strategic Products or consultants. US sanctions remain far-reaching and may also affect exports by Swedish companies. Questions that businesses have regarding US sanctions are best referred to the US embassy in Stockholm or consultants.

The next step is for Swedish companies to address export-related issues such as customs and terms of trade, payments, financing and
logistics. Iran is not a member of the World Trade Organization (WTO) and is therefore not bound by international trade agreements. Iran’s foreign trade takes the form of a substantial exchange of goods with China, onward export via the United Arab Emirates (Dubai), and widespread smuggling. Iranian customs lag behind in terms of technology, and many transactions take place in a legal grey area.

Most Iranian banks are now linked to the international payments system. The governments of France and Italy have facilitated major commercial trade deals with Iran, which has put additional pressure on European banks (the counterparties in these transactions) to ensure that the payments system works effectively vis-à-vis Iran. It is only a matter of time before it will do so. For Swedish companies that are unable to receive advance payments from their Iranian importers, the most appropriate method of payment is a letter of credit either confirmed by a Swedish bank or supplemented by a guarantee from the Swedish Export Credits Guarantee Board.

Despite its dependence on oil, Iran’s economy is relatively diversified. This report has chosen to focus in detail on four sectors of particular interest to Swedish companies: transport, mining, healthcare, and energy and environmental technology. Over and above the export opportunities that exist in these sectors, the Iranian government offers a number of interesting investment projects to foreign investors.

Business Sweden has consulted Iranian legal experts in identifying and analysing these projects, of which 20 are described in note form in this report. To obtain an investment concession from the Iranian government, a foreign company needs to establish a presence in Iran as a private joint stock company or other corporate entity and must also create a special project company that is wound up on the project’s completion.

Sweden and Swedish companies enjoy a good reputation in Iran and a history of fruitful trade relations. This is a large and interesting market that is now opening up to international commerce. However, the business climate is challenging and corruption is rife. Considerable uncertainty surrounds political and economic developments. Swedish companies that aspire to be successful in Iran need to have a presence on the ground, a good understanding of the local market and access to substantial resources to buttress their operations. They also need to take a long-term approach to their business activities. Iran is not unlike other growth markets in this regard. Swedish companies that grasp the challenges appropriately will enjoy excellent scope to take leadership positions in doing business with Iran.
**Facts and Geography**

Name: Islamic Republic of Iran
Surface area: 1,648,000 km² (Sweden: 450,000 km²)
Capital: Tehran (approximately 14 million inhabitants)
Place in the world economy: 28 (Sweden: 24)
Population: 78.6 million inhabitants
Currency: Iranian rials (1 USD = approximately 30,000 IRR)
Official religion: Shia Islam
Official language: Persian (Farsi)
Time: Swedish time + 2.5 hours
Working week: Saturday to Thursday. Friday is a holiday.

**Gross Domestic Product (GDP) in USD billion, 2015**
- Germany: 3,371
- Russia: 1,236
- Turkey: 722
- Sweden: 484
- Iran: 397
- United Arab Emirates: 339
- Pakistan: 271

**A Swedish export market**
Swedish companies have historically had a significant presence in Iran, with at most over 3,000 Swedes resident in the country and Swedish schools (1964-1979) in Tehran and the industrial city of Tabriz.

**Population Groups**
- Persians: 50%
- Azerbaijanis: 25%
- Kurds: 15%
- Other: Baloch, Turkmen, Arabs: 10%

Source: Business Sweden (2016).
“IRAN HAS BEEN A COMMERCIAL CENTRE FOR THOUSANDS OF YEARS AND IS CHARACTERISED BY TRADE AND BUSINESS”
INTRODUCTION

BACKGROUND
Between 2006 and 2010 the UN Security Council adopted a number of resolutions to impose increasingly tough economic sanctions on Iran in response to the country’s nuclear energy programme, regarded as having been set up for military purposes. The US also tightened its pre-existing trade embargo on Iran.

The list of unauthorised Iranian business partners grew, and in January 2012 the EU decided to block Iranian oil imports. Iranian banks were shut out of the international payments system, making all trade with Iran considerably more difficult.

In 2013, the centrist Hassan Rouhani was elected as Iran’s new president. His regime committed itself to resolving the conflict surrounding the country’s nuclear energy programme and ending Iran’s isolation. On 14 July 2015, the Joint Comprehensive Plan of Action (JCPOA) was signed between Iran and the five permanent members of the UN Security Council – the United States, China, Russia, France and the United Kingdom – along with Germany and the EU.

On 16 January 2016, the International Atomic Energy Agency (IAEA) declared that Iran had fulfilled its obligations in accordance with the agreement, prompting the EU and the US to lift a number of economic sanctions against Iran that day. On 26 February, the reformists made gains in elections for parliament and the Assembly of Experts, which will appoint the successor to the current supreme leader, Ayatollah Khamenei.

Iran was previously an important export market for Sweden in sectors including telecommunications, mining and transport. Subsequent to the imposition of international sanctions in 2006, a number of Swedish corporations left Iran or scaled back their operations. The new paradigm offers good opportunities for Swedish companies to resume a leading position in the Iranian market.

ABOUT THIS REPORT
Business Sweden is tasked by the Swedish government with promoting Swedish exports and foreign investment in Sweden. This report is intended to give Swedish companies a close understanding of the new conditions that apply for doing business in Iran following the partial lifting of EU and US sanctions. The report will also guide companies on the steps they can take to navigate their way successfully in exporting to and establishing themselves on the Iranian market.

Three questions recur in the report. First, what are the hallmarks of the Iranian market and how will it develop? Second, what are the opportunities and challenges facing Swedish companies in doing business in Iran? Third, how can Swedish companies succeed in the Iranian market?
All the facts, observations, arguments and conclusions in this report are based on material that is in the public domain and/or has been specially commissioned for the report. It is based on in-depth analysis as well as 40 or so interviews carried out by Business Sweden with individuals familiar with Iranian conditions and business life. The interviews took place between December 2015 and March 2016 in Iran, the United Arab Emirates (Dubai) and Sweden. Business Sweden has also participated in a partner-funded study on Iran led by the Economist Intelligence Unit (EIU).

The report contains a Foreword, Summary and Introduction containing basic facts about Iran. The Governance framework section summarises Iran’s political, economic and religious institutions. It also describes the background to the current paradigm whereby power centres both collaborate and compete to control sections of Iranian trade and industry. Together these power centres have a key bearing on conditions for doing business in Iran. This section was produced in collaboration with the Centre for Middle Eastern Studies at Lund University.

The section on Iran’s economy gives an overall picture of current economic conditions, the effects of international sanctions and the immediate economic future post-sanctions.

The Trade and investment section shows the extent and composition of Iran’s trade with the outside world and notes how China replaced the EU as Iran’s most important trading partner during the sanctions era.

Economic sectors describes the balance between Iran’s industrial, service and agricultural sectors. The section provides an overview of the telecommunications sector and its connection to Iran’s numerous startups – a little-known aspect of the Iranian economy. It also gives a general outline of the financial sector.

Investment opportunities looks at the areas of the economy covered in this report that are of particular interest to Swedish companies: transport, mining, healthcare, and energy and environmental technology. With the help of Iranian experts, Business Sweden has produced a list of the government’s largest high-priority open investment projects, along with a list of interested parties and feasibility assessments. The section presents the main features of 20 investment projects and a map of Iran’s Economic zones.

Business climate considers the conditions for enterprise and business in Iran from a comparative international perspective.

Exports presents five steps that Swedish companies need to consider in their export activities with Iran. The section sets out in simple terms how companies can manage and plan for export controls, sanctions, customs, terms of trade, payments, financing and logistics. The section was written by Business Sweden’s export department in collaboration with the Inspectorate of Strategic Products, the Baker & McKenzie law firm and the Swedish Export Credits Guarantee Board.

The section on Setting up a company was produced with the aid of Iranian legal experts and shows in three steps what Swedish companies need to consider when establishing a private company in Iran. It looks at the different types of company format and the procedure for registering a company. It highlights the need to protect intellectual property rights and gives a brief description of so-called project companies, which are utilised in collaborations between private companies and the Iranian government.

Opportunities and challenges facing Swedish companies gives an overall assessment of the conditions needed for Swedish companies to succeed in the Iranian market.
MULTIPLE SEATS OF POWER

Direct election  Appointment  Scrutiny of candidates

SUPREME LEADER

NATIONAL SECURITY COUNCIL
HEAD OF JUDICIARY
REVOLUTIONARY GUARD
ARMED FORCES
EXPEDIENCY COUNCIL

PRESIDENT

PARLIAMENT
ASSEMBLY OF EXPERTS

GOVERNMENT

GUARDIAN COUNCIL

VOTERS

Sources: European Iran Research Group, Business Sweden (2016).
GOVERNANCE FRAMEWORK

During the 20th century Iran developed from a loose-knit feudal society into a centralised state characterised by rapid urbanisation. In 1926, the weakening Qajar dynasty was replaced by the Pahlavi dynasty and its first king, Reza Shah, who ushered in a process of national modernisation. Infrastructure, industry, defence, the education system and state bureaucracy developed rapidly in subsequent decades, in part thanks to growing oil revenues. The shah’s son, Mohammad Reza Pahlavi, succeeded to the throne following the British and Russian invasion of Iran in 1941, and consolidated his power with a coup d’état in 1953.

Dissatisfaction then grew as a result of the shah’s military rule and internal economic and social divisions. The shah’s pro-western stance encountered resistance from significant segments of an Iranian society steeped in religion. Overseas, too, support for the shah was weak, not least as a result of the OPEC oil cartel raising oil prices several times from 1973 onwards.

The uprising against the monarchy was led by a disparate coalition of clerics, businessmen and left-wing intellectuals. The shah and other leaders were forced into exile, and hundreds of thousands of Iranians fled the country, including many middle class people with university degrees. Numerous Iranian and foreign companies saw their assets confiscated and nationalised. Following fierce infighting and purges within the coalition that toppled the shah, the Islamic Republic of Iran was born. The revolution replaced the ruling elite with a form of rule that extended state influence even further.

The Iran-Iraq war of 1980–1988 was a humanitarian and economic catastrophe, from which Iran took many years to recover. The war united the country against an external enemy, but also triggered another exodus of refugees from Iran. The Revolutionary Guard’s influence grew during and after the war (see the box on page 16).

According to the 1979 constitution, Iran is an Islamic republic governed by religious principles and whose state religion is Shia Islam. Religion retains prominence in Iranian society, but Iran today differs in many respects from how the country was during the revolution era. For one thing, the population has increased from just over 30 million to almost 80 million today. The revolutionary phase is over and the average citizen now focuses on issues like work and pay, housing, education and personal economic prospects.

The revolutionary struggle between Islamic forces on both left and right has evolved into
a political power struggle between conservatives and reformists. Falling living standards in recent years have helped to forge a degree of national consensus on the importance of prioritising economic development. Nevertheless, considerable tensions stem from the generation gap between a large young population and a ruling class dominated by men in their 60s and 70s. Women continue to have a subordinate role, despite predominating in higher education.

Political authority in Iran today is exercised in a complex interplay between formal and informal centres of power. There is also a business dimension to this that can be baffling to outsiders. The government and government-owned companies and charitable trusts wield a great deal of influence in the economy.

At the same time, however, the Iranian government is an oligopoly of sometimes countervailing interests. The division of power as set out in the constitution allows each political institution to block and thwart the efforts and initiatives of others—a familiar pattern in Iranian politics.

The supreme leader is Iran’s head of state, and the power vested in him is vast if not absolute. He is appointed by direct vote of the Assembly of Experts, which oversees how he exercises his office. The supreme leader’s powers include appointing the supreme commanders of the Revolutionary Guard and the armed forces as well as the head of the judicial system. He also appoints members of the Expediency Council and six of the 12 members of the Guardian Council. He has a right of veto against the decisions of parliament but no legislative powers. The present supreme leader is Ayatollah Ali Khamenei, who inherited the role from the Islamic Republic’s founder, Ayatollah Khomeini, on his death in 1989.

POWER STRUCTURE IN TRADE AND INDUSTRY

The Iranian Revolutionary Guard Corps (IRGC) is an elite force of approximately 125,000 soldiers. It was created by Ayatollah Khomenei in 1979 with the aim of defending the Islamic state against its enemies, and also because the new rulers did not rely on the regular military forces that had previously formed the shah’s most important power base. The soldiers of the guard were often ideologically motivated and had a strong fighting ethos. The Revolutionary Guard has been gradually expanded to include ground forces and its own air force and navy. It also has responsibility for Iran’s missile defence system.

The Revolutionary Guard’s economic influence started with the work of reconstruction after the war with Iraq. Its engineering units became the principal players in the construction industry. Returning members of the guard were given new posts in the administration and state-owned companies.

The Revolutionary Guard’s growing business conglomerate gradually took control of parts of the oil industry, automotive industry, telecommunications sector and banking system. This trend was boosted in part by the EU and US sanctions, which meant less competition from foreign companies.

The personal ties between the most senior members of the guard create an invisible power structure. The Revolutionary Guard is, however, not a homogenous group, but rather has business interests spreading in different directions. Its interests in trade and protected industries could be damaged if Iran opens up to the outside world. That said, its interests in competitive companies could benefit from opportunities for international expansion.
The president is elected for a four-year term in general elections for which the voting age is 18. The president has certain executive powers, appoints the government and supervises its work, and decides which legislative proposals should be presented to parliament. The Guardian Council scrutinises and approves presidential candidates. Over the years, both conservatives and reformists have held the presidency. The current incumbent is Hassan Rouhani, a middle-ground politician who was elected in 2013. The government today consists largely of technocrats, whose presence and influence have helped professionalise the workings of government.

The Iranian parliament has 290 members, who are elected for four-year terms and enact laws, ratify international agreements and approve the state budget. Parliament approves the president’s ministerial candidates by ballot and also has the power to remove individual ministers by a motion of censure. The Guardian Council must approve all parliamentary candidates and legislative proposals made by parliament. The party system is poorly developed. Various parties are permitted, but more important are their members’ connections to any one of the broad coalitions formed in conjunction with parliamentary elections. The Iranian parliament has been influenced by conservative thinking in recent years, but the most recent election, on 26 January 2016, saw a considerable reformist influx.

The Assembly of Experts consists of 86 theologians who are elected in general elections for an eight-year term. The assembly appoints and oversees the supreme leader. The Guardian Council must approve all assembly candidates.

The Guardian Council consists of 12 legal experts and jurists who are appointed for a six-year term. The supreme leader appoints half of its members, with the other half proposed by the head of the judiciary with the approval of parliament. The Guardian Council interprets the constitution and can reject legislation that it considers to be incompatible with Islamic law. It examines and approves candidates to the presidency, parliament and the Assembly of Experts. The Guardian Council is markedly conservative.

The Expediency Council has the task of mediating in disputes between parliament and the Guardian Council, although it has evolved to be primarily a powerful advisory body to the supreme leader.

The National Security Council is headed by the president and its members include the most senior representatives of the Revolutionary Guard, the armed forces and the most influential ministries. The security council played an important role during Iran’s international negotiations on its nuclear energy programme.
IRAN’S ECONOMY

Iran’s most influential companies are either state-owned or controlled by interests that operate within the government sphere. State influence is especially pronounced in the oil industry, which was nationalised in 1951 and financed a significant portion of Iran’s economic and military build-up during the 1960s and 1970s. Oil revenues today account for just over one third of the government budget.

State influence over the economy intensified when the revolution brought a wave of nationalisation of private assets. The Iran-Iraq war of 1980–1988 and the subsequent reconstruction effort provided further sustenance to government and quasi-government business interests, this time with the Revolutionary Guard as the principal player.

Despite a certain degree of economic isolation from the outside world, Iran saw a considerable increase in living standards during the 1990s.

Rising oil export revenues helped to underpin the expansive fiscal policies introduced in the early years of the new millennium. Government investment targeted lower income groups in areas like healthcare and the regime launched infrastructure programmes. However, cost control was poor and corruption spread. The government’s privatisation programme saw many companies acquired by interests closely tied to the state, reducing public scrutiny of their operations. The result: a mismanaged economy suffering from rising inflation, reduced competitiveness and high unemployment.

The decision by the EU and US to tighten sanctions against Iran in January 2012 had an extremely negative impact on an already weakened economy. The EU banned imports of Iranian oil and all foreign trade suffered from Iran’s exclusion from the international payments system. Goods shortages of goods and high transaction costs – including financing and smuggling expenses – pushed up prices. Gross domestic product fell by 6.6 percent in 2012, while at the same time inflation rose above 30 percent. In the space of just a few years, many sections of the Iranian population experienced a dramatic reduction in their purchasing power. Joblessness increased to 12 percent, while youth unemployment hit 25 percent.

Since 2013, the new president’s technocrat-dominated administration has implemented measures to bring down inflation and increase private consumption. The anti-inflation measures have been fairly successful, with the increase in consumer prices in 2015 falling to 14 percent. But economic activity has remained subdued, while businesses and consumers alike have awaited the outcome of the international negotiations on Iran’s nuclear energy programme and exchange rate movements.

Should the easing of sanctions be maintained, most qualified observers expect
In January 2016 the government presented a five-year economic plan for 2016–2021. The plan envisages the government achieving its ambitious growth targets through an improved business climate, a more competitive marketplace and increased trade with neighbouring countries. Iran is bidding to become the leading trade and logistics hub in the region. The government aims to develop the financial market, including the insurance sector, and to offer foreign investment incentives. The five-year plan also includes measures to develop the oil industry and expand rail transport.

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Iran’s official growth target is higher – approximately 8 percent a year over the next five years. But the government’s own calculations suggest this will require USD 38–50 billion of foreign investment during the period. The agreement to ease sanctions means that the US and other countries will unfreeze up to USD 50 billion of Iranian assets. This capital injection would deliver a short-term economic boost, but it is unclear whether the amounts would represent a net addition and how the money would be made available.

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Annual economic growth of 4–5 percent in the next five years and for inflation to stabilise at around 10 percent. The growth forecasts reflect the belief that higher oil production will deliver an economic fillip. The key automotive and petrochemicals sectors would benefit directly from the easing of sanctions. A normalisation of foreign trade would also reduce the cost of goods and financial transactions.

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TRADE AND INVESTMENT

Oil dominates Iran’s economy and export sector. In 2013, exports of crude oil accounted for 68 percent of total export revenue, or 89 percent if petrochemicals and other oil-related products are included.

In 2011 the EU imported 600,000 barrels of oil a day from Iran – equivalent to one quarter of the country’s oil exports – and was Iran’s largest export market. In 2012 the EU began bannig oil imports from Iran, a move that primarily affected buyers in southern Europe such as Italy, Spain and Greece. That year also saw Iran’s exclusion from the international payments system, which seriously impeded the country’s exports. China, India, Turkey, Japan and South Korea continued to be important markets for Iranian oil, but they could not compensate for the loss of the European market. Iran’s oil exports continued to fall until 2015 and oil production also suffered amid a lack of investment in the domestic oil industry.

The easing of EU and US sanctions will enable Iran to resume oil exports without restrictions. Nevertheless, several factors continue to exert downward pressure on oil export revenue, notably a fall in the oil price from USD 100 per barrel in 2012 to USD 40 per barrel in early 2016. In Europe, the growth of renewable energy is at the expense of oil consumption, while the US has become almost self-sufficient in oil thanks to the shale oil industry. Many growth markets have experienced a slowdown, reducing global demand for oil. China’s oil consumption increased by only 2 percent in 2015. Meanwhile, OPEC looks unlikely to seek to raise oil prices by cutting output.

Iran’s import sector is considerably more diversified than its exports (see diagram, page 25). In 2013, foodstuffs accounted for one third of imports. Machinery, electronic goods and measuring instruments accounted for an additional 25 percent. Imports from China have increased dramatically in recent years, with imports from the EU decreasing by an equivalent amount. Iran’s official import data does not paint the full picture, however, due to sanctions-era transit trade with the United Arab Emirates (primarily Dubai) and widespread smuggling.

During the sanctions period, Chinese companies gained a firm foothold in Iran as exporters and investors in areas such as oil, steel industry, transport and construction. In January 2016, China and Iran signed a political agreement to expand bilateral trade to USD 600 billion over a 10-year period. Russian companies also have a number of interests in Iran, primarily in the oil industry. Other targets for foreign investment include the automotive, mining, petrochemicals, food and pharmaceuticals sectors.
OIL-DEPENDENT ECONOMY WITH PROBLEMS

Oil exports have fallen as a result of the sanctions

Export and import of goods, USD billion

Oil production and oil exports, million barrels per day

China has succeeded the EU as Iran's most important trading partner.

Iran's goods exports, share of exports in percent

Iran's goods imports, share of imports in percent

Note: Other important export markets for Iran in 2014 were India (12 percent), Turkey (10 percent), Japan (7 percent) and South Korea (5 percent).

Note: Other important trading partners in 2014 were India, South Korea and Turkey, which each accounted for approximately 5 percent of Iran's imports. In the same year the US accounted for only 0.2 percent of imports and Sweden for 0.3 percent. However, these figures must be treated with caution since many exporters use the United Arab Emirates (Dubai) as a transit country for further export to Iran.

Sources: International Monetary Fund, IHS Global Insight, Economist Intelligence Unit, Business Sweden (2016).
ECONOMIC Sectors

ECONOMIC PROFILE AND GEOGRAPHY

The oil and gas sector dominates Iran’s economy. Behind it comes a significant manufacturing industry – mainly in the automotive, petrochemical, steel and metal sectors and food processing – and small-scale agriculture. The service sector is undeveloped and fragmented, with traditional crafts existing alongside modern IT companies.

In employment terms, agriculture accounts for 17 percent of the workforce, manufacturing for 34 percent and services for 49 percent.

State-owned and partly state-owned companies have a strong position in many industries. A large public sector, relatively high tax levels and a state-controlled banking sector further extend the state’s economic influence.

Tehran, the capital, is Iran’s economic and cultural centre and key communications and transport hub. Many businesses have their head offices in Tehran, though other major cities such as Mashhad, Esfahan, Karaj and Tabriz are not without importance. The pace of urbanisation is among the fastest worldwide, with the UN predicting that Iran’s urban population will rise from 69 percent in 2015 to 80 percent by 2030.

Agriculture. Thirty percent of Iran’s total land area is estimated to be arable, of which 12 percent is crops and 18 percent permanent pasture. Some 7 percent is covered by forest and 63 percent takes the form of other land types, mainly mountains, steppe and desert. Agriculture and parts of the forestry sector are concentrated in Iran’s northern and western valleys. Production includes wheat, rice, sugar beet, sugar cane, fruit, nuts, cotton, dairy products and wool.

Drought and inefficient water use create an alarming sensitivity to water shortages that are likely to worsen due to the anticipated upswing in industry and agriculture following the end of sanctions.

Oil. Production of oil is concentrated to three regions, the most important of which is located in the south-west. The other oil-producing regions are in the north and near the holy city of Qom. The south-western oil fields are an extension of a geological formation that also includes oil fields in the Kurdish region of northern Iraq. In 2010, the oil industry employed 32 percent of Iranian workers.

Construction. According to the Central Bank of Iran, 70 percent of Iranian households own their homes. The authorities estimate that there is a need for another 750,000 homes. The current rate of new construction is 2,000 homes per day. The housing market is one of the few sectors in Iran in which state ownership is below 2 percent. The government prioritises infrastructure investment and redeveloping old buildings.

Retail. Iran has the highest per capita number of retailers in the world. Retail is projected to generate revenue of USD 108 billion in 2016,
of which trade in perishables accounts for USD 44 billion. In 2010, the wholesale and retail sectors employed 16 percent of the workforce.

Merchants and traders (bazaaris) hold a strong position in Iran, controlling the distribution of most consumer goods through networks that include key importers and wholesalers.

Iran’s 30 biggest corporations are found in the oil and gas, telecommunications, mining, automotive and financial sectors. The five largest are the Khalij Fars Petrochemical Company, the Telecommunications Company of Iran (TCI), the Mobile Telecommunications Company of Iran (MCI), the Tamin Petroleum and Petrochemical Investment Company, and Mobarakeh Steel.

Chinese companies have a considerable presence, partly due to Western sanctions. European, Turkish and Arabic firms have expressed an interest in returning to the Iranian market.

Car manufacturers Peugeot, Hyundai, Kia and Toyota have stepped up their activities in Iran in recent years. European food companies have a long-standing presence and French dairy producer Danone has a production plant in Iran.

The government’s privatisation list includes 120 companies with a combined value of USD 16.5 billion. These businesses operate in the petrochemicals, transport, energy production, textile and construction industries.

**TELECOMMUNICATIONS COMPANIES AND START-UPS**

In the past, restricted investment opportunities meant that Iran’s telecommunications market was of limited interest to outsiders. Nevertheless, Iran in 2013 became the biggest mobile market in the Middle East and North Africa region, surpassing Egypt.

In 2013, 98 percent of all domestic households had access to fixed or mobile telephone

**THE PREDOMINANT EXPORT PRODUCT IS CRUDE OIL**

Sources: The Observatory of Economic Complexity, Business Sweden (2016).
communications. Just over 47 million people had access to a mobile phone, equivalent to penetration of 67 percent. In 2013, 10 million out of 22.1 million Iranian households had access to a personal computer.

Today, six mobile operators are present in the Iranian market, which is dominated by Hamrahe Aval (59 percent) and MTN Irancell (38 percent). Both companies have invested considerably in expanding 3G and 4G services, thus supporting the widespread use of smartphones and demand for more advanced computer services. MTN (South Africa) is currently the only major foreign investor in mobile communications in Iran.

Internet infrastructure is still underdeveloped and many websites are censored. The broadband market increased by 23 percent during 2014 and now has 4.5 million subscribers, a figure that is expected to rise to 9.9 million in 2019.

The Ministry of Information and Communications Technology oversees, regulates and implements legislative changes in the ICT sector. Its primary role is to produce and implement strategies for the national postal and telecommunications systems. The ministry is also responsible for issuing import licences for various communications equipment and for overseeing networks and frequencies.

### THE BANKING SYSTEM

The Iranian banking system consists of the Central Bank of Iran, eight state banks, 20 private banks and two Islamic banks (see list below). The banking system is underdeveloped, fragmented and in great need of modernisation. The state, or interests within the state, has a direct or indirect influence on most of the banks. It is common for Iranian banks to have a broad business portfolio, which includes investments in companies and activities. The banks normally have large and costly office networks. Their operations are decentralised in the form of small local bank branches. The proportion of bad loans is estimated at 12 percent. Transparency is poor, which feeds uncertainty over stability in the system.

The Central Bank of Iran, 1960

**State-owned merchant banks**
- Bank Melli Iran, 1928
- Bank Sepah, 1925
- Post Bank of Iran, 1996

**Specialised state banks and credit institutions**
- Bank Maskan (housing), 1938
- Bank of Industry and Mine, 1983
- Cooperative Development Bank, 2009
- Export Development Bank of Iran, 1991
- Keshavarzi Bank (agriculture), 1933

**Private banks**
- Ansar Bank, 2010
- Ayandeh Bank, 2009
- Bank Mellat, 1980
- Bank Pasargad, 2005
- Bank Saderat Iran, 1952
- City Bank, 2010
- Day Bank, 2010
- EN Bank, 2001
- Ghavamin Bank, 2012
- Hekmat Iranian Bank, 2010
- Iran Zamin Bank, 2010
- Karafarin Bank, 2001
- Middle East Bank, 2012
- Parsian Bank, 2001
- Refah Bank, 1960
- Saman Bank, 2002
- Sarmayeh Bank, 2005
- Sina Bank, 2009
- Tejarat Bank, 1978
- Tourism Bank, 2010

**Islamic banks**
- Gharzolhasaneh Mehr Iran Bank, 2007
- Gharzolhasaneh Resalat Bank, 2012
Government plans to introduce wireless broadband services and to auction off new wireless broadband licences to operators are expected to boost the number of 3G and 4G subscriptions and create further opportunities for foreign investors in Iran.

Many of Iran’s recently established and fast-growing companies (start-ups) have links to the IT and telecoms sector. In 2014, the Economist identified and assessed the value of Iran’s three biggest start-ups: Digikala (e-commerce), Aparat (video sharing) and Café Bazaar (a marketplace for apps). Iran also has a growing video game industry.

**BANKING SECTOR**
The banking sector was particularly badly hit by economic sanctions, which isolated them from the international financial market and limited the activities of foreign companies in Iran. The country has nine state-owned banks, the largest being the Central Bank of Iran, whose responsibilities include monetary policy and the payments system.

The Central Bank of Iran lists 30 major financial institutions in Iran, including state-owned merchant banks, specialised state banks and credit institutions, private banks and Gharzolhasaneh (Islamic) banks. Iran is a key player in Islamic financing founded on Shiite law and customs.

Domestic banking services are widely available, but Iran remains largely a cash-based economy. The Tehran Stock Exchange has become an important source of capital and is one of the region’s top-performing stock markets.

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**THE LARGEST INTERNET USER IN THE MIDDLE EAST**

<table>
<thead>
<tr>
<th>Internet users in terms of number and share of the population</th>
<th>2015, million and percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>95%</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>93%</td>
</tr>
<tr>
<td>Turkey</td>
<td>60%</td>
</tr>
<tr>
<td>Iran</td>
<td>57%</td>
</tr>
<tr>
<td>Russia</td>
<td>70%</td>
</tr>
</tbody>
</table>

Sources: Internet World Stats, Business Sweden (2016).
“WHAT IRAN’S BUSINESS SECTOR REALLY NEEDS IS NEW TRADING PARTNERS AND FOREIGN INVESTMENT”
INVESTMENT OPPORTUNITIES

The Iranian government has a list of planned investments totalling USD 800 billion. Most are in infrastructure, are open to foreign investors and are based on collaboration between the state and private investors in the form of public private partnerships. These partnerships are set by the government and are: Build Operate Lease (BOL), Build Operate Transfer (BOT) and the less common Build Operate Own (BOO). A foreign company that wants to enter an agreement with the Iranian government must set up a so-called project company, which is then wound up when the project completes (see page 62).

Using local expertise, Business Sweden interviewed some 30 experts in Iran’s government ministries to assess the government’s priorities in different sectors and project implementation probabilities.

Business Sweden identified open investment projects in four sectors of particular interest to Swedish companies: transport, mining, healthcare, and energy and environmental technology. This report shows four maps outlining 20 interesting investment projects in note form. A fifth map shows the locations of Iran’s Free Trade-Industrial Zones and Special Economic Zones, which offer favourable conditions for investment and business activities.

IRANIAN INTEREST IN FOREIGN INVESTMENT

In 2002, parliament ratified the Foreign Investment Promotion and Protection Act (FIPPA), a piece of legislation designed to improve transparency, simplify the investment process and offer greater protection to foreign companies wishing to invest in Iran. The act seeks to offer equal treatment to foreign companies as to domestic enterprises, protecting firms against nationalisation and asset expropriation and also ring-fencing dividends, capital transfers and foreign loan repayments. A supplementary government directive of 2010 entitles foreign investors to own 100 percent of the share capital of Iranian-registered companies.

The Organization for Investment, Economic and Technical Assistance of Iran (OIETAI, Invest in Iran) is the public authority responsible for foreign investment in Iran. It reports to the Ministry of Finance and Economic Affairs and has a broad mandate to process foreign investment applications and licences.
Iran’s priorities:
- Expand the railway network
- Integrate the transition between different modes of transport
- Connect Iran to the international traffic system
- Catch up with the other countries in the region

Investment projects:
- **Mehrabad**: Domestic terminal airport EUR 160 m
- **Road transport**: Vehicles for freight and passengers EUR 23 bn
- **Bushehr-Shiraz**: Motorways EUR 738 m
- **Shiraz-Bushehr-Asalouyeh**: Stretch of railway EUR 1,176 m
- **Shahid Rajaee**: Container terminal port EUR 243 m

Sources: Iranian experts, Business Sweden (2016).
Logistics and infrastructure. Iran’s transport network offers relatively good national and international connections. The country’s infrastructure currently meets national needs, based on Tehran as the central hub. However, an expansion of transport networks is in the pipeline as Iran seeks to connect with its neighbours and become a logistical nexus where east meets west.

Road is the standard form of good transport, accounting for 75 percent of freight. The road network is approximately 200,000 km long, though half is dirt roads that are in poor condition. Heavy traffic and a high accident rate pose logistical challenges.

Iran’s 13,000 km of railways handle 25 percent of freight transport and are well maintained. Tehran has rail links with most of Iran’s major cities, its key ports and five of its seven neighbouring countries.

Iran enjoys a strategic position on the Persian Gulf and Straits of Hormuz, through which 20 percent of global oil shipments pass. The country has a series of ports in the Persian Gulf and Caspian Sea capable of handling import and export flows.

Security shortcomings and an ageing air fleet have hampered the development of the air transport sector. Upgrades of the national air fleet are planned and Iran signed an agreement in early 2016 to take delivery of 118 Airbus passenger aircraft, including 12 A380s. A similar deal with Boeing was made in June 2016.

The air transport network is relatively good. Of the country’s 319 airports, 179 have tarmac runways and five (Tehran, Abadan, Esfahan, Shiraz and Bandar Abbas) receive international flights, though only Tehran airport has a sufficiently long runway to receive the largest aircraft.

Southern Iran’s well-equipped and modern ports serve as an attractive alternative for regional air shipments due to poor airport infrastructure in Pakistan and Afghanistan and long distances to China and Russia. Also, most Central Asian countries have no coast. Chabahar has recently been upgraded and will be used for transhipment to Afghanistan and Central Asia. Bandar Abbas is used as a hub primarily for trade with Russia and Europe, and handles more than 80 percent of Iran’s container traffic.

Construction of a new railway link from Iran to Turkmenistan and Kazakhstan was completed in December 2014. A strategic partnership between India, Iran and Russia aims to introduce combined transport between the countries, which would give Europe and Central Asia access to Asia and vice versa.

The Ministry of Transportation and Housing estimates that railway expansion plans will require the purchase of 2,800 passenger carriages and 5,000 goods wagons.

Automotive. The automotive industry is the second largest after oil and gas. Before sanctions, Iran was the world’s 11th largest car pro-
ducer. Today, a workforce of 700,000 produces 1.2 million units a year, making Iran the largest vehicle manufacturer in the Middle East. Thirteen companies produce vehicles in Iran, but two – Iran Khodro and Saipa – dominate with a combined market share of 94 percent in car manufacturing.

Both companies are in acute need of investment, however, and international manufacturers with a stable presence and historical contacts have an advantage. Peugeot of France is expected to take back market share from competitors such as China’s Geely and Lifan, which expanded in Iran during the sanctions era.

Automotive industry sales are forecast to grow at the same rate as Iran’s middle class. Local component manufacturers are unlikely to have sufficient capacity to meet growing demand, meaning that imports will be required.

The commercial vehicles market is also expected to see an upswing. The easing of sanctions has fuelled strong demand for heavy goods vehicles and buses, and Scania and Volvo are well placed to gain market share in this segment.

Opportunities also exist for foreign companies to collaborate with Iranian manufacturers. Partnerships involving the exchange of knowledge and technology, such as Peugeot’s collaboration with Iran Khodro, are expected to become more widespread.

In 2011, the merger of the Ministry of Housing and Urban Development with the Ministry of Roads and Transportation created the Ministry of Transportation and Housing – a superministry responsible for overseeing the construction industry, as well as Iran’s roads and railways and international air and maritime transport links.
With 5,000 active mines, Iran is one of the world’s most important mineral producers. The country is ranked among the world’s ten most mineral-rich nations, with 68 different types of minerals, 37 billion tonnes of reserves and 57 billion tonnes of potential reserves.

Iran accounts for about 7 percent of the world’s mineral deposits, including the largest zinc reserve, the ninth largest copper reserve, the 10th largest uranium reserve and the 12th largest iron ore reserve. Other significant reserves include aluminium, coal, metallic minerals, sand and gravel, chemical minerals and salt.

The government is expected to increase investment in the mining industry with the aim of diversifying the economy, creating job opportunities in rural areas and developing Iran’s mineral processing capabilities.

Despite Iran’s potential as a mineral producer, the mining industry is still relatively underdeveloped and accounts for only 0.6 percent of GDP. Short-term needs include financing, technical know-how and more effective machinery and plant. There is a major need for foreign investment and expertise.

The government’s proposed five-year plan has earmarked USD 15 billion for the mining industry, primarily aimed at raising production of steel, copper and aluminium.

Swedish companies that establish a presence in the Iranian mining industry will be competing with domestic and Asian producers that have dominated the market during the sanctions era. Opportunities exist to enter into joint ventures and partnerships with Iranian companies and to export to the Asian market. Swedish firms can offer knowledge, products and expertise that can help Iran’s mining industry to develop and evolve.

Iran is the largest steel producer in the Middle East and the 16th largest worldwide. Three companies dominate this segment: Mobarakeh Steel (47 percent of production), Khuzestan Steel (23 percent) and Esfahan Steel (20 percent). Many other smaller producers are dotted around the country.

The authorities want to raise annual production capacity to 55 million tonnes and exports to 14 million tonnes by 2025. Current production capacity stands at 15 million tonnes. However, overcapacity and low prices in the steel industry at global level are putting a brake on expansion plans.

The state-owned Iranian Mines and Mining Industries Development and Renovation Organisation (IMIDRO) is responsible for shaping and implementing Iran’s mining policy for mineral prospecting, extraction, construction and development. IMIDRO invests in foreign companies and promotes foreign and private investment in the mining industry. Since the start of 2001, IMIDRO has invested USD 17 billion in 69 mining projects, with USD 9 billion of this channelled into 30 projects as of 2014.
Iran’s priorities:
- Expand the mining industry
- Increase the level of processing in the export of commodities
- Upgrade technology and reduce environmental impact

Investment projects:

- **Sangan:** Pellet production plant
  - **EUR 358 m**

- **Taft:** Copper mine
  - **EUR 403 m**

- **Rafsanjan:** Sarcheshmeh copper smelter
  - **EUR 740 m**

- **Sirjan:** Gol Gohar steel works
  - **EUR 911 m**

- **Lamerd:** Aluminium smelter
  - **EUR 1,180 m**

Sources: Iranian experts, Business Sweden (2016).
Companies can apply for project licences from the Ministry of Industry, Mines and Trade. Where prospecting has proven successful, the ministry issues a certificate of discovery that is transferable to another party or can be used to apply for an extraction licence. The ministry issues extraction licences and sets extraction volumes. There are currently no restrictions on foreign companies or private individuals owning mineral rights.
HEALTHCARE

Iran's priorities:
- Increase the number of hospital beds per capita
- Increase availability to healthcare
- Upgrade equipment and technology

Investment projects:

- **Mashad:** X-ray centre EUR 22 m
- **Tabriz:** Dialysis centre EUR 7 m
- **Urmia:** Hospital 600 beds EUR 90 m
- **Rasht:** Hospital 1,000 beds EUR 150 m
- **Rasht:** Cancer centre EUR 80 m

Sources: Iranian experts, Business Sweden (2016).
HEALTHCARE

During the sanctions era, Iran’s standard of medical equipment and infrastructure fell behind other countries in the region – as seen in a high rate of infant mortality. There is political will to produce basic medical products domestically, but the country remains heavily reliant on imports of advanced medical products, primarily from the EU and Asia.

Together, cardiovascular disease, cancer, asthma and diabetes account for 76 percent of deaths in Iran. Cardiovascular disease is the biggest killer: 90,000 people a year die from a heart attack and 40,000 from a stroke. In 2014, the country had an estimated 4.5 million diabetics. The Iranian Association of Diabetes estimates that this number will have doubled by 2030 if no action is taken. Traffic accidents are another major cause of mortality: 30,000 people die on the roads every year.

Major health problems include drug abuse, which in recent years has spread into educated sections of society. Neighbouring Afghanistan, which produces 90 percent of the world’s opium and heroin, is a major source. Iran serves as a transit state for Afghan narcotics that are smuggled into Turkey and on to Europe. The authorities put the number of drug users at 2.2 million, though up to 6 million Iranians may suffer from drug-related problems. The country is investing significantly to combat drug use by setting up rehabilitation clinics and offering anti-addiction programmes.

Irán has 900 hospitals – the largest number of any Middle Eastern country – but a comparatively low number of hospital beds (135,000) and doctors (73,000). The plan is to increase bed availability from 1.7 per 1,000 inhabitants to the regional average of 2.7 per 1,000 inhabitants and to upgrade between 50,000 and 70,000 old hospital beds to new ones.

Doctor’s salaries rose sharply in 2014 as part of a strategy to raise physician numbers. More than half of national healthcare expenditure was publicly funded in 2015, with the remainder financed by fees and, to a lesser extent, private insurance.

The country’s 550 or so public hospitals have long been in need of investment. Half are more than 50 years old and need upgrading. Deficits in hospital budgets have led to a shortage of medicines and medical equipment. The country’s private hospitals – approximately 350 in all – face economic challenges that have resulted in equipment shortages.

Access to and the quality of healthcare is below average for the region. The government and its agencies have launched a health overhaul plan to upgrade and develop healthcare in the next few years. The aim is to increase the number of hospital beds and healthcare professionals, improve primary and elderly care, prevent lifestyle-related diseases, and reform state-funded health insurance programmes. The government regards foreign investors as a potential player in this modernisation process.
Responsibility for healthcare in Iran rests with a number of state authorities. The Ministry of Health is in charge of running over 60 percent of Iran’s hospitals. Agencies reporting to the ministry are responsible for coordinating, procuring and distributing equipment for public hospitals. They also have an oversight role when it comes to training and research programmes at the country’s 52 medical universities.

The Department of Medical Equipment is the ministerial department responsible for the regulation, pricing and supervision of medical equipment imports. The private sector plays the leading role in medical equipment imports and distribution.

Other ministries and organisations that provide healthcare services are the Ministry of Defence, the Social Security Organisation, the Iranian Blood Transfusion Service and L’Institut Pasteur. A number of charity organisations also provide healthcare.
Energy and Environmental Technology

Oil and gas. In 2015, Iran was the world’s eighth largest producer of crude oil, with a global market share of just over 4 percent. In the same year the country was the world’s third largest producer of natural gas, after the US and Russia. Iran comes second in terms of its share of world reserves of both oil (10 percent) and natural gas (17 percent).

Approximately 70 percent of Iran’s crude oil reserves are on land and the rest are in the Persian Gulf and Caspian Sea. The country is now planning to invest in increasing its refinery capacity.

The majority of Iran’s gas reserves are undeveloped, and currently the country consumes almost all of its gas domestically. South Pars, Iran’s biggest natural gas field, accounts for 40 percent of national gas reserves and forms part of a large gas field shared between Iran and Qatar. Other large gas fields in Iran are Kish, North Pars, Tabnak, Forouz and Kangan.

A major oil exporter, Iran exports only small amounts of natural gas to neighbouring countries. Given the extent of its oil and gas resources, Iran has the potential to be a considerably bigger player in the global energy market than it is today. The Ministry of Petroleum has estimated that Iran needs at least USD 180 billion by way of investment in the sector over the next six years.

Electricity. Iran has historically kept electricity prices low by means of state subsidies, while at the same time, with little success, to reduce energy use. In 2014, the government announced that electricity prices would rise by 25 percent as a result of lower subsidies. A gradual increase in electricity production is expected to help enable Iran to meet rising domestic demand and continue to increase its electricity exports to Armenia, Pakistan, Turkey, Iraq and Afghanistan.

Renewable energy. The Ministry of Energy has introduced special incentives for wind power development, and as a result Iran now has a degree of capacity in that field. The authorities are planning to expand wind power on a massive scale.

Solar energy offers major potential but remains undeveloped. A number of biomass and waste management research projects are ongoing but do not contribute to energy production.

The authorities estimate that renewable energy requires investment of USD 110 billion
**Energy and Environmental Technology**

**Iran’s priorities:**
- Reduce oil consumption and environmental impact
- Address the shortage of water
- Develop wind power and solar energy
- Develop hydroelectric power
- Bring in more competence in environmental technology

**Investment Projects:**

- **Tehran:**
  - Water treatment plant
  - EUR 133 m

- **Khaf:**
  - Wind park 750 MW
  - EUR 1,300 m

- **Yazd:**
  - Solar energy plant
  - 100 MW
  - EUR 200 m

- **Shoush:**
  - Water treatment plant
  - EUR 50 m

- **Andimeshk:**
  - Bakhtiari dam and hydroelectric power station
  - 750 MW
  - EUR 2,000 m

Sources: Iranian experts, Business Sweden (2016).
over the next few years to raise efficiency and bring production in line with demand.

Wind power capacity is 8,700 MW and accounted for less than 0.5 percent of national energy production in 2015. The Ministry of Energy estimates hydroelectric power potential at just over 25,000 MW. The authorities are planning a number of new hydroelectric dams that would increase capacity by more than 6,000 MW.

The Supreme Energy Council (SEC), headed by the President of Iran, is responsible for overseeing Iran’s energy sector. SEC’s members include ministers from the Ministry of Petroleum and other ministries.

The three most important companies in the oil industry are the National Iranian Oil Company (NIOC), the National Iranian Gas Company (NIGC) and the National Iranian Petrochemical Company (NPC). All are state-owned. The NIOC is responsible for all oil and natural gas projects that span production and export. The National Iranian South Oil Company (NISOC), a subsidiary of NIOC, accounts for 80 percent of oil production in the country and covers the provinces of Khuzestan, Bushehr, Fars, Kohgiluyeh and Boyer-Ahmad.

THE WORLD’S EIGHT LARGEST OIL PRODUCER

Oil production
2015, million barrels per day

<table>
<thead>
<tr>
<th>Country</th>
<th>Oil Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>15</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>10</td>
</tr>
<tr>
<td>Russia</td>
<td>9</td>
</tr>
<tr>
<td>China</td>
<td>7</td>
</tr>
<tr>
<td>Canada</td>
<td>6</td>
</tr>
<tr>
<td>Iran</td>
<td>5</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>4</td>
</tr>
<tr>
<td>Mexico</td>
<td>3</td>
</tr>
<tr>
<td>Kuwait</td>
<td>2</td>
</tr>
</tbody>
</table>

Note: 1 barrel = 160 litres.

Sources: US Energy Information Administration, Business Sweden (2016).
ECONOMIC ZONES

Free Trade-Industrial Zones
Special Economic Zones

Sources: Iranian experts, Business Sweden (2016).
To promote economic development, Iran has created eight Free Trade-Industrial Zones (FTIZs) and some 30 Special Economic Zones (SEZs) in different parts of the country (see map on opposite page). The free zones are directly intended to attract foreign investment and business activity, while the special zones have been set up to promote either a specific activity, often in manufacturing industry, or regions in need of economic development. On the whole, the conditions for production and trade are more generous in the free zones than in the special zones.

The conditions applicable in the free zones are that all trade with foreign countries is exempt from Iranian import and export regulations after customs registration. There are no restrictions on foreign ownership. The free zones offer different kinds of tax relief and favourable treatment of international currency transactions. No visas or work permits are required for foreign citizens employed in companies registered in the free zones. Employee salaries are exempt from income tax. Profits from the business may be freely taken out of the country.

The geographic locations of Iran’s investment projects overlap to a degree with the country’s special economic zones.
BUSINESS CLIMATE

The Iranian market presents interesting opportunities for Swedish companies but also a very challenging business climate. The government and government interests control large segments of trade and industry through state-owned companies and trusts. Most Iranian companies lack experience of international business.

There is an awareness among Iran’s leadership that widespread corruption is seriously damaging the economy. The aim is to bring corruption down to a level comparable to countries that are attractive to foreign investment, such as China.

The aim is also to climb the international indices used to evaluate business climate, such as the World Bank’s Ease of Doing Business, since these are a benchmark for foreign investors. By improving its business climate, Iran will be able to get closer to its goal of becoming an important industrial centre and prominent regional economic player.

Iranian customs duties are relatively high and designed to protect domestic industry as well as encourage foreign companies to set up manufacturing operations in Iran. The customs system is a bottleneck for foreign trade.

Education standards are high. Compulsory schooling lasts for eight years and is free of charge. There is a surfeit of well-educated people in the labour market, which is why many young people go abroad to study and work. Widespread youth unemployment, including among people with college degrees, is a considerable social and economic problem. Female participation in the labour force is very low and represents a vastly underexploited economic resource, especially considering that 60 percent of students at Iran’s universities and colleges are women.

Corporate tax is 25 percent. At present, Sweden has no double taxation agreement with Iran.

Income tax is progressive, with a maximum marginal rate of 35 percent. VAT was raised from 7 to 9 percent in 2015. The taxation system is complicated and tax morale low. Tax revenue amounts to no more than 9 percent of GDP (43 percent in Sweden).

Iran’s infrastructure is quite well developed, but also in great need of investment.

The trade unions are weak and have no real influence. In recent years, temporary positions have been the most common form of employment by far. Temporary contracts are also gaining ground in the public sector, where many jobs used to be for life.

A lack of competent management and international business contacts and weak infrastructure are the prime challenges facing Iranian startups. The government looks favourably on expansive new companies that create jobs, and offers incentives such as tax relief to innovative enterprises.

Iran has established eight Free Trade-Industrial Zones that offer especially favour-
able conditions to foreign investors. It has also established around 30 Special Economic Zones that also offer favourable conditions, although on a more limited scale (see page 43).

Business Sweden has compiled the results from three renowned international indices to create a weighted business climate league table (see below). The table puts Iran in 94th place, while comparable countries such as Russia and Turkey rank 51st and 62nd respectively. Iran’s ranking is especially low in the Corruption Perceptions Index. The Economist Intelligence Unit’s business climate country rankings have Iran in 78th place.

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CHALLENGING BUSINESS CLIMATE REFLECTED IN INTERNATIONAL INDICES

Weighted ranking and individual indices for 2016

<table>
<thead>
<tr>
<th>Weighted ranking</th>
<th>Country</th>
<th>Global Competitiveness Index</th>
<th>Ease of Doing Business Index</th>
<th>Human Development Index</th>
<th>Corruption Perceptions Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Singapore</td>
<td>2</td>
<td>1</td>
<td>9</td>
<td>8</td>
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<tr>
<td>2</td>
<td>USA</td>
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<td>3</td>
<td>Norway</td>
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<td>Denmark</td>
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<td>Germany</td>
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<td>New Zealand</td>
<td>16</td>
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<td>7</td>
<td>Hong Kong</td>
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<tr>
<td>94</td>
<td>Iran</td>
<td>74</td>
<td>118</td>
<td>75</td>
<td>130</td>
</tr>
</tbody>
</table>

Note: The weighted rankings of several of Iran’s neighbouring countries are as follows: Azerbaijan (64), Turkmenistan (117) and Pakistan (154). The Corruption Perceptions Index is not taken into account in the weighted ranking but is presented separately.

1. Is the export in compliance with the company’s own statutes and guidelines for doing business in Iran?

2. Potential areas of conflict with EU export controls and sanctions
   - Scope of EU export controls
     - Dual-use products
     - Sensitive products
   - Scope of EU sanctions against Iran
     - Defence material and missile technology
     - Products subject to sanctions
     - Unauthorised business partners
   - Are exports affected by EU export controls?
   - Are exports affected by EU sanctions against Iran?

3. Possible areas of conflict with US sanctions against Iran
   - Scope of US sanctions against Iran
     - US territory and citizens
     - US owners and interests
     - US banks and financial institutions
   - Are exports affected by US sanctions against Iran?

4. Questions regarding exports
   - Customs and terms of trade
     - What product requirements apply to the export?
     - What documents are required for the export?
   - Payments, financing and logistics
     - How can secure payment for the export be guaranteed?
     - What terms of delivery and mode of delivery are appropriate for the export?

5. Export declaration

EXPORTS

This section presents a checklist that describes and illustrates in five steps how Swedish companies can export to Iran. The first three steps require checking that the export is compatible with the company’s own guidelines, the EU’s export controls and the EU and US economic sanctions that remained in place after 16 January 2016. The fourth step in the checklist shows how companies need to deal with customs and the terms of trade and payment, financing and logistics. The fifth step involves an obligatory export declaration, which is submitted to Swedish Customs.

EASING OF SANCTIONS

**European Union.** The easing of EU economic sanctions has been comprehensive and means trade with – and investment in – Iran in oil, gas and petrochemicals, shipbuilding is now permitted, along with trade in gold, diamonds and precious metals.

The easing of sanctions also covers payments and insurance, which are crucial for effective trade. European banks can establish offices in Iran, and Iranian banks can open branches in the EU. Iranian banks have access once again to the SWIFT international payments system (the Society for Worldwide Interbank Financial Telecommunication). In addition, 400 names have been removed from the EU list of prohibited business partners, including the Central Bank of Iran and a number of Iranian commercial banks.

**USA.** The easing of US sanctions mostly concerns secondary sanctions, which impact non-American companies and on American businesses outside US territory. US companies and citizens remained barred from doing business with Iran, as does the use of the US dollar. The easing of sanctions does, however, enable the foreign subsidiaries of US companies to do business with Iran. This opens up sectors that were previously closed: oil, gas, petrochemicals, shipping, automotive and financial services, including insurance. These foreign subsidiaries may also, with certain restrictions, use the US parent company’s globally integrated business support system to do business with Iran.

In some areas, such as civil aviation and related services, American companies are now able to obtain a licence for specific business transactions with Iran. Certain luxury products from Iran such as rugs, pistachio nuts and caviar may be imported into the US. The US has removed around 400 names from its list of prohibited business partners in Iran. Many state-owned companies are no longer on the list, and nor is the Central Bank of Iran.
CHECKLIST FOR SWEDISH EXPORTS TO IRAN

1. COMPANY STATUTES AND GUIDELINES
The first step requires the Swedish company to examine its own internal statutes and guidelines prior to engaging in exports and business with Iran. These may be guidelines that apply at group level, for instance at a US parent company. The company may also have entered into insurance agreements and investment agreements that stipulate compliance with US regulations prohibiting business with Iran.

In some cases, the company may have taken an active decision not to do business with Iran. The EU sanctions still in place are subject to a complex set of regulations. The US exercises so-called extraterritorial jurisdiction, which means that in certain cases US legislation is considered to apply outside US territory. Furthermore, the US sanctions are not clearly defined. The company may therefore conclude that there is a risk of it being in breach of EU or US sanctions even in the case of business transactions that would appear to be permissible.

2. EU EXPORT CONTROLS AND SANCTIONS AGAINST IRAN
The second step requires the company to examine whether its exports are affected by the EU’s export controls or EU sanctions against Iran. To do this, the company must classify the product/s concerned. The company is responsible for this classification but can seek help from a consultant or advice from the Inspectorate of Strategic Products (ISP), a government agency tasked with Swedish control and supervision of strategic products within the framework of EU regulations. The company must also perform due diligence on its business partner. This means identifying the Iranian end-user and other parties participating in the export transaction.

EU Export control. All products to be exported outside the EU are covered by the EU’s export controls. In the case of double-use products (that is, products intended for both civil and military purposes) and so-called sensitive products, the company needs to apply for an export licence from the ISP.

EU sanctions. The EU sanctions still in place against Iran cover defence material and missile technology, listed products subject to sanctions, and prohibited business partners. There is a total export ban on products in the first category. In the case of listed products subject to sanctions, the company must apply for an export licence from the ISP. Since the easing of sanctions, the EU list of prohibited business partners runs to about 200 names.

3. US SANCTIONS AGAINST IRAN
The third step requires the Swedish company to examine whether US sanctions against Iran have any bearing on its exports.

US sanctions may have been eased, but they remain far-reaching. They apply to US territory and citizens, US owners and interests, and US banks and financial institutions. Use of the US dollar in business transactions with Iran is in practice forbidden. The US content of a company’s exports to Iran may not exceed 10 percent of the export value. The US list of prohibited business partners in Iran includes around 200 names.

It is not the ISP’s role to answer questions on US sanctions. Questions should instead be addressed to the US embassy in Stockholm or a consultancy. The US Office of Foreign Assets Control (OFAC) administers and enforces US sanctions. OFAC comes under the US Department of the Treasury, but also has access to the US Department of Justice’s resources for investigating and controlling how companies comply with sanctions.

4. QUESTIONS ON EXPORT-RELATED ISSUES
The fourth step requires the company to deal with customs and terms of trade and the payments, financing and logistics relating to their export transactions.
CUSTOMS AND TERMS OF TRADE

Iran is one of few non-members of the WTO and is thus outside the international trading system. The Iranian government has announced WTO membership as a high priority, though no negotiations have begun.

The import of goods into Iran requires extensive work in terms of documentation and licensing. Much of Iran’s import legislation is available electronically, but this information is not always up to date and is only partially translated into English. Business Sweden’s contacts with Swedish companies and organisations confirm the view that it can be difficult to know what regulations apply to imports of different goods. The customs authorities’ monopoly on the control of import and export flows and their duty-raising power also provide fertile ground for corruption, which is a serious problem at customs posts in Iran.

Import procedures. Companies that run a business in Iran and wish to import goods must be registered with the Ministry of Industry, Mines and Trade and the Iran Chamber of Commerce. For this, they require a permanent address in Iran. Once registration has been approved, the importer will receive a licence – known as a commercial card – issued by the Iran Chamber of Commerce. A commercial card is required for an import permit application.

In some cases, Iranian companies lease out their name and commercial card to other companies or individuals wishing to import goods from overseas but who are not registered and lack a commercial card. This practice is a grey area and is not recommended by Business Sweden.

Relevant ministries and government agencies for registration and permit issuance include:

- Ministry of Economic Affairs and Finance (registration for paying customs and taxes)
- Islamic Republic of Iran’s Customs Administration
- Ministry of Industry, Mines and Trade (applying for import permit)
- Ministry of Agriculture (the ministry responsible for requirements such as veterinary checks on imports of live animals and animal products)
- Iranian Food and Drug Organisation (registration and, where relevant, import permits for foodstuffs and cosmetics)
- Ministry of Information and Communications Technology (permits for media imports)
- Institute of Standards and Industrial Research of Iran (issuer of standards and product requirements)

The length of time needed for obtaining all the permits necessary for imports varies depending on what permits are required. Registration, application and issuance of a commercial card and import permit takes approximately seven working days. A permit for importing of foodstuffs or cosmetics can take anything from two or three months up to six months.

Informal networks are often of great importance when doing business in Iran, and trade facilitation is no exception. Business Sweden recommends close collaboration with importers, customs agents and other partners in Iran to ensure that all permits and registrations are in place at the time of import.

The Ministry of Industry, Mines and Trade draws up an annual import list stating which imports are authorised, non-authorised and prohibited for that year. As a rule, companies possessing a commercial card can import authorised goods free from any restrictions on volume. Imports of non-authorised goods require a licence from the relevant agency. Goods classified as prohibited, such as alcohol, pig meat and gaming devices, cannot be imported.

Consignments with a value exceeding USD 20,000 must be inspected in respect of quality, price and quantity before shipment to Iran. This check is carried out by an inspector who is in touch with the seller of the products in Sweden. The inspector and seller agree on
where the inspection is to take place, usually in the country of export. Once the inspection has been carried out, a certificate of inspection is issued, which is needed for import into Iran.

Apart from the above inspection, the product may have to undergo further inspections to ensure, for instance, compliance with Iranian standards. Depending on the inspections required, these are carried out by a consultant of choice or by a specially accredited company. It can often save time to perform such inspections in Sweden rather than in Iran.

Iranian customs duties are relatively high, with the World Bank’s most recent estimate (2011) indicating average duty payable of 25 percent. By comparison, the average amount of duty payable in the EU is about 5 percent. Recently, the Iranian authorities announced unspecified plans to reduce duty on a large number of goods.

In the case of goods intended solely for processing in Iran prior to re-export, the exporter may use Free Trade-Industrial Zones or Special Economic Zones instead of going through
the normal import procedure. Special Economic Zones are not as favourable as the free zones, but nevertheless offer the advantage of lower customs and taxes (see a more detailed description on page 43).

Iran is a signatory to the International Convention on the ATA Carnet, a document for temporary imports. A company can apply for an ATA Carnet from its local chamber of commerce in Sweden. The ATA Carnet is a document that accompanies the goods and makes crossing borders easier by obviating the need for export or import declaration forms. The ATA Carnet is used for temporary imports such as samples, professional equipment and demonstration products for trade fairs.

Documentation. Import documentation must be drawn up in English or Persian (Farsi). The Iranian customs authority does not require legalisation of commercial documents (invoice or certificate of origin), but the Iranian purchaser may do. Legalisation is carried out by the consular department of the Iranian embassy (in Stockholm) or by the
legal office at the Swedish Ministry for Foreign Affairs. Legalisation is a formality that may be necessary for a document to have legal force in another country. This means in practice that the document is signed using an official stamp.

**Invoice content.** Invoices must have a minimum of five copies. They must be written in English and contain all relevant details, including the name and address of the seller and buyer, package labelling, order number and type, a detailed product description, unit price and total for each product type, and terms of payment and delivery. Invoices must state the net price because the Iranian authorities do not permit deductions of discounts on gross amounts. Furthermore, the invoice must also specify the name of the Iranian bank and the registration number of the import transaction at the bank, or else the letter of credit number if payment is made on presentation of a letter of credit.

**PAYMENTS, FINANCING AND LOGISTICS**

Crucial to the development of Iran’s trade with the outside world following the easing of sanctions is whether or not the country will open up to international financial transactions. This is essential for effective export financing and payments. Iranian banks are now once again able to join the international payments system but need a counterpart in the form of a foreign bank that is willing to manage the transaction. A climate of “wait and see” took hold immediately after sanctions were eased, but many European banks including several Swedish banks are now preparing to manage export transactions with Iran. However, the speed has been unexpectedly slow.

By the same token, the export transaction guarantee system also needs to start operating. In Sweden’s case, this extends to guarantees by the Swedish Export Credits Guarantee Board (EKN) as these play a key role in assisting Swedish export transactions in emerging markets.

Some of the major European banks have had to pay fines running into billions for sanctions violations relating to the use of US dollars. European banks also run the risk of having their US dollar handling licences revoked. Penalties for European companies can also include the freezing of assets, a ban on doing business with US businesses, and a US travel ban.

**Risks.** A Swedish company wishing to export to Iran should be aware of the correct procedures for ensuring timely payment from the Iranian customer. Delayed payment or non-payment can be costly. It is therefore essential that the company determines what risks it can and cannot accept – and makes that assessment at an early stage.

The main risks are political and commercial risk and product risk.

Political risk is linked to the purchaser’s country, in this case Iran. Governments of countries experiencing economic difficulty and political unrest can take measures that quickly change the terms of business. Such actions may, for example, delay or prevent payment transfers (known as transfer risk).

Commercial risk is dependent on who the buyer is and what collateral the buyer may be willing to provide. The risk of the buyer becoming bankrupt or insolvent or failing to pay is known as commercial risk.

Product risk can arise when a product has been specially manufactured and the buyer breaks the contract or goes into insolvency during the period of manufacture. It can then be difficult to sell the product to another client without considerable extra cost.

Most US trade sanctions against Iran are still in place. This means that companies, including foreign enterprises, are prohibited from doing business with Iran in US dollars since these transactions go through the US financial system. Business Sweden recommends that all contracts should use euros (EUR) as currency.

**Advance payment.** Paying in advance is the best option for the exporter. However, it is not
unusual for the foreign client to demand an advance payment guarantee from the exporter’s bank as a counterclaim. An advance payment guarantee is made before or in conjunction with the advance payment and guarantees that the seller will pay back all or part of the advance sum if delivery is not made as agreed. Demanding payment in advance from an Iranian client may well meet with difficulty and little success.

*Letter of credit (L/C).* This is the safest payment method after advance payment. A letter of credit is an undertaking by the buyer’s bank in Iran to pay the exporter a certain amount once the exporter has fulfilled the conditions of the letter of credit.

An L/C is always unconfirmed in its original form. This means that the “opening bank” – the buyer’s bank in Iran – guarantees payment. The risk on the buyer’s side is therefore covered. However, countries, including Iran, may suffer from economic and political problems that can make it difficult for the opening bank to fulfil its obligations to the seller. It may, for example, be difficult to obtain permission to transfer convertible currency out of the country. To protect against this risk, the exporter should insist that a Swedish bank confirms the L/C (that is, that the Swedish bank guarantees the payment liability of the Iranian bank). L/Cs were a commonly used form of payment in Iran prior to sanctions.

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**SWEDEN’S EXPORT CREDIT SYSTEM**

1. The exporter signs a contract of sale with an importer (buyer). Payment is made to the exporter at the time of delivery.
2. The importer would like financing, but in this case it is not the exporter who provides a loan (supplier credit). Instead it is a bank which provides financing directly to the importer (buyer credit).
3. The issuing of the loan is made directly to the exporter.
4. The bank now has a credit risk on the borrower and can apply to the Swedish Export Credits Guarantee Board (EKN) for a loss on claim guarantee for the lender. The guarantee covers the risk of the overseas borrower failing to pay the claim according to contract.
5. The bank also has the ability to finance the loan via the Swedish Export Credit Corporation (SEK).

Source: Business Sweden (2016).
THE LETTER OF CREDIT – HOW IT WORKS

1. Purchase agreement

2. Application for letter of credit

3. Opening of letter of credit

4. Payment notification

5. Document

6. Payment

SELLER

BUYER

SELLER’S BANK = ADVISING BANK

BUYER’S BANK = OPENING BANK

Source: Business Sweden (2016).
Export credit guarantee. The Swedish government has tasked EKN with promoting Swedish exports by insuring export companies and banks against the risk of non-payment in export transactions. With the easing of sanctions against Iran in January 2016, EKN began issuing guarantees once more for exports to Iran.

Three types of EKN guarantee can be used for business transactions with Iran:

1. An unconfirmed letter of credit under which the exporter, instead of asking for confirmation from a Swedish bank, applies for an EKN guarantee to cover the risk associated with Iran and the Iranian bank.

2. If the letter of credit has been confirmed by a Swedish bank, EKN can share the risk with the confirming bank.

3. Payment on open credit, whereby the exporter applies for an EKN guarantee to cover the risk of non-payment by the Iranian buyer. The EKN guarantee also covers the risk of non-payment associated with Iran as a state.

Financing. Financing is often a crucial aspect of export transactions. It is also an important sales argument and can represent a competitive advantage for the exporter. Supplier credit is the most common form of credit, above all in the case of short credit periods, and involves the supplier extending a loan to the buyer. The exporter’s ability to provide supplier credit hinges on his ability to refinance the transaction.

Business Sweden recommends one of these two structures when offering supplier credit to Iran:

1. Having an EKN guarantee as security makes it easier to arrange bank financing, enabling the company to offer its clients financing on competitive terms. The company assigns the claim and rights under the EKN guarantee to the finance provider to obtain refinancing.

2. Having a letter of credit confirmed by a Swedish bank also makes it easier to offer credit to the company’s clients and to obtain refinancing from the bank. The letter of credit is drawn up in the form of a usance letter of credit (L/C with deferred payment) with a specified maturity date. The exporter can discount the letter of credit to the bank to obtain refinancing.

In the case of larger deals and long-term financing, buyer credit is often used. This involves one or more banks arranging a loan agreement with the buyer in conjunction with delivery. The bank financing the export contract can apply to EKN for a loss on claim guarantee for the lender. The guarantee covers the risk of non-payment of the claim under the contract on the part of the bank’s foreign borrower. The bank can access export finance from the Swedish Export Credit Corporation (SEK). The money is disbursed directly to the exporter at the time of delivery, making it a cash transaction from the exporter’s perspective.

Some Iranian banks are still subject to sanctions. To guarantee a safe procedure, it is advisable to contact the company’s Swedish bank, EKN, and, where necessary, SEK, at an early stage.

Delivery terms. The contractual delivery terms regulate the distribution of costs and the risks to which the goods are exposed during transportation. The most widely accepted set of delivery terms in this area at international level are Incoterms 2010, produced by the International Chamber of Commerce (ICC). Further information about Incoterms is available in Business Sweden’s online export guide – Exportguiden – and on ICC’s website.

It is important that the company considers the delivery terms carefully when entering into a complex international business agreement, and that it combines them with payment terms that will be effective in the given context.

In the case of letters of credit, it is paramount that the exporter has access to the doc-
uments required for fulfilling the terms of the letter of credit. Freight documents are normally included in the documentation required under a letter of credit. Since the carrier hands over the freight documents to the freight payer, it is important that the exporter orders and pays for the transport if the terms of payment are a letter of credit. Terms of carriage such as Ex Works (EXW), Free Carrier (FCA), Free On Board (FOB) and Free Alongside Ship (FAS) should therefore be avoided where a letter of credit is used.

**Risk and transport insurance.** The party bearing the risk of damage or loss of goods during transport can arrange insurance to cover the risk to the goods during transport. Business Sweden recommends that all companies insure goods during transport if they bear the risk for the goods under the delivery terms. Risk and transport insurance is normally arranged with the company’s insurance partner or with the carrier or, in some cases, with an independent insurance agent. Certain delivery terms – Cost, Insurance and Freight (CIF) and Carriage and Insurance Paid (CIP) – stipulate that the exporter, who does not bear the risks of transportation, must still arrange insurance on behalf of the recipient.

In Business Sweden’s experience, many Swedish insurance companies do not currently provide transport insurance for exports to Iran. Business Sweden recommends contacting the relevant insurance company at an early stage. If insurance cannot be arranged, neither CIF nor CIP can be used as terms of delivery. The use of delivery terms in which the exporter bears the risk of loss or damage to the goods during transportation, such as Delivered at Place (DAP), Delivered at Terminal (DAT) and Delivered Duty Paid (DDP), is also unsuitable as the exporter may be unable to arrange insurance. If the recipient bears the transport risks, he can insure the goods during shipment in the destination country.

DDP consignments are not accepted by most of the carriers involved in transport to and from Iran. Business Sweden advises against the use of DDP since this could make it hard to find a carrier and lead to a drawn-out and difficult clearance process.

Business Sweden recommends Carriage Paid To (CPT), or Cost and Freight (CFR) for sea transport.

**Shipment to Iran.** A relatively high ratio of goods transported to Iran is destined for the Tehran area, either for final delivery or to pass through a terminal there. It is common for the recipient to take over the shipment from the terminal in Iran, especially in the case of more unusual final delivery locations. Transportation to the Tehran area is primarily by road – both as full loads and groupage consignments – or else by air.

Air transport to Iran is handled by Iranian air carriers through services from Stockholm and Gothenburg. The main alternative is via Turkey using other carriers. There may be comprehensive restrictions on dimensions and weight depending on the type of aircraft, and goods classified as hazardous will generally not be accepted.

Several major shipping companies call at the port city of Bandar Abbas in southern Iran. This freight solution is especially suited to very large volumes of goods and for deliveries aimed at that part of the country and for goods shipped directly from Asia. Full Container Load (FCL) and conventional sea transport are the primary alternatives, but Less Than Container Load (LCL) are also consolidated in European continental ports. A direct consolidation service from Sweden is now available as well. If delivery is to northern Iran, the exporter should bear in mind that the transfer from the port can take time, and this needs to be reflected in the planned delivery schedule.

Groupage and LCL operators by road and sea do not generally accept hazardous goods. A company wanting to transport goods that are hazardous, atypically sized or have other special requirements should carefully discuss conditions with the carrier at an early stage. Carriers place strict requirements on all doc-
umentation being in order and on all the relevant information being provided in good time.

In the case of express shipments, the company must check that the courier company covers Iran. This is not always the case, especially where the courier company has a US connection.

5. EXPORT DECLARATION
The fifth step requires a Swedish company exporting goods to Iran to fill in an export declaration and submit it electronically to the Swedish Customs data system *Tulldatasystemet* (TDS). A description of the details to be included in the export declaration can be found in the Swedish Customs’ declaration guide *Tulldeklarationshandledningen*.

In most cases, the export declaration must include the prior notification about the export. The responsibility for ensuring that the prior notification reaches Swedish Customs can be transferred to another party such as a carrier, but this will require a power of attorney from the exporter.

The time required by the Customs Office of Export to approve (clear) an export declaration containing details of prior notification varies according to the mode of transport. In the case of container freight, the export declaration must be submitted 24 hours before the goods are loaded on the vessel. The deadline is two hours for rail transport, one hour for road transport, and 30 minutes before departure for air transport.
IRANIANS IN THE WORLD

UNITED KINGDOM
NETHERLANDS
AUSTRIA
FRANCE
SPAIN
SWEDEN
NORWAY

USA
CANADA

POPULATION OF IRANIAN ORIGIN
- 500,000-1,000,000
- 100,000-200,000
- 50,000-100,000
- 10,000-50,000
There are approximately 3–4 million Iranians living outside Iran’s borders today. The driving forces behind this diaspora have mainly been education and job opportunities, but the revolution of 1979 resulted in hundreds of thousands of Iranians leaving the country for political reasons. Many people of Iranian origin live in countries near Iran, including Turkey and the United Arab Emirates. Iranians who moved to the United States have mostly settled in California (Los Angeles) and New York. In 2015 there were 70,000 people living in Sweden who had been born in Iran. Many Iranians abroad are well educated and have positions in universities and in trade and industry. Approximately 60,000 Iranians study abroad each year.
1. Is the venture in line with the company’s own statutes and guidelines for doing business in Iran?

2. What type of company is appropriate for establishing a business?
   What is required to register the company?
   How is the protection of intellectual property rights guaranteed?

3. Is the company entering into a contract with the Iranian government regarding an investment project?

**THE IRANIAN MARKET**

Sources: Iranian legal experts, Business Sweden (2016).
SETTING UP A COMPANY

Swedish companies are able to operate in the Iranian market with the aid of three permitted types of intermediaries and representatives: brokers, commission agents and commercial agents. The latter have a broad mandate to represent the company in its negotiations and agreements. Swedish companies can also choose to establish a local branch in Iran or to enter into a joint venture with an Iranian partner. If, however, a Swedish business is looking for a longer-term commitment as an exporter to or investor in Iran, there are good reasons to operate as a private company in Iran.

This section gives a checklist that illustrates in three steps how a Swedish company can set up a company in Iran. The first step is to check that establishing such a business is compatible with the company’s own guidelines. If, however, a Swedish business is looking for a longer-term commitment as an exporter to or investor in Iran, there are good reasons to operate as a private company in Iran.

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Business Sweden recommends that companies considering establishing a company in Iran take legal advice.

CHECKLIST FOR SETTING UP A COMPANY IN IRAN

1. COMPANY’S OWN STATUTES AND GUIDELINES

The first step requires the Swedish company to examine its own internal statutes and guidelines for establishing a company in Iran. Just as with export transactions (see page 48), group-level guidelines, such as those of a US parent company, or external parameters may exist that do not permit an envisaged business operation in Iran.

2. ESTABLISHING A COMPANY IN IRAN

The second step involves the Swedish company examining the conditions for establishing a private company in Iran and then following the prescribed procedure.

As of 2010, foreign companies are permitted to own 100 percent of an Iranian subsidiary. Iranian legislation recognises the following categories of company: private joint stock company, public joint stock company, general partnership company, proportional liability company, mixed partnership company, limited liability company, and partnership company. Iranian legal advisers have, on behalf of Business Sweden, identified two types of limited
company – private joint stock company and limited liability company – as the most suitable for Swedish businesses wishing to establish a private company in Iran. A private joint stock company must have at least three partners. Shares can be traded freely without requiring the consent of fellow partners.

Registering a company is an eight-step process. Several of these steps can be taken in parallel:
1. Obtain criminal record clearance (5 days)
2. Reserve a unique company name, handle registration, and payment of registration fee (3 days)
3. Notify the Official Gazette of the new company’s formation (1 day)
4. Notify the State Tax Affairs Organization of the company’s business (1 day)
5. Register for VAT (2 days)
6. Open a ledger account (1 day)
7. Pay stamp duty (1 day)
8. Enrol employees in the social security programme at the Ministry of Labour and obtain a workplace number (1 day)

Registration is done electronically via the Registrar of Companies and Industrial Ownership. Some documents must also be submitted in person, however. All documentation relating to registration must be translated into Persian (Farsi).

Separately, the company must consider the need to protect its intangible assets. Iran is a member of the World Intellectual Property Organization (WIPO) and a signatory to several international conventions on intellectual property rights. The chances of obtaining protection for intellectual property rights are good. Despite this, infringements of foreign trademarks in the Iranian market are commonplace.

3. ESTABLISHING A PROJECT COMPANY IN IRAN

A possible third step is for the Swedish company to create a time-limited company in Iran. Iran’s Budget Act of 2012-2013 stipulated that a new type of entity – a project company must be used in any collaboration between a private company and the Iranian government, such as investing in and operating infrastructure. A project company is an obligatory company form for many of the investment projects mentioned in this report in note form on the maps in the Investment opportunities section. A project company must be wound up on completion of the investment.
OPPORTUNITIES AND CHALLENGES FACING SWEDISH COMPANIES

Iran has put behind it a decade of tightening economic sanctions. Iranian consumers and companies are showing strong demand for European and US products and business collaboration as an alternative to dealing with the Chinese companies that dominate the consumer and producer markets.

Sweden and Swedish companies enjoy a solid reputation in Iran. Swedish companies have a long history of active involvement in the Iranian market. Currently, Swedish businesses operate in sectors such as telecommunications, transport, mining and power supply. Swedish products are seen to be reliable and of good quality, albeit not superior to similar European products. German goods, however, are seen to offer especially high quality.

One reason why Swedish companies enjoy a good reputation is that they are seen as pursuing a long-term business approach and have helped to build the Iranian economy without participating in Iran’s internal struggle for political dominance. This is an important and positive factor in relations with Iranian decision-makers and is appreciated in political circles and many areas of the administration and in trade and industry. By the same token, leaving Iran in the wake of sanctions was quite an upheaval for many Swedish companies, as it was for other European corporations.

If Iran normalises economic relations with the outside world, the country will enjoy the right conditions for rapid economic growth in the next few years, primarily in the form of an upswing in the oil sector. This will have a knock-on effect on other industries and help to forge business opportunities in areas of interest to Swedish companies. There are, however, reasons to view the development of the market with caution, as there are too with the ability of the Iranian state and potential Iranian partners to honour financial obligations. The country’s international isolation and long-term economic mismanagement has seriously damaged the economy and industrial fabric. In the short term, Iran must be allowed to join the international payments system for it to become widely accessible to foreign companies and investors.
The entry or return of Swedish companies is hampered by the fact that much of the Iranian market and its various segments are unknown and poorly analysed. Reliable statistics and market data are a scarce commodity in Iran. The influence wielded by state-owned companies and state interests over trade and industry is responsible for a lack of market transparency. The absence over many years of foreign competence in corporate services such as law, accounting and other forms of business support is a further impediment to market insight. Swedish companies enjoy a consistently high profile in corporate social responsibility (CSR). The Iranian government has welcomed this, seeing an opportunity for the presence of foreign companies to help roll back corruption in the business sector. That said, the commercial environment is very challenging. Corruption is on a par with other Central Asian countries, though Iran's social institutions are stronger than in many parts of the region. The civil law system works relatively well. Iran is also emerging from a period in which smuggling was a necessity for national survival. Corruption increased as a result of sanctions but can also be suppressed if Iran can adapt to the international business community.

For Swedish companies to succeed in Iran, they need to be on the ground in the country with a good understanding of the local market, have access to investment capital, and take a long-term business approach. Iran has a relationship economy in which business is based on relationships and mutual trust. In this respect, the country does not differ from many other emerging markets. The ability of Swedish companies to finance their business arrangements is also a critical factor and, in many cases, a competitive advantage.

At the same time, the difficulties associated with doing business in Iran should not be exaggerated. As in many other emerging economies, the challenge for Swedish companies is to find suitable partners, distributors and suppliers. This is where trade fairs and other meeting places can be of help. It is important to have references available and to maintain a local presence to monitor and develop relationships with Iranian partners. Poor knowledge of the Iranian market and undeveloped networks will make the challenge even greater. Swedish companies are advised to start business partnerships with short-term contracts that can be terminated quickly. It is best to limit the scope of a venture initially in order to gain an opportunity for feedback and evaluation of the Iranian partner.

Business negotiations with Iranian counterparts can be testing and require careful advance preparation and follow-up documentation. Business Sweden recommends that Swedish companies ensure access to legal advice at local level. Business trips and exchanges between Swedish and other European companies will provide Swedish businesses over time with a greater understanding of Iranian commercial relationships.

The sanctions still in place also pose challenges that Swedish companies must confront in their exports to Iran. The EU has lifted the sanctions connected to Iran's nuclear energy programme, but the arms embargo remains in place, as do sanctions relating to human rights infringements. The classification of export products can often be very technical. This is where Swedish companies can use assistance from consultants or contact the ISP for advice. In most cases, it is essential to attach specifications, brochures, datasheets and suchlike so that the classification can be made.

Checking out an Iranian business partner can be a complex process. Persons named on the EU and US lists may not hold shares in or, in the case of the US list, be stakeholders of an Iranian business partner. The US sanctions kick in automatically in cases of shareholdings of 50 percent or more, though smaller shares may also be penalised in some cases.

A further hurdle is the ban on US content in export products to Iran exceeding 10 percent of the export value – a constraint that applies to all companies regardless of nationality. This can make it difficult to know where to
draw the line, a problem that companies cannot always solve alone.

US dollars should not be used when doing business with Iran. This can complicate payments in certain areas where the US dollar is used as standard, such as sea freight.

If Iran is in breach of its international undertakings, the EU and US can re-implement sanctions. It is unclear how such a snapback process would work and what consequences it would have for companies doing business with Iran. The EU has stated that business transactions conducted in accordance with current regulations should still be seen to be valid in the case of a snapback. However, it is important for Swedish companies to bear in mind that any reimposition of sanctions might affect their contract with an Iranian business partner and they should therefore ensure they are in a position to settle any transaction quickly. Developments in Iran suggest that the country’s undertakings will be fulfilled in accordance with the JCPOA. However, the political situation in the US is uncertain, and a new administration may take a harder line in its relations with Iran.

Business Sweden opened an office in Tehran in September 2016. Its initial focus will be on developing a consultancy business and offering a network for Swedish companies doing business in Iran. Business Sweden will act as Sweden’s front desk to avoid the use of intermediaries as far as possible when Swedish companies deal with potential Iranian partners, distributors, clients and suppliers, as well as with professional service providers. Business Sweden will seek to improve the conditions for business relationships between Sweden and Iran, including visa regulations, which are complicated and time-consuming for Swedish companies.

Business Sweden will also be part of the support package provided by official Swedish channels for Swedish business in Iran. In a state-run economy like Iran’s, political gestures made by foreign powers carry weight for private commerce. Countries such as France, Germany and Italy have sent large business delegations to Iran. Sweden’s Nordic neighbours are also very much at the forefront in their commercial contacts with Iran. Such initiatives do not necessarily result in a business contract right away, but they underscore the political interest in developing deeper bilateral business relations – something that is highly valued in Iran. Business Sweden’s ambition is that Swedish companies will take a leading role in the new business relations now being forged with Iran.

SWEDEN’S FOURTH LARGEST EXPORT MARKET IN THE MIDDLE EAST

Sweden’s goods exports by country, SEK billion

![Chart showing Sweden’s goods exports by country, SEK billion, 2005-2015.](chart)
