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Iran Business Handbook 2016

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GoG-AMA Centre for International Trade

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- Sanctions lifted; 100 billion in frozen assets released
- Largest human capital in Middle East and Central Asia
- Large prosperous market of 77 million
- Gateway to CIS countries of 300 million
- World's fourth largest reserves of crude oil
- World's second largest reserves of natural gas
- 2nd Cement producer in the region and 8th in the world.
- Contains the 2nd largest copper mine in the world (5% of the world's total).
- 10th Country on Tourism Attractions and 5th on Ecotourism
- Current account surpluses.
- Large FX reserves (although now declining) and good (double digit) import cover.
- Very low external debt obligations.

Introduction

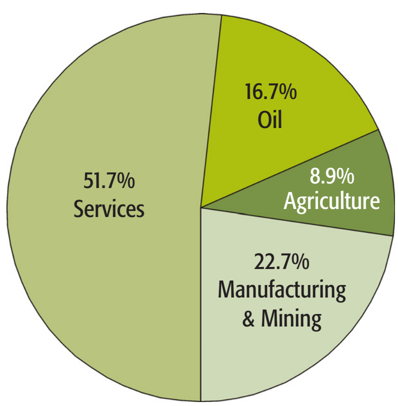
Iran is the second largest economy in the Middle East and North Africa (MENA) region after Saudi Arabia, with an estimated Gross Domestic Product (GDP) in 2014 of US$406.3 billion. It also has the second largest population of the region after Egypt, with an estimated 78.5 million people in 2014. Iran's economy is characterized by a large hydrocarbon sector, small scale agriculture and services sectors, and a noticeable state presence in manufacturing and financial services. Iran ranks second in the world in natural gas reserves and fourth in proven crude oil reserves. Economic activity and government revenues still depend to a large extent on oil revenues and therefore remain volatile.

Iran is the only country in the world blessed with massive amounts of both oil and gas; it boasts the world's fourth-largest proven oil reserves and the world's second-largest proven natural gas reserves. For that reason, many analyses of Iran's economic potential focus solely on energy. But Iran's economic advantages are numerous and varied. With a GDP of approximately $1.4 trillion (converted to international dollars using purchasing power parity rates), or roughly 1.5% of global GDP, Iran has the 18th-largest economy in the world, between Turkey and Australia, according to the International Monetary Fund's April 2015 World Economic Outlook. Its GDP per capita, roughly $17,000, places it ahead of Brazil and China, even after its stagnant growth in recent years. And its debt-to-GDP ratio is around 12%, among the lowest in the world.

Moreover, despite the large size of Iran's energy resources, its economy is relatively diverse: roughly 50% services, 41% industry, and 9% agriculture. Oil and gas likely account for less than one-fifth of Iran's GDP, according to unofficial estimates. In 2011, before the sanctions, Iran was the world's 13th-largest manufacturer of automobiles, producing 1.65 million cars annually, more than the United Kingdom. Since 2013, in part because of such diversity,

Iran's Economic Pie

Domestic services such as transport dominate



* Figures for March 2013-March 2014, valued at current prices

Source: Central Bank of Iran; Bloomberg

Iran has enjoyed a relatively sustained annual trade surplus of about $35 billion from automotive production, chemicals, mining and minerals, utilities, and telecommunications.

But the most promising indicator of Iran's economic potential is its human capital. Iran has a population of 80 million, comparable to Germany and Turkey. About 64% of Iranians are below the age of 35. The population is 73% urban, a percentage similar to those of most industrialized countries.

Iran has one of the most diversified economies of any Middle Eastern country, where most of its major industries are state owned and partially listed on the Tehran Stock Exchange (TSE). Iran is the last remaining major emerging economy in the world with a young and dynamic population and a thriving business community committed to enter the global market.

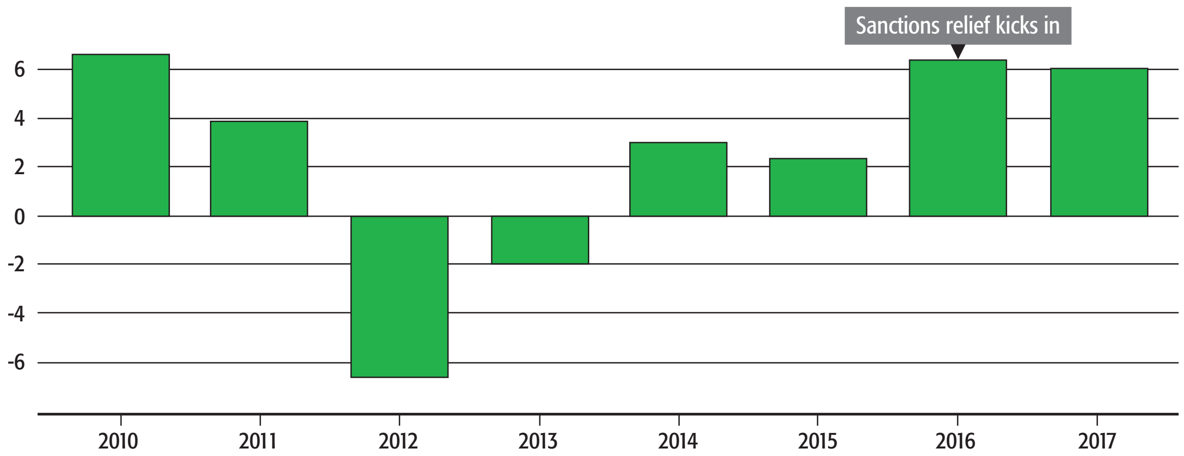
Recent Economic Indicators	2010	2011	2012	2013	2014(a)	2015(b)
GDP (US$ billion) (current prices	464.0	564.5	418.9	380.3	404.1	393.5
GDP PPP (Int'l $ billion) (c)	1,274.4	1,349.5	1,282.9	1,277.2	1,334.3	1,353.7
GDP per capital (US$)	6,241	7,511	5,512	4,941	5,183	4,983
GDP per capita PPP (Int'l $) (c)	17,143	17,957	16,881	16,591	17,114	17,141
Real GDP growth (% change yoy)	6.6	3.8	-6.6	-1.9	3.0	0.6
Current account balance (US$m)	27,330	59,382	26,272	27,963	15,407	3,063
Current account balance (% GDP)	5.9	10.5	6.3	7.4	3.8	0.8
Goods & services exports (% GDP)	24.9	26.1	17.1	21.8	23.6	21.4
Inflation (% change yoy)	12.4	21.5	30.5	34.7	15.5	16.5

Economic Performance and Forecast

Following two years of recession, the Iranian economy recovered during the 2014 Iranian calendar year (i.e., March 2014-March 2015) as the new administration led by President Rouhani took office in July 2013 and a partial lifting of sanctions was enacted under the Joint Plan of Action (JPA). This sanctions relief included the partial removal of constraints on Iran's oil exports, and the supply chain in key sectors of the economy—such as in the automobiles industry—and on international and domestic banks' international transactions. The economy expanded by 3 % in 2014, on the heels of annual economic contractions of 6.6 % and 1.9 % in 2012 and 2013, respectively. As of August, 2015, the official and parallel market rates were trading at 29,797 Iranian rials per U.S. dollar and 33,400 Iranian rials per U.S. dollar, respectively, thereby representing a difference of about 13%, down from roughly 190% in the second quarter of 2012 when sanctions were tightened.

The inflation rate declined from a year-on-year peak of 45.1% in 2012 to 15.6% in June 2015 in line with the lifting of sanctions and the tightening of monetary policy by the Central Bank of Iran.

Iranian Economy Boost
Real GDP is expected to grow by 6%



Note: 2015 and beyond is an IIF forecast: years refers to fiscal years that begin March 21

Source: Central Bank of Iran: IIF, Bloomberg

The medium-term outlook is positive. Growth will decelerate from 3% in 2014 to 1.9% in 2015 (March 2015-March 2016) against the backdrop of low oil prices despite a projected increase in oil production by 200,000 barrels per day from 3.1 million barrels per day in 2014. If all sanctions are be lifted by the beginning of the 2016 Iranian calendar year (March-June 2016), real GDP should rise to 5.8 % and 6.7 % in 2016 and 2017, respectively, as oil production reaches 3.6 and 4.2 million barrels per day. Reforms to the business environment to promote competition, rationalize licensing and authorization requirements, reduce the imprint of State-Owned Enterprises in the economy, and improve the health of the financial and banking sector are needed to accelerate growth and private-sector led job creation. *World Bank, 29 Sep 2015*

SANCTIONS LIFTED

The US and the EU, on 17th January 2016, lifted biting oil and financial sanctions against Iran and released about $100 billion of its assets after UN inspectors concluded that Tehran has complied with a historic deal with world powers to curb its nuclear ambitions.

The landmark deal between Iran and world powers – the US, UK, Russia, China, France and Germany – was agreed last July.

Lifting of sanctions will unfreeze nearly $100 billion of assets, allow Iran's oil to be sold internationally and reconnect Iranian banks to the global system.

Under the deal, Iran will get billions in cash, at a time when oil shipments have been cut by more than half because of the sanctions, and below $30-a-barrel prices mean huge cuts in national revenue.

A senior American official said that Iran will be able to access about $50 billion of a reported $100 billion in holdings abroad, though others have used higher estimates. The official said Iran will likely need to keep much of those assets abroad to facilitate international trade.

Under the new rules put in place, the US will no longer sanction foreign individuals or firms for buying oil and gas from Iran. The American trade embargo remains in place, but the government will permit certain limited business activities with Iran, such as selling or purchasing Iranian food and carpets and American commercial aircraft and parts.

But the windfall from unfrozen assets will not be as significant as expected. Iran's pre-existing financial obligations will likely reduce the amount of usable liquid assets to a figure closer to $50 billion. And given that Iran will need to keep a reasonable amount of that money in foreign reserves, the amount available for Iran's immediate use will likely be closer to $25 billion—not a trivial sum, but far less than Iran needs given that the infrastructure investment levels required to rebuild Iran's economy are estimated to be close to $1 trillion over the next decade.

The bulk of the US and EU sanctions measures, however, would be suspended immediately. These are listed at length in the accord, together with the relevant legislation and executive orders that brought them into effect. Critically, these include an end to restrictions on:

- Banking transactions including transfers to Iranian individuals, corporates and financial institutions, the establishment of Iranian bank branches overseas, as well as dealings in Iranian Rial
- Access to the SWIFT global payment system
- Financial support for trade services in Iran (including insurance, export credit and guarantees)
- The import of Iranian oil
- Investment in the Iranian oil and gas sector
- Iranian central bank foreign assets
- Investment in Iranian debt
- Trade in gold and other precious metals with Iran
- Trade in goods and services for the automotive sector
- Access to EU airports for Iranian cargo flights, and the sale of civil aircraft and related parts to Iran

The accord also details Iranian entities and individuals that have been subject to sanctions but would be exempted under the accord. It also requires the US and EU to refrain from taking any steps that might adversely affect the normalisation of economic relations with Iran.

20 YEAR VISION DOCUMENT

Iranian authorities have adopted a comprehensive strategy encompassing market-based reforms as reflected in the government's 20-year vision document and the recently issued sixth five-year development plan for the 2016-2021 period. The sixth five-year development plan remains ambitious, comprised of three pillars, namely, the development of a resistance economy, progress in science and technology, and the promotion of cultural excellence. On the economic front, the development plan envisages an annual economic growth rate of 8% and considers the implementation of reforms of state-owned enterprises, the financial and banking sector, and the allocation and management of oil revenues among the main priorities of the government during the five-year period.

The Iranian state continues to play a key role in the economy with large public and quasi-public enterprises dominating to some extent the manufacturing and commercial sectors. The financial sector is also dominated by public banks. Moreover, the business environment remains restrictive with the country ranking 130 out of the 189 countries surveyed in the 2015 Doing Business. Within the MENA region, Algeria, Djibouti, Iraq, Libya, Syria, West Bank and Gaza are the only countries which fall behind Iran in this ranking.

The Iranian government has implemented a major reform of its subsidy program on key staples such as petroleum products, water, electricity and bread, which has resulted in a moderate improvement in the efficiency of expenditures and economic activities. The overall indirect subsidies, which were estimated to be equivalent to 27% of GDP in 2007/2008 (approximately US$ 77.2 billion), have been replaced by a direct cash transfer program to Iranian households. Domestic fuel prices have risen in parallel, thereby contributing toward reducing the deficit of the Targeted Subsidies Organization (TSO) which still remains substantial (estimated at 1.3% of GDP). A second phase of subsidy reform is being considered which would involve a more gradual fuel price adjustment than previously envisaged and the improvement in the targeting of the cash transfers to low-income households.

Laws and Policies for Foreign Investment

The government has established many new ground rules to protect and guide foreign investors in doing business in Iran and the private sector of the economy have always been interested in working closely with foreign entities to expand their network to the global market. The economy of Iran has the capability and infra-structure to become the biggest economy in the Middle East with more than 80,500 km of roads and 10,400 km of railways connecting Asia to Europe and save 30% on all international transit costs.

Foreign direct investment in Iran is allowed only through participation of foreign persons in the equity capital of existing and new Iranian companies. Maximum foreign participation in the joint companies is 49% however, this proportion will be determined on merits of each project. The Law for the Attraction and protection of Foreign investments of 1995 (The Law) provides the legal framework for the approval of all foreign investments in Iran.

In accordance with Article I of the Law, foreign natural or legal persons importing capital, either in cash or in the form of machinery, etc. into Iran with the permission of the government of Iran for the purpose of development and productive activities in industry, mining, agriculture and transportation shall enjoy the facilities provided by the Law. In general, the facilities referred to among other things, are the annual transfer of net profits in the currency of the original investment, repatriation of the original capital and the accrued profits derived there from and proceeds of the sale of capital or shares and the remaining portion of capital in the event of liquidation government guarantee of fair compensation in the event of expropriation, all at the exchange rate of the Central Bank's selling rate on the day of actual transfer, and with the legal facilities accorded to domestic investors.

Organization for Investment Economic and Technical Assistance

The OIETAI was founded in June 1975 to conduct and perform a host of activities which, before its establishment, were delegated to different government agencies. The activities mandated to the OIETAI have all an external nature with global international affairs. It ranges from investment to financing as well as from bilateral to regional and international relations.

The Organization is legally empowered to represent the central investment promotion authority of the government of the Islamic Republic of Iran by providing legal protection and full security to foreign investments by way of facilitating the flow of capital into the country under the new Foreign Investment Promotion and Protection Act (FIPPA) ratified in May 2002.

Foreign Investment and Protection Act

Since 1955, the legal framework of Iran's foreign investment regime had been defined under the Law for the Attraction and Protection of Foreign Investments (LAPFI). In line with reforms in the overall economic framework, Iran's Assembly undertook to propose and approve a new bill concerning foreign investment law. The new Foreign Investment Promotion and Protection Act (FIPPA) was ratified in May 2002, replacing the LAPFI of 1955.

Some developments introduced by FIPPA for foreign investments in Iran can be outlined as follows:

- Broader fields for involvement by foreign investors, including involvement in major infrastructure.
- Recognition of new modes of foreign capital exposure in addition to foreign direct
- investment, e.g. project financing, buy-back financing arrangements and build - operate - transfer (BOT) investment schemes.

- Streamlined and fast - track investment licensing application and approval process.
- Creation of a one - stop institution called the Centre for Foreign Investment Services at the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), for focused and efficient support for foreign investment undertakings in Iran.
- Further liberalization of foreign exchange mechanisms as enjoyed by foreign investors.

Introduction of new legal options governing government - investor(s) relations.

Foreign entities as well as Iranian nationals importing capital from abroad are considered foreign investors. Foreign investment is allowed for the purpose of development and rehabilitation and productive activities in the areas of industry, mining, agriculture and services.

Foreign investment is possible in all areas of economic activity. A foreign investor, by importing capital (as defined in a very broad and diversified form, being in cash or in kind, or being machinery and equipment, raw materials, parts, specialized services as well as intellectual property for the purpose of investment in industry, mining, agriculture and services), is eligible to enjoy the privileges and facilities provided by the FIPPA. Foreign investors must apply and obtain the investment license and FIPPA coverage to enjoy the advantages and facilities of the law.

The FIPPA provides for protection and security of the interests and rights of foreign investors against non-commercial risks. This would commit the Iranian government not only to facilitate the free flow of capital repatriation but also to full and fair compensation for acts of expropriation by the government, as well as for the interruption of a foreign investor's activities

According to Article (3) of the FIPPA, foreign investment is divided into two broad categories:

Foreign Direct Investment

Investing in all areas open to the Iranian private sector by way of direct equity participation in the share capital of Iranian companies whether in Greenfield projects or in existing firms or companies. Foreign shareholding is not limited to percentage in Iranian entities.

Foreign Indirect Investment

Foreign investors may invest in business opportunities in Iran through contractual arrangements in any type of investment other than direct investment. This category enables foreign investors to enter in the areas which are closed to the private sector of the Iranian economy or areas in the upstream fields or national projects in which a direct participation is not by law permissible.

100% Ownership

Foreign investors can now establish their company with 100% ownership of the shares and control of their business. This can be an advantages to some of the companies willing to be more involved in the Iranian market providing them with more security and stability as a foreign investors. There are two types of companies which can be registered for foreign investment opportunities:

1) Limited Liability Company
2) Joint Stock Company

Employment of Foreign Nationals in Iran

Foreign nationals are prohibited from working in Iran unless they receive work and employment permits (even if they are supposed to receive wage and salary outside the Iranian territory). The work permit serves as the employment license for the foreign nationals in Iran.

Taxation System for Foreign Investors

Foreign investors in Iran enjoy the same supports and privileges offered to the Iranian investors. The Direct Taxation Law passed in 1987 and the following amendments have considered no discrimination in taxation of domestic and foreign investors. This means both Iranian and foreign investors pay the same amount of taxes. Tax exemptions and discounts are also equally granted to domestic and foreign investors.

The Direct Taxation Law, passed in 1987, is regarded as the core of the taxation system in the Islamic Republic of Iran. The law was extensively reviewed and reformed in 2001 to be in tandem with the on-going economic conditions in the country. Production and investment promotion in line with the economic development of the country was one major factor behind the need for amendment of the law (supporting the newly established manufacturing and mineral units according to Article 132 and investment promotion according to article 138).

Tax Exemptions Stipulated in the Law on Fifth Five-Year Development Plan

The 5th five year development plan of Iran offers the following tax exemptions in order to promote the following business practices:

- Facilitate and promote industrial and mineral investment in the country;
- Develop of non-oil exports;

The Law on Fifth Five-Year Development Plan has stipulated the following tax exemptions:

a) Article 159 – A: 15% increase in tax exemption relevant to Article 138 of Direct Taxation Law

b) Article 159 – B: Increasing tax exemption period of industrial and mineral units in the less developed regions to the same level as the exemption of free trade-industrial zones (from 10 years to 20 years)

c) Article 104: Levying any tax and tolls on non-oil exports and services during the Fifth Development Plan (except raw materials or commodities with low value-added).

Highlight of Tax Holidays (Tax Incentives)

In order to encourage development of Iranian industries the tax laws of Iran provides great incentives for foreign investors. The table below provides information regarding the tax holidays of Iran:

Business Activity	Level of Exemption	Duration of Exemption
Agriculture	100%	Perpetual
Industry and Mining	80%	4 years
Industry Mining in Less-developed Areas	100%	20 years
Tourism	50%	Perpetual
Export of Services & Non-oil Goods	100%	During 5th Development Plan
Handicraft	100%	Perpetual
Educational & Sport Services	100%	Perpetual
Cultural Activities	100%	Perpetual
Salary in Less-developed Areas	100%	Perpetual
All Economic Activities in Free Zones	100%	20 Years

A Magnet for Investment

The diversity of the Iranian economy, volume of natural resources and highly educated young workforce makes Iran a great place for future foreign investment. The recent developments on the nuclear deal and recognition of significant governments effort to make Iran a more suitable place for investment during the last couple of years may transform Iran to a global economy in the near future.

Today, Iran's economy is far from being an emerging market hotspot. Its annual output shrank by 6.6% and 1.9% in 2012 and 2013, respectively, as international sanctions became tighter than ever, before recovering and growing by 3% in 2014, according to figures from the International Monetary Fund. Total FDI amounted to $3 billion in 2013, not even 1% of GDP, which puts Iran among the world's worst performers in terms of FDI-to-GDP ratios, according to World Bank figures.

Currently, the stock of foreign investment in Iran is estimated at $43 billion, which makes Iran the 58th-largest holder of foreign investment in the world. In light of the extensive international sanctions, this is a surprisingly large amount. In terms of relative potential, however, the investment is small, particularly when compared with that of a peer country such as Turkey, which has received around $209 billion in foreign investment, making it the 26th-largest holder of foreign investment in the world. Indeed, current foreign direct investment in Iran falls significantly short of Tehran's stated goal of attracting close to $1 trillion over the next five to ten years.

The need for foreign investment is hard to dispute. Iran's young demographics and high unemployment levels, coupled with inflation in consumer prices of 17% in 2014 (down from 39% in 2013), indicate that its domestic savings rates will likely be too low to sustain sufficient domestic investment. And state investment is a poor alternative, as the Iranian government has tended to allocate capital inefficiently. The potential impact of foreign investment in Iran is therefore enormous.

Today, the good times of the Iranian hydrocarbons industry appear long gone. Production averaged 3.2 million barrels per day in 2013, basically half that of pre-Islamic revolution levels, and exports alone fell to about 1 million barrels per day, according to EIA figures.

"The oil and gas sector in Iran is in critical need of technology, capital and markets if it is to attempt to recover from its current condition," Paul Stevens, energy expert at the London-based think tank Chatham House, wrote in a research paper in March 2015. Iranian authorities estimate they need $130 billion to $145 billion in new investment by 2020 to keep oil production capacity from falling.

"Realistically, the only way the sector's needs can be met is to bring the international oil companies into the upstream on a major scale. The two obstacles to this hitherto have been the economic sanctions and the unattractive terms of the existing buyback agreements," said Mr Stevens.

Foreign investment will therefore be crucial for Iran, the last major economy not to have integrated into the global economy. Indeed, Iran is ripe for economic transformation. Unlike most countries rich in natural resources, Iran has a host of additional advantages, including a diversified economy, a trade surplus, and a well-educated urban population. Foreign investment will allow Iran to capitalize on these strengths.

But the end of the sanctions alone will not be enough to attract investors. Although lifting the sanctions will remove a substantial impediment to Iran's economic recovery, it will not automatically create the legal and regulatory framework necessary for sustained investment. Iran's lackluster attempts at market liberalization and its undistinguished record on issues such as corruption and intellectual property rights will continue to give pause to global investors. And even when foreign companies are willing to invest, powerful conservative forces within the Iranian governing elite are likely to cast doubts on their motives, hindering true engagement.

If Iran genuinely wants to attract investment, it will need to implement a broad spectrum of reforms, including strengthening property rights, transferring state-owned assets to the private sector, and granting independence to its central bank. Only then can Iran reap the full economic benefit of the nuclear deal.

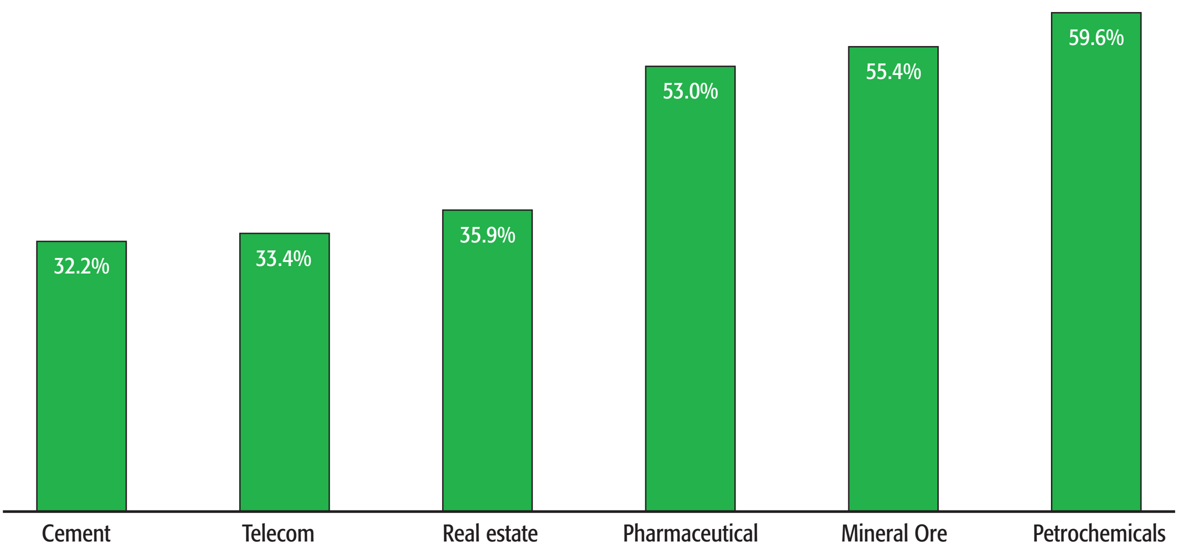
The principal channel: joint ventures with local companies. The idea is to ensure that Iranian jobs are created and also to make Iranian companies more competitive, said Mohsen

Jalalpour, chairman of Iran's Chamber of Commerce and Industries, in an interview in his Tehran office.

"Our advice to European countries is that if you want to have a sustainable presence in Iran, look at accompanying and investing alongside companies in the private sector," he said.

Business investment in Iran mostly have high rates of return. The average rate of return on investment in real-estate, telecom, mining and oil industry of Iran is more than 44.9% and the inflation rate of the economy for 2014 was under 16.0% which is estimated to decrease significantly in 2015.

Annual Industry Return on Equity – June 2014 (%)



Focus Areas for Investment

HYDROCARBON

Iran has set itself a target of 4 Mbd by the end of 2016 and at least 5.7 Mbd by 2018, but this looks overly ambitious given the sector's lack of technical attention over recent years. Analysts expect Iran to reach the 4Mbd output target with a delay, most likely in 2017-18. However, Iran could ramp up exports quickly starting with the release of the approximately 30 Mbbl of crude currently in storage (estimates range between 10 to 40 Mbbl), followed by a material production increase beginning in 2016, which will keep a cap on global prices throughout the year. Even an additional 0.3 Mbd of exports in 1H 2016 and up to 0.5-0.8 Mbd by the end of 2016 could keep prices at US$ 50-60/bbl in 2016, according to our Energy Insights forecasts.

Softening forward prices are an indication of the market already pricing in this fresh future Iranian exports. The premium of the Oman oil futures – a good proxy for Iranian grades - 12-month contract over the front-month stood at just over 2% on 15 July, down from almost 25% six months ago. The first sales of stored oil have already begun, with the Iranian super-tanker, Starla - which had been used for 2 Mbbl floating storage off the Iranian coast since December - reportedly now heading to East Asia.

The next question is how OPEC will react to additional Iranian volumes. Saudi Arabia has been defending its market share by pumping record volumes, and despite a growing budget deficit, there seems to be no sign of any change in direction. Indeed, on the morning after the Iran deal was announced, the Saudis made it clear that the Kingdom's crude production is likely to remain near recent record levels for at least the next few months. This market share battle within OPEC could lead to a purely competitive oil market, like coal or iron ore and significantly delay the time in which OPEC is able to regain control of the oil markets.

Iran, in need to raise revenues, is likely to push for an increase in its OPEC output quota to bring it back towards its traditional position as the group's second largest contributor. This may cause tensions within OPEC, as it conflicts directly with the Saudi-led policy of keeping OPEC's overall quota at 30 Mbd. Such tensions over market share and quotas may cast a bearish influence over the markets for some time to come.

Officials have already said Iran needs $250 billion of investment in its oil industry between 2016 and 2025, including $176 billion in its upstream sector and another $77 billion in downstream spending. The country plans to boost oil production to 5.7 million barrels a day and gas output to 1.4 billion cubic meters a day by 2021.

The Iranian government is in the process of introducing new oil and gas contracts to replace the old, unappealing buyback schemes, which basically required oil companies to take care of the initial development phase, then wait to be refunded. The new Iranian petroleum contract will allow an oil company to engage with the different phases of field development – exploration, development, production – and share the revenues generated by the sale of oil, according to the contract's first draft, which typically recalls a standard production sharing agreement.

NATURAL GAS

Gas production will benefit from the availability of new technology and equipment from Western companies. Iran has managed to increase gas production despite the sanctions regime, but a lifting of sanctions will accelerate the production increase. Higher gas production, parallel to attempts to increase energy efficiency, will create future potential for gas exports as well as investments in gas-based industries.

With its 34tn cubic metres of natural gas, enough to satisfy current EU natural gas demand for 90 years, Iran has the biggest gas reserves in the world. Despite this rich natural endowment, the country has not yet translated potential into reality. Paradoxically, its natural gas production continues to be barely sufficient to satisfy its own domestic consumption.

There are two reasons for the under-exploitation of Iran's natural gas resources: the international sanctions regime (which has targeted the country's energy sector since 2007, completely halting the activities of international energy companies) and the country's legal petroleum framework (the so-called 'buyback scheme', encumbered by very unattractive terms for international energy companies).

In the short term, the Iranian natural gas industry will most likely focus on the domestic market, and on limited amounts of regional exports. In the aftermath of the nuclear deal, Iran is set to concentrate its energy strategy on the development of the oil sector. In this framework, more natural gas might be utilized for reinjection into oil fields in order to sustain growing oil production and exports. In parallel to this, Iran will try to use its natural gas resources to improve the competitiveness of its economy, through a larger share of power generation based on cheap natural gas, and through further investments in natural gas-fuelled vehicles, in a move to reduce the domestic consumption of oil, which could thus be freed up for additional exports.

Under these circumstances, it is difficult to expect major new volumes of natural gas exports from Iran in the short-term, apart from the 10 billion cubic metres per year (bcm/y) that in 2014 Iran agreed to export to Oman for a period of 25 years starting in 2017. On the basis of this deal, currently being implemented, part of the natural gas will serve the Omani market, while another part will be processed into liquefied natural gas (LNG) by Oman LNG under a tolling agreement, allowing the first appearance in the international market of what would actually be 'Iranian LNG'.

As far as its longer-term export prospects are concerned, Iran will most likely look to Asia rather than to Europe. In recent years Iran has particularly focused on the advancement of its pipeline project with Pakistan. Iran has already completed the construction of its part of the infrastructure (connecting the major South Pars field with the Pakistani border), also because this allows natural gas to be supplied to its southern regions. However, Pakistan has not completed its share of construction, due to financial constraints and political difficulties in trading with Iran under sanctions.

The situation has quickly evolved along with the Iranian nuclear deal; in April 2015, China committed itself to the construction of a major part of the infrastructure (from the port of Gwadar to Nawabshah). With this agreement the fate of the pipeline has substantially changed, and the project could be considered a front-runner in Iran's natural gas export strategy post-2020. A major benefit of this project is that the pipeline could easily be extended to India, as had initially been conceived in the 1990s. This is crucial in the long term, as India's natural gas import requirements will increase dramatically after 2030.

In parallel to this pipeline project, Iran will seek to advance LNG at its major South Pars field. In recent decades several European and Asian energy companies have been engaged in these projects, but have ultimately had to withdraw due to the sanctions. For Iran, LNG is crucial, as it provides flexibility to reach international markets (particularly in the east) without relying on pipelines that, considering the geopolitical instability of the region, might unexpectedly become unusable. So additional Iranian supplies will be mainly committed to other markets than Europe.

PETROCHEMICALS

Permanent lifting of sanctions against Iran could accelerate Iranian methanol capacity by an additional 10 million metric tons (MMT) by 2025. Already a major producer of methanol, Iran currently produces 5 MMT of methanol annually, which represents nearly 5% of global methanol capacity. A full repeal of sanctions would also open up a large volume of methanol supply to global markets within the next five years, reducing the country's dependence on the Indian and Chinese markets for its exports, the IHS report said.

Iran is looking for US$85 billion in investment for its petrochemicals sector and aims to increase production by a third this year.

The government's National Development Fund of Iran has already committed $5 billion to the sector, and a further $2.5 billion is needed to boost production from 45 million tonnes annually to 60 million tonnes, according to Abbas Shari Moqaddam, the head of National Petrochemical Company (NPC). NPC had previously targeted a production rate of at least 50 million tonnes annually by next March.

Along with lowered sanctions, Iran's ability to produce additional petrochemicals at competitive international prices will be boosted by significantly larger quantities of natural gas feedstock coming on-stream from its sizeable South Pars offshore gasfields this year. Ethane delivery to petrochemical plants was forecast to rise by 1.4 million tonnes to 4.2 million tonnes this year because of additional South Pars feedstock gas.

NPC has held talks with two German international chemicals companies, BASF and Linde Group, about potential investment.

"We must provide the infrastructure in such a way that things are OK for the return of foreign companies and investors in the petrochemicals sector," Mr Shari Moqaddam said after the meeting. He added that the government needed to finalise both the feedstock pricing formula for petrochemical plants and the regulations that will apply to attract investment.

"These three steps must be taken for foreign investors to return to the country. Otherwise investors shall not be willing to come to Iran," he told Shana, a government-controlled energy news network.

Another investment initiative is to offer feedstock discounts of up to 30% for plants located in the more remote regions of the country, NPC officials said.

Mr Shari Moqaddam said that $70 billion was needed to finish the petrochemical projects already begun, which if completed would bring output capacity to 180 million tonnes annually.

Iran is one of the most important suppliers of key petrochemicals to the world market, especially of methanol.

Investment in its gas sector is also key to boosting petrochemicals exports.

The country vies with Russia as holder of the world's largest gas reserves, but chronic lack of investment has meant they are under-exploited. Iran still is a net gas importer for domestic consumption, and priority has been given to gas reinjection into its oilfields to boost production.

AGRICULTURE AND FOODSTUFFS

Agriculture contributes just over 11% to the gross national product and employs a third of the labour force. About 11% of Iran's land is arable. Iran is the world's largest producer of saffron, pistachios, honey, barberries and berries and the second largest date producer.

Iran is 90% self-sufficient in essential agricultural products, although limited rice production leads to substantial imports. In 2007 Iran reached self-sufficiency in wheat production and for the first time became a net wheat exporter. By 2003, a quarter of Iran's non-oil exports were of agricultural products, including fresh and dried fruits, nuts, animal hides, processed foods, and spices.[60] Iran exported $736 million worth of foodstuffs in 2007 and $1 billion (~600,000 tonnes) in 2010. A total of 12,198 entities are engaged in the Iranian food industry, or 12% of all entities in the industry sector. The sector also employs approximately 328,000 people or 16.1% of the entire industry sector's workforce.

Agri-food and Packaging

- Iran is one of the most populous countries in the region, and so there was a real long-term strategic intent from the side of international companies to make an entry into this market
- A total of 12,198 entities are engaged in the Iranian food industry, or 12% of all entities in the industry sector. The sector also employs approximately 328,000 people or 16.1% of the entire industry sector's workforce, according to the Iranian Food Industry Organization.
- Investments now total $7.7 billion, or 18% of total investment in the industry sector. Sector exports range around $1 billion per year, and the main export items are confectionary, dairy products, tomato paste, fruit juice and concentrate, mineral water, and pasta.
- The main export regions include the Middle East, Central Asia and other CIS nations, Europe, and South America. The country is also increasingly importing food technology, including processing and packaging equipment.
- The beverages sector is growing quickly in Iran as part of an expanding FMCG scene. As local consumption increases, players in the sector look to gain market share while improving supply and quality.

Agriculture Investment Facilities

1. The income derived from all agriculture and horticulture activities, fish farming, bee-keeping, hunting and fishing, sericulture, revival of pastures and forests, is exempt from payment of tax. All the natural and juridical persons (Iranian and Foreign) can enjoy above mentioned exemption at the outset their activities.
2. 100% of the income derived exportation of industrial finished goods and products of agricultural sector (including forming, horticulture husbandry, poultry, fishery, forest and pasture products) and its conversional-signal and complementary industries and also 50% of the income earned from exportation of other goods that are exported for achieving the objectives of the exportation of non-oil goods, shall be exempt from tax.

PHARMACEUTICALS AND BIOTECH

Key drivers of growth in Iran's pharmaceutical market will be volume-based, given improvements in healthcare provision and rising population, as downward pressure on prices remains in place over the longer term.

As their purchasing power is lower than that of their regional peers, Iranian patients are likely to opt for generic medicines where possible, especially given the current levels of inflation, wrote the Business Monitor International in a recent report. BMI continues to adjust its forecasts for Iran's pharmaceutical market to account for the sanction-induced currency crisis. The rapid depreciation of the rial means that the market value in US dollar terms is estimated to have declined by almost 20% in 2015. It is important to note that these monetary calculations are based on extreme currency distortions.

The value of Iran's pharmaceutical market in 2014 was $2.35 billion and is forecast to increase to a market size of $2.39 billion by 2019, corresponding to a local currency compound-annual growth rate of +13.1% (0.3% in US dollar terms, highlighting the severe impact of the depreciating rial).

Business Monitor International forecasts the market will become the fourth largest pharmaceutical market in the Middle East and North Africa region by 2024, in terms of market size.

By 2024, the Iranian pharmaceutical market will be worth $3.37 billion, corresponding to a local currency CAGR of 11.8% (3.7% in US dollar terms).

To generate pharmaceutical expenditure, BMI switched from the official rial/dollar exchange rate to the parallel (or black market) exchange rate, which reflects reality far better.

"We stress that these calculations have a high degree of uncertainty due to the volatile nature of the situation in Iran," the report added.

Structural Trends

Officials consider the outlook for Iran's domestic pharmaceutical sector to be positive. Deputy Health Minister and Chairman of Food and Drug Administration Rasoul Dinarvand claimed in September 2014 that the drug supply crisis was over. He noted that medicine prices are now under control and customs clearance on imported medicine has resulted in an adequate supply.

Many previously imported medicines are now produced locally, with domestic companies gaining a greater market share as a result of sanctions. Eight Iranian companies unveiled 12 drugs for the treatment of multiple sclerosis, cancer and diabetes in February 2015.

In July 2015, Iran reached an agreement with P5+1 countries over the former's nuclear program, resulting in a gradual unwinding of sanctions on Iran. This agreement is seen as positive news for multinational pharmaceutical companies with Iran viewed as one of the biggest untapped emerging markets in terms of the pharmaceutical sector.

"Although we caution that long-term forecasts are at high risk owing to the still challenging situation in Iran, we expect steady growth," reads the BMI report.

The challenging regulatory environment, which operates in favour of the local industry, weak patent protection and a low percentage of patented drug sales compared to the Middle East and North Africa region, will provide significant challenges to multinationals wishing to operate in the Iranian pharmaceutical market, despite the clear demand for chronic disease drugs.

The uptake of medicines in the short term is further risked by currency depreciation and hyperinflation of local medicine prices. BMI notes that the medicines market contracted sharply in US dollar value in 2015.

Key to the future development of the drug market in Iran will be the establishment of raw material production plants. This will enable local drug producers to reduce costs and increase international competitiveness. It will also make domestic players less susceptible to currency fluctuations, which affect the prices of imports (including raw materials) and increase production costs. The continuing modernization of local production facilities will gradually ensure compliance with international Good Manufacturing Practice standards and, therefore, boost export potential.

Headline Expenditure Projections

Pharmaceuticals: IRR60.70 trillion (US$2.35 billion) in 2014 to IRR69.55 trillion (US$1.93 billion) in 2015; +14.6% in local currency terms and -17.8% in US dollar terms. Forecast unchanged from previous quarter.

Risk/Reward Index

Iran scores 33.9 out of 100 in terms of its attractiveness as a destination to launch innovative pharmaceuticals in Q116, up from 33.1 in the previous quarter, according to BMI's Risk/Reward Index. Iran's position in the regional rankings has risen one place in Q116 to 20th out of the 31 countries in the Middle East and Africa region. Its overall score is considerably below the regional average of 40.3. Generally speaking, Iran benefits from a large and growing population and relatively widespread access to healthcare services. However, its regulatory regime - including intellectual property rights and economic situation - is highly questionable. Consequently, the country performs below the regional average in terms of risk despite improvements in the political situation.

Iranian manufacturers of pharmaceuticals and medical devices are looking at the possibility of exporting their products to Belarus.

In February 2015, 12 new drugs were unveiled for the treatment of a variety of disease such as cancer, Multiple Sclerosis (MS), diabetes, inflammation, and cardiovascular disease.

Frost & Sullivan Report, Dec 2015 -Iran's Pharmaceutical Sector to become a Pharma Powerhouse Post Sanction Era - Biotechnology Sector to Have Lucrative Opportunities

To import new technologies and know-how, boost R&D, launch new products, and develop world class manufacturing plants, the first private Industrial Pharmaceutical City is under implementation. The city being developed on 176 hectares of land is located 65km from Tehran. With over US$ 2 billion of investment, the industrial city will be a destination for incubators, research and development centres, a central lab, chemical and biotechnology medicines producers, APIs, medical equipment, storage, and maintenance and distribution facilities. The city would be the hub for about 100 innovative and high-technology based large, medium and small sized companies. The aim is to attract foreign investors to produce bio drugs, medical devices, stents or laboratory diagnostic kits or pharmaceutical packaging material such as Aluminium foils, PVC, Special cardboard packing boxes, and tubes for Ointment and creams, etc. All foreign investors will benefit from tax exemption as well as incentive plans to export products.

Key core competencies such as expertise, skilled labour, low cost of production, infrastructures and most importantly, a strategic geographical and political location have made Iran a potential export hub in the region. During the post sanction era, through partnerships with international companies the country will utilise this opportunity to help itself successfully transition into non-oil economy, Ali stated.

International Pharma companies can find lucrative opportunities either through joint ventures or direct investment, Ali said. Despite Iran facing an embargo that has limited its international and trade relationships, many well-known companies like Novo Nordisk, Sanofi, Novartis, etc. have been active in this market, which indicates that the Pharma industry in Iran is a profitable business. In addition Novo Nordisk and Novartis have officially announced their plans to directly invest in the market.

Ali Mirmohammad, Senior Consultant and Business Development Manager – Iran, Frost & Sullivan, said "In post-sanction era, Iran's pharmaceutical sector is one that could benefit significantly from foreign investment. Producing bio-similar products and APIs, renovation of obsolete physical structures, importing new technologies and high-tech machinery and adapting to high-level GMP standards are the main opportunities that it could gain once sanctions are lifted".

While the pharmaceutical market in most of Iran's neighbouring countries depends on import, Iran is the largest manufacturer of generic chemical drugs across the Middle East & North Africa. With a total installed capacity of 50 billion units per annum, Iran is the hub for 120 local manufacturers of finished products, 55 producers of chemical APIs and more than 46 distributers. Iran is not only a market of 79 million people, its strategic location in the Middle East and political relationships with Iraq, Afghanistan, Syria, Lebanon, and Yemen as well as CIS countries, also enable it to easily target many Muslim countries. According to Iran vision 2025, it is expected that export of medicines would increase from US$ 180 million (FY2015) to over US$ 1.5 billion in the next 10 years.

Lack of local manufacturing plants in the GCC, Azerbaijan, Armenia, Turkmenistan, Kyrgyzstan, Tajikistan, Iraq, Afghanistan, Syria, and Lebanon, Yemen as well as East, West and Central countries in the African continent is a good opportunity for Iran to target these markets through partnerships with international companies.

"To renovate the industry and convert it into an export hub, Iran aims to attract foreign investment into the Pharma industry in order to bring its technology capabilities up-to-date, reconstruct its GMP structure and improve the quality of APIs, finished products and packaging", Ali added.

The average age of pharmaceutical companies in Iran is over 38 years old, which means Iran needs to renovate its facilities and equipment. Although Iran's pharmaceutical industry has the benefit of expertise and effective understanding of technologies, it suffers significantly from poor GMP structure. As far as international GMP is concerned less than 5% of all manufacturing facilities in Iran comply with international standards. Moreover, lack of appropriate GMP structure along with using low quality APIs has negatively impacted the quality of finished products.

Lower R&D expenditure is another key restraint in this sector. Generally, less than 1% of total pharmaceutical turnover in Iran goes into R&D. Besides R&D, inadequate marketing, as well as inappropriate distribution systems are two other key restraints. While intensive sanctions slowed down the pace of renovation and investments, in the post sanction era, Iran looks forward to importing new technologies and high-tech machinery and equipment as well as know-how from western countries in order to revive the industry.

In 2015, imports supplied about 33% of total pharmaceutical sales market in Iran, 80% of which were biosimilars, recombinants, plasma products, insulin, vaccines and oncology drugs. In the past 10 years, Iran has gradually experienced progress in the biotechnology sector. However, due to low investments as a result of sanctions the country still depends on imports for many strategic products.

To localise biotechnology products and balance the pharmaceutical trade over the next 5 years, the Government plans to support the private sector to increase the share of local production from the current 67% to 75%. According to the Strategic Plan for the Ministry of Industry, Mine & Trade, the total installed pharmaceutical capacity is expected to increase from 50 billion units to 60 billion units by the end of 2025. Whilst the setting up new generation of generic drugs is feasible, developing bio-similar finished products as well as APIs are two investment priorities. The Government aims to support the private sector's investment in Bio APIs, herbal medicines, Anti-Cancer drugs, Recombinant, Mono Clonal Antibodies, Peptides, Thalassemia drugs, Insulin, vaccines, Diagnostic Kits, and Materials used in Radiography, X-Ray, CT Scan, and MRI, to reduce the country's dependency on imports.

MINING INDUSTRY

US$20 billion worth of investment opportunities in Iran's mining sector has piqued the interest of international mining companies.

White & Case LLP
Iran ranks 10th in the world for mineral variety, with 68 types of minerals estimated to be worth US$700 billion. As the 15th largest mineral holder globally, Iran's 37 billion tons of proven reserves and 57 billion tons of potential reserves are real pull factors. The industry comprises a staggering 5,000 plus active mines and employs 620,000 people. So it is no surprise that 25% of the market value of the Tehran Stock Exchange is generated by the mining sector.

Iran will seek bids for 15 mining projects for international investors to develop, with production of zinc to gold and iron ore seen getting a boost with the end of sanctions.

Copper: 75% of the Middle East's total copper ore production comes from Iran. The country's reserves are estimated to be 2 billion tons. In 2014, Iran's copper (cathode) production totalled 194,000 tons. The country has big plans for the commodity and is aiming to quadruple annual production to 800,000 tons by 2025.

Aluminium: Iran aims to produce 1.5 million tons of aluminium by 2025. The country's local supplies are supplemented by small-scale imports from India and Australia, which together satisfy 300 kilotons of demand each year. To date, Chinese, German, French and Italian entities have been involved in aluminium production in Iran. These companies will find it easier to ramp up investment in the post-sanctions environment.

Zinc: With 300 million tons of proven zinc reserves, Iran sits behind China, Kazakhstan and India as the world's fourth biggest producer of lead and zinc concentrate. Only 5.1 million tons have been extracted – less than 0.5% of what is available.

Iron ore: Iran has impressive deposits of iron ore in Kerman, Yazd and Khorasan. Major iron ore mines feed the domestic steel industry. Globally, Iran was the world's 15th largest steel producer country in 2013. It produced 15.4 million tons of crude steel, to meet the country's 20 million ton domestic demand. By 2025, Iran is aiming to produce 52 million tons, which is more than three times 2013 levels. With increasing demand in Asia and the Middle East, Iranian iron ore producers are well positioned for the next uptick in demand.

Iran's gold production is forecast to triple from 2013 to 10,000 kilograms (321,507 troy ounces) by next year, with iron ore, steel, chromite, aluminium, bauxite, copper and zinc output also growing, according to the U.S. Geological Survey. The country reached a deal with international powers in July to ease sanctions in exchange for curbs on its nuclear program, and the rapprochement will pave the way for expanded access for overseas companies.

“We will not put any restrictions on the participation of international companies interested in Iran’s mining industry,” Karbasian said. “Interested parties can come forward for 100% ownership or enter into joint partnerships with us or do so with a local or international company of their choice.”

Copper

Iran has second largest deposit of copper ore in the world. In the year 2011 – 2012 production of cathode copper reached 235 thousand tons. per year. In the past year, Iran’s copper production fell to 188 thousand tons per year due to the reduced alloy of the mine.

IMIDRO is implementing a plan for comprehensive updating of Iran’s copper in an effort to support development of this industry and create the required infrastructures and will unveil the plan during the current year. Due to the relative advantages of Iran’s copper industry, including several copper mines, proximity of the mines to international waters, skilled and trained forces in the metallurgical industry of non-ferrous metals, especially copper, experienced university graduates, access to energy, low wage costs, etc. it can be claimed that Iran is a good place for investors interested in copper market.

Meanwhile, part of copper produced in Iran is exported as cathode. Turning the substance into downstream industries with high value added for sale inside Iran, in neighbouring countries and other parts of the world can bring good profits to investors. Iran’s copper industry is considered one of the most attractive industries which has the backing of government as well.

Regulation and the Regulators

Iran’s Constitution and Mining Code regulate the mining sector. Formation and implementation of Iran’s mining policy is undertaken by the state-owned holding company Iranian Mines and Mining Industries Development and Renovation Organisation (IMIDRO). This includes setting policy on mineral exploration and extraction, construction and development and royalty levels.

IMIDRO promotes and incentivises foreign and private sector investment by acting as a partner for foreign investors and participating as a shareholder in joint venture companies. Since its inception in 2001, IMIDRO has invested US$17 billion in 69 mining projects, with another US$9 billion currently being invested to implement 29 new projects. The state’s involvement in mining initially assisted private companies with project funding shortfalls. With added private and foreign funding, the state has announced it would be happy to sell stakes in its various mining projects.

Foreign investment is facilitated and protected under Iran's Foreign Investment Promotion and Protection Act 2002.

New entrants to Iran's mining sector will need to learn the ins and outs of the market and legal environment, including foreign investment and ownership of natural resources, sanctions, employment, tax and dispute resolution. The learning curve may be shortened by collaborating with a strong local partner. This approach, combined with thorough due diligence and continued compliance with sanctions, should set companies in good stead to navigate this new market.

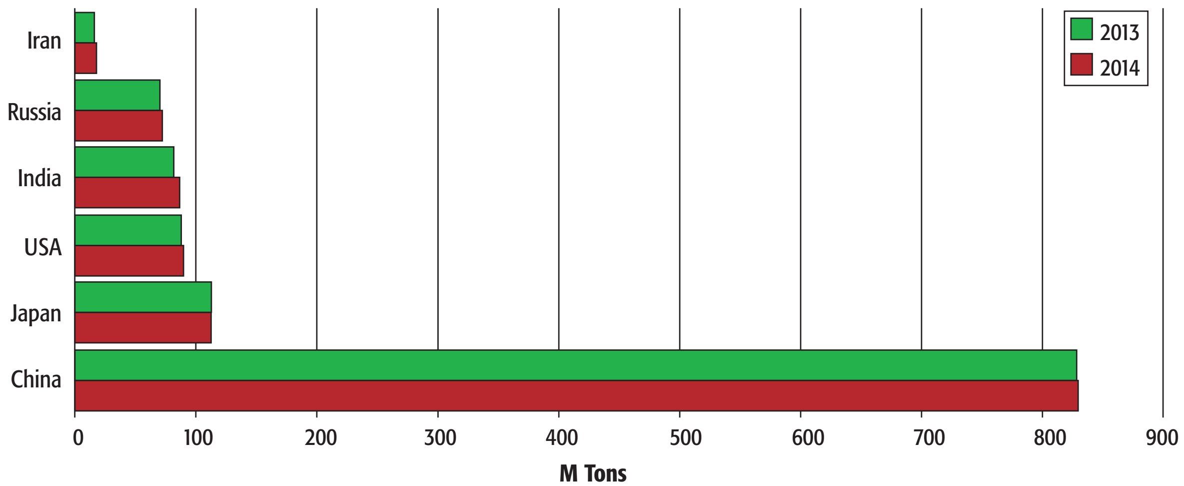
Even with the lifting of nuclear-related sanctions, doing business in Iran may be challenging. But the country's strategic location, domestic growth prospects and significant resources are compelling draw cards.

STEEL INDUSTRY

The steel industry's outlook is improving as the Iranian government plans to increase the country's steel production capacity from 20 million tons per annum (mtpa) to 55mtpa by 2025, with an interim objective of 48mtpa by 2015.

Iran's Steel Industry on the Cusp of a Boom?

Iran plans to double steel production by 2025 and boost exports once international sanctions are lifted. The country is currently the world's 14th largest steel producer.



Source: World Steel Association Data; Bloomberg

In its Iran Metals Report Q1 2015, Business Monitor International has forecast that the production of steel will continue over the coming years, as western sanctions against the Iranian economy have been easing in the past year. But it says serious challenges remain. The metals sector will be one of the primary beneficiaries of the easing of sanctions, the report noted.

Iran is seeking $20 billion to develop a domestic steel industry instead of courting overseas sales because of a worldwide glut, Keyvan Jafari Tehrani, head of international affairs at the Iranian Iron Ore Producers and Exporters Association, told Bloomberg last month. The country's production of iron ore, used to make steel, will rise to 40 million tons next year from 38 million tons in 2013, according to USGS's Taib. Steel output is set to jump to 55 million tons by 2025 from 22 million tons this year, Karbasian said in August.

Aluminum and steel projects have generated the interest of Italian companies, while French firms are eyeing aluminum and "technical cooperation," Karbasian said.

Iran also wants partnerships with international companies active in rare earth metals. "The possibility for the exploration of titanium and scandium is very promising," he said.

AUTOMOTIVE

In order to understand the importance of the automobile industry for the Iranian economy and why there are extensive and heated discussions about it, some important facts need to be borne in mind. Iran is the biggest car producer in the Middle East. Before the economic sanctions were imposed, it was the 11th biggest car producer in the world. The automotive sector is the country's second-largest industry in Iran after oil. Crucially, it employs more than 700,000 factory workers.

While Iran prides itself on manufacturing cars domestically, it is still heavily reliant on imported components. Iran needs certain computer parts and other sensitive auto parts for its vehicles. As a result, under sanctions, Iranian manufactures had to collaborate with Chinese manufacturers.

Having taken advantage of the vacuum created by the sanctions to enter the Iranian market, Chinese car manufacturers now face a significant challenge to their expansion. Having been largely shut out or had their operations reduced, Western auto giants are gearing up to re-enter Iran. Iranian authorities and the media are well aware of this impending clash. An economic outlet in Tehran went as far as running the headline: "Western car makers declare war against the Chinese: competition over Iran's market."

The Iranian market reached a peak of 1.6 million vehicles in 2011 and should regain this level within two years to reach two million vehicles annually by 2022. PSA Peugeot Citroën, which has operated in Iran for more than 30 years, and Iran Khodro have signed a joint venture agreement to produce latest-generation vehicles in Iran.
It is expected to invest up to 400 million over the next five years in manufacturing and R&D capacity.

Iran is expected to see its tyre sales grow at a compound annual growth rate (CAGR) of over 12% from 2015 to 2020, according to recently released report by TechSci Research, a research based global management consulting firm. This too shows a strong growth in automotive sector.

Indeed, beyond exports to the Iranian market, Western companies such as Renault, Peugeot, Mercedes and Volvo have declared interest in using Iran as a hub for exporting their products to neighbouring countries such as Iraq, Azerbaijan, Syria and Afghanistan.

FOUNDRY INDUSTRY

Iran steel making and foundry industry benefits from lower costs of manufacturing because of low price energy and moderately paid yet experienced workforce. Growing steadily in recent years, now its production capacity is capable of covering the needs of all sectors of the domestic industries for cast parts. There are big cast iron foundries supplying high quantity demands of automobile and similar industries. Steel companies are able to cast more than 100MT parts. There are many medium and small size producers which could supply high alloy steels, special stainless steels, high alloyed cast iron and nickel alloys with quality meeting all requirements of globally used standards ASTM and DIN.

Being affected by the last longing sanctions, Iran foundry companies had trouble employing new technologies, lead them suffering low productivity and increased costs of production. Now they are keen to establish relationships with well reputed global companies not only in order to obtain new technologies but also to supply the needs of regional customers of cast parts on behalf of the global suppliers, which would be beneficial for both parties.

TEXTILES AND APPARELS

Iran has recently announced it will resume import of fabrics from countries producing the best quality material such as Italy, which had earlier expressed readiness to export cloth to Iran once the sanctions were removed. Although, this is unpleasant for those involved in the domestic textile industry due to fears of losing their market share, experts have welcomed the move.

Experts contend that growing interest among foreign textile producers to export to Iran will benefit the domestic textile industry by creating a competitive market.

Although, Iran has a long history of producing fabrics, the quality has declined in the absence of foreign rivals.

They say competition is vital to encourage textile producers to improve the quality of their products to attract more customers and increase their market share. Experts also believe that boosting trade ties with foreign textile producers is vital to enhance the quality of domestic products.

For India its good news as Iran imported $1.29 billion of textiles and clothing from the world in 2014 of which textiles was $1,292 million and clothing was only $4 million. India's share in the Iranian textile and clothing market was 11%. Iran's total import of cotton yarn from the world in 2014 was $51.63 million. And India was the largest supplier of all types of yarns to Iran with approximately $35.35 million worth of exports. India ranked 2nd in supply of made ups which was around $2 million and 5th in cotton fabrics at $3.19 million.

Power: While energy demands are growing at 6% a year, growth in capacity is limited to a third of that. The ministry admits its depleted power network requires at least $4.4 billion of investment.

Infrastructure

Iran demands expertise and investment in infrastructure development.

With the removal of the Iranian sanctions looking to come to fruition in Q1 of 2016, businesses in Europe are gearing up for a rush in one of the world's most lucrative emerging markets says Raj Venugopal, key account manager at GAW Technologies.

In this space, the Iranian infrastructure sector is shaping to be one of the most profitable and most lucrative areas of for any company seeking to do business in Iran. Years of sanctions have given rise to the opportunity for Western businesses to supplement and spearhead the growth of the continuously expanding Iranian infrastructure. The decreasing dependence on road-transit in favour of rail-based transport gives an opportunity for electrification and modernisation technologies to flourish in the Iranian market.

In turn, further sub-sector increasing demands in infrastructure including power generation, water & agriculture, transportation and construction will give sustained investment potential to medium and long-term projects for any business prospecting in breaking into the Iranian market.

"Sanctions compliance notwithstanding, businesses and entities seeking to do trade in Iran must understand the commercial risk of doing business in Iran through political, financial, legal & security contexts."

Areas where the Iranian economy predominantly lacks is development, design, engineering and joint investment for production and export. In this aspect Western businesses can help to bridge the gap by investing in the above sectors and assisting in transfer of technology through joint venture collaboration and partnership with the private sector.

However, with the most complex sanctions regime still in place, companies seeking to do business in Iran must conduct crucial due diligence before entering the Iranian market. Companies and businesses that have failed to comply with sanctions have been penalised heavily for sanctions breeches meaning that due diligence and appropriate market-preparation is critical.

Sanctions compliance notwithstanding, businesses and entities seeking to do trade in Iran must understand the commercial risk of doing business in Iran through political, financial, legal & security contexts. Through understanding the risks, any decision-maker aiming to do business in trade in Iran in 2016 will maximise their confidence in their commercial operations. Forums in helping and preparing businesses to smooth their market entry into Iran to capitalise on these opportunities are emerging.

The Chinese government has made an offer to build a new freight rail line in Iran, according to Engineering News-Record. The freight line is aimed at allowing continuous rail transport of goods from China, through the Middle East, to Europe. The project is expected to cost $2 billion, starting in Tehran and running to Khosravi on the Iraqi border.

BMI INFRASTRUCTURE FORECAST

Forecast 3.2% y-o-y real construction industry growth in Iran in 2016 and an average of 4% over the next five years as a result of the lifting of international sanctions.

Persistently low oil prices - our Oil & Gas Team forecasts Brent to average US$54.0/bbl in 2016 - will reduce government revenue, limiting public spending in infrastructure.

Greater competitiveness in Iran's labour market will be required to support growth in the construction industry. Although Iran's labour force is highly educated by regional standards, high labour costs will continue to pose a structural barrier to investment.

Despite an improving outlook for Iran's infrastructure sector, the country will continue to present significant challenges, including elevated political risk, macroeconomic weaknesses, social tensions and a lack of transparency.

Infrastructure – Construction Industry Forecasts (Iran 2014-2020)

	2014e	2015f	2016f	2017f	2018f	2019f	2020f
Construction industry value, IRR billion	514,715.95	599,347.28	684,250.14	779,920.49	893,123.18	1,010,921.22	1,121,238.67
Construction Industry value, Real Growth, % y-o-y	-3.16	1.44	3.17	3.98	4.51	4.19	3.91
Construction Industry Value,	4.1	4.9	4.8	4.8	4.8	4.8	4.8

Transportation at Forefront of New Investment Climate

The transport sector in Iran is expected to be one of the main beneficiaries of the landmark nuclear agreement.

Iran's transport sector is catering to the needs of a population of 80 million and the business needs of an economy potentially worth $417 billion. Despite government ambitions to attract investment in road, rail, air and sea transport to meet the needs of a rising population, there has been little activity in the past five years. Therefore, investments are expected to target the sector in the post-sanctions era.

Among the most significant developments, a $10 billion investment plan in public transport for the next five years was announced by the municipality of Tehran in May 2014. According to Hojjat Behrouz, assistant to the deputy mayor for transportation, more than 70% of the investment will be allocated to Tehran's existing metro to double its network coverage to 300 kilometres.

Railroads to Lead Transport Investment

Iran's railroad system is expected to be a key beneficiary of investment. Unlike a number of other Middle Eastern nations, Iran has a railway system which carries not only passengers but also freight. Iran's railroad network handles approximately 25% of the total freight transported in the country. There is a total of 8,442 kilometres of railroad track, of which only 148 kilometres is electrified.

A number of railroad infrastructure projects have been announced that will connect Iran to other countries, thus offering increased access for rail freight. Work is underway on a railroad to connect Iran with Iraq and the country is developing its freight transport relations with the landlocked states of Central Asia, with plans to launch a container train route between Almaty in Kazakhstan, Tashkent in Uzbekistan and Istanbul in Turkey.

Port Infrastructure Development

Bandar Abbas is the country's major southern port, handling about three quarters of the 20 million tons of cargo that pass through Iran's Persian Gulf ports each year. Smaller ports at Bushehr, Bandar Lengeh and Chabahar have also assumed greater importance in recent years. In addition, the Caspian ports have benefited from Iran's attempts to develop its relations with the Central Asian republics.

The Caspian ports of Anzali and Amirabad, in the north, are to undergo major capacity upgrades to double their loading and unloading capacities, according to the head of the Iranian Ports and Maritime Organization, Ata'ollah Sadr. The port of Anzali will increase its cargo-handling capacity from 8 million tons per year to 16 million tons. Amirabad, which is already Iran's largest Caspian Sea port, will expand from a 5-million-ton capacity to 10 million.

The country's ports are still limited in their capacity, as the majority is only able to service 100,000 ton vessels. This has forced Tehran to ask ships to dock at the main UAE ports, such as Dubai's Jebel Ali, so that goods can be loaded onto smaller ships and sent to Iran. Iran is expected to start developing better and more autonomous port infrastructure on the back of the lifting of sanctions.

Plans to Expand Airports

Iran has a total of 319 airports, of which 140 have paved runways. It has yet to develop a significant tourist sector, with airports mainly used by business travellers. Airports also serve the country's freight sector, although air transport makes only a small portion of total freight transportation.

There are plans to expand the main airports, with Iranian Airports Holding Company looking to attract in excess of $1 billion in investment into the aviation sector. A significant expansion project is the Imam Khomeini International Airport in Tehran, which is to be tripled in capacity to 20 million passengers a year, before hitting its peak capacity of 90 million passengers per annum.

Need to Develop Roads

BMI forecasts the rapidly increasing number of cars to place a strain on the country's road infrastructure. The report forecasts a 35% growth in car sales in 2015, partly as a result of some imports recommencing. In addition, the country's roads must take the brunt of most of the freight transported within its borders. Roads made up 70% of freight transported in 2014 and this is expected to grow to 74% in 2018.

Iran currently has a total of 198,866 kilometres of roads, of which 160,366 kilometres are paved, while the country boosts 1,948 kilometres of expressways. Iran's road network links it with its neighbours: the 2,500 kilometre A1 highway runs from Bazargan on the Turkish border, across Iran, to the Afghan border in the east. The A2 links the Iraqi border in the west to Mirjaveh on the Pakistani frontier.

Free Zones

Establish your business in the free zones of Iran and you will be exempt from paying any taxes for the first 15 years of your activities in the Free Zones; In addition, you can now establish a company in the free zones of Iran without any limited number of shares. Currently 6 major district have been dedicated to Free Zones of Iran in order to encourage foreign investments.

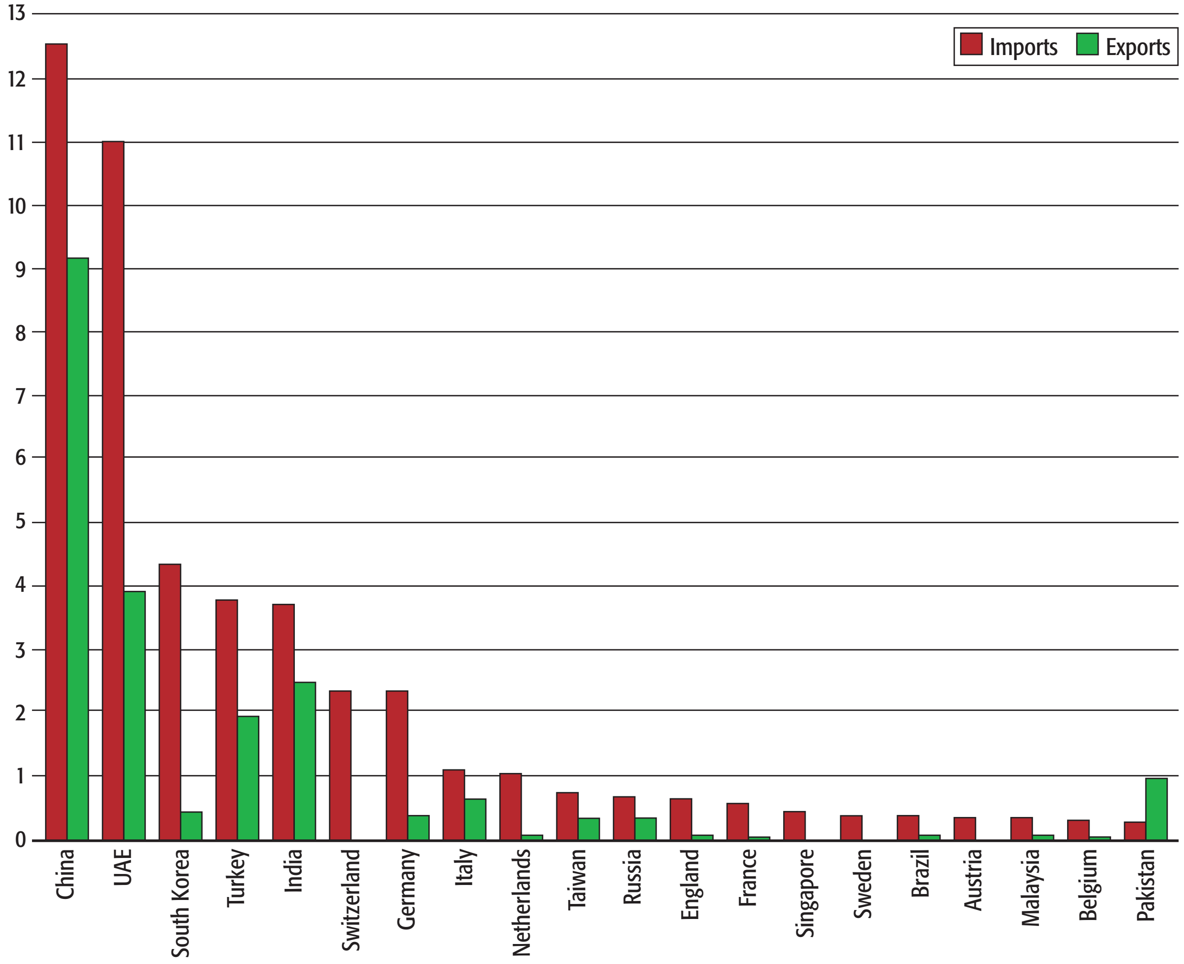
The table below provides information regarding Free Zones of Iran:

Name	Location	Province	Area
Anazzali Trade Free Zone	Caspian Sea	Gilan	3,200 ha
Aras Trade – Industrial Free Zone	Caspian Sea	East Azerbaijan Province	1,670 Sq.Km.
Arvand Trade – Industrial Free Zone	Persian Gulf	Khuzistan	170 Sq.Km.
Chabahar Trade – Industrial Zone	Chabahr Gulf	Sistan and Baluchestan	14,000 ha
Kish Trade – Industrial Free Zone	Persian Gulf (Kish Island)	Hormozgan	90. Sq. Km.
Qeshm Trade – Industrial Zone	Persian Gulf (Strait of Horomoz)	Hormozgan	300 Sq.Km.

International Trade

Iran, as a strategic country, has got common borders with states of ESCWA in South and West, SAARC in East and CIS and Caucasus as well as UNECE in North. With Iran's rise as a regional and international economic power with lots of comparative and competitive advantages and the new historic role in envisaged for contribution of private sector in the national economy, the country is mostly focused on transfer of high technology, modern managerial skills, higher local completion and new export markets in the context of its foreign investment promotion program to assists in forming and efficient and sound coalition between the local private sector and foreign investors.

Iran Trade Volume in 2014 by Countries (Million US$)



Container throughput at Iran's ports should grow by up to 25% annually over the next half decade as a confluence of benefits are realized from the expected relaxation of sanctions. This demonstrates strong growth in Iran's international trade.

Top Exports of Iran 2014 (US$ thousand)

Code	Product label	Value (US$ '000)
Total	**All products**	**73874216**
'27	Mineral fuels, oils, distillation products, etc	46054982
'39	Plastics and articles thereof	4851073
'29	Organic chemicals	3944958
'08	Edible fruit, nuts, peel of citrus fruit, melons	2629647
'72	Iron and steel	1868569

Code	Product label	Value (US$ '000)
'26	Ores, slag and ash	1587885
'25	Salt, sulphur, earth, stone, plaster, lime and cement	1148976
'73	Articles of iron or steel	752386
'57	Carpets and other textile floor coverings	697191
'07	Edible vegetables and certain roots and tubers	696539
'04	Dairy products, eggs, honey, edible animal product nes	682430
'31	Fertilizers	649486
'28	Inorganic chemicals, precious metal compound, isotopes	600355
'69	Ceramic products	567066
'38	Miscellaneous chemical products	533323
'84	Machinery, nuclear reactors, boilers, etc	478431
'20	Vegetable, fruit, nut, etc food preparations	458183
'74	Copper and articles thereof	418633
'19	Cereal, flour, starch, milk preparations and products	407263
'76	Aluminium and articles thereof	392147
'85	Electrical, electronic equipment	312311
'09	Coffee, tea, mate and spices	300909
'87	Vehicles other than railway, tramway	269106
'70	Glass and glassware	219208
'34	Soaps, lubricants, waxes, candles, modelling pastes	214525
'03	Fish, crustaceans, molluscs, aquatic invertebrates nes	209063
'68	Stone, plaster, cement, asbestos, mica, etc articles	205073

Top Imports of Iran 2014 (US$ thousand)

Code	Product label	Value (US$ '000)
Total	**All products**	**53649618**
'84	Machinery, nuclear reactors, boilers, etc.	9766071
'10	Cereals	6376579
'85	Electrical, electronic equipment	4627908
'87	Vehicles other than railway, tramway	3760257
'72	Iron and steel	3214837
'39	Plastics and articles thereof	1956764
'30	Pharmaceutical products	1780024
'23	Residues, wastes of food industry, animal fodder	1669981
'15	Animal, vegetable fats and oils, cleavage products, etc.	1551252
'29	Organic chemicals	1390292
'48	Paper and paperboard, articles of pulp, paper and board	1304812
'99	Commodities not elsewhere specified	1263716
'90	Optical, photo, technical, medical, etc apparatus	1198460
'73	Articles of iron or steel	1054198
'40	Rubber and articles thereof	970450
'38	Miscellaneous chemical products	851747

Code	Product label	Value (US$ '000)
'44	Wood and articles of wood, wood charcoal	720594
'27	Mineral fuels, oils, distillation products, etc.	718228
'17	Sugars and sugar confectionery	695122
'02	Meat and edible meat offal	533521
'12	Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	481706
'31	Fertilizers	453920
'55	Manmade staple fibres	448137
'08	Edible fruit, nuts, peel of citrus fruit, melons	448010
'28	Inorganic chemicals, precious metal compound, isotopes	435694
'86	Railway, tramway locomotives, rolling stock, equipment	433547
'26	Ores, slag and ash	393058
'54	Manmade filaments	359514
'32	Tanning, dyeing extracts, tannins, derivs, pigments etc.	327902
'09	Coffee, tea, mate and spices	313887
'76	Aluminium and articles thereof	305821
'04	Dairy products, eggs, honey, edible animal product nes	294745
'33	Essential oils, perfumes, cosmetics, toiletries	274267
'24	Tobacco and manufactured tobacco substitutes	245837
'52	Cotton	186835
'59	Impregnated, coated or laminated textile fabric	184317
'70	Glass and glassware	165455
'69	Ceramic products	164060
'21	Miscellaneous edible preparations	161446
'35	Albuminoids, modified starches, glues, enzymes	160593
'83	Miscellaneous articles of base metal	160109
'03	Fish, crustaceans, molluscs, aquatic invertebrates nes	158156
'07	Edible vegetables and certain roots and tubers	124271
'82	Tools, implements, cutlery, etc of base metal	122685
'34	Soaps, lubricants, waxes, candles, modelling pastes	115637

In the past Iranian year, the non-crude oil trade surpassed $102 billion with some $49 billion in non-crude oil exports. Adding about $50 billion in crude exports, the country has achieved about $152 billion in foreign trade. There is no doubt that foreign trade will grow significantly after the lifting of sanctions. On the one side, Iranian importers will look forward to importing needed goods, machinery and services directly and without legal and financial hassles, and on the other side, the country's exporters would be able to look to new markets and opportunities. The overall import volume (about $60 billion) may not increase dramatically because some of the additional cost (which was related to sanctions) would be eliminated in a sanctions-free environment. However, Iranian exports will rise and will further consolidate the country's economic future.

Machinery – All kinds of machinery will be required for reconstruction and modernisation of Iranian infrastructure and industry.

Grain - The International Grains Council (IGC) put Iran's total 2015-16 grain production at 19.5 million tonnes, up from 18.8 million the year before. The total includes 13.8 million tonnes of wheat, up from 13 million tonnes. The barley crop is an unchanged 3.8 million tonnes.

The IGC now predicts Iranian 2015-16 imports at 11.6 million tonnes, down from 14.6 million the year before. Wheat imports are forecast at an unchanged 5.3 million tonnes, with maize imports put at 5 million, down from 6.8 million the year before. Iran is also forecast to import 1.3 million tonnes of barley, down from 2.5 million in 2014-15.

The country is forecast to produce 1.7 million tonnes of rice in 2015-16, a figure unchanged from the previous year. Rice imports in 2015-16 are also put at 1.7 million tonnes, down from 1.8 million in 2014-15. The IGC expects Iran to import 1 million tonnes of soybeans in 2015-16, down from 1.5 million the year before, along with imports of 2.5 million tonnes of soybean meal, up from 2.4 million the prior year.

The IGC's figures for July to May 2014-15 show the European Union (E.U.) as by far the biggest supplier of wheat to the country, shipping 2.51 million tonnes, down from 3.373 million in the same period of the year before. Next comes Russia, which shipped 1.593 million tonnes of wheat to Iran in July-May of 2014-15, up from 806,000 tonnes in the previous year. The biggest supplier of maize to Iran is Brazil, which shipped 4.849 million tonnes to the country in July-May 2014-15, down from 2.671 million in July-May 2013-14.

The biggest barley supplier to Iran in July-May 2014-15 was Russia at 847,000 tonnes, up from 151,000 in the same period a year earlier. The E.U. supplied 422,000 tonnes, having also supplied 151,000 tonnes in the year earlier period. Ukraine supplied 307,000 in 2014-15, with prior year shipments too small to register.

The Government Trading Corporation of Iran (GTC) buys milling wheat on the international market and manages grain storage. The GTC is also responsible for buying part of Iran's subsidized domestic wheat production.

The State Livestock Affairs Logistic Co. (SLAL), also a government agency, manages much of Iran's animal feed imports including soybean meal, maize and feed barley.

"Private importers are also allowed to purchase and import animal feed. However, with the international sanctions in place, government agencies such as GTC and SLAL have had a greater capacity to finance imports than private traders," a recent analysis by the Australian Export Grains Innovation Centre said. "Private Iranian importers have been impacted by sanctions, with financing options limited and freight operators wary of doing business with Iran."

BANKING AND FINANCE

There are currently 30 banks and 4 financial/credit institutions active in Iran, where banks are the main source of funding for development plans and companies. Twenty of Iranian banks have been listed in Tehran Stock Exchange. Currently government plans the expansion of online banking and modernization of banking systems that at the moment are far from international standards. International sanctions on systems associated with the transfer of money were one of the obstacles preventing the development of Iran's banking industry. With the lifting of these sanctions international cooperation and transfer of money to/from Iranian banks will become possible once again. The most important weakness of Iranian banking sector is, many of Iranian bank financial resources are invested in real estate market and depression in this market faces banks with liquidity and credit risks. The average P/E ratio in banking industry is 5.32x. In the table below, you can see value and share of each bank in this industry.

Investment capital also needs to be supported by a stable and credible banking system. The Ahmadinejad administration (2005–13) eroded the integrity of Iran's banks. It imposed savings and lending rates that compromised the ability of banks to generate adequate spreads, and it directed state-owned banks to lend to state-owned enterprises, which led to a glut of nonperforming loans. At the same time, many banks started to engage in speculative activities, such as real estate and private equity investment, for which they were poorly equipped. And a shadow banking system emerged outside of regulatory oversight, often a harbinger of financial instability. Investors will be hesitant to invest in an economy with a closed financial system that misallocates and misprices capital. Iran's banks will need to be able to operate without government direction but with suitable regulatory oversight to promote sound risk management.

With sanctions being lifted, companies in countries that have traditionally been exporters to Iran will look to get into Iran and will be interested in trade financing which will eventually draw banks into the business provided the sanctions removal process is continuing. Of all the areas of traditional bank financing related to Iran, import finance is likely to be the first to be restored because while the credit exposure includes exposure to Iranian importers, the direct credit exposure is to companies outside of Iran. Furthermore, since funds are being provided to non-Iranian companies, there is more limited exposure for banks to fall afoul of the remaining sanctions against direct business with some Iranian companies.

This estimate by Finance Forward puts the cumulative additional imports at a total of approximately $42 billion between 2015 and 2018. If the cost of trade credit amounts to 1% of the shipment value, that represents on average $105 million per year in new revenue to the banks providing credit (and perhaps more if fees charged are higher to reflect the country's higher risk). Using ITC TradeMap data on Iran imports by source country in 2010 (data from before the lifted sanctions were implemented), the opportunities would be greatest in the UAE (29% of Iran's imports), China (10%), South Korea (7%), Germany (8%) and Turkey (4%).

HUMAN CAPITAL

And that urban population is well educated. Iran's literacy rate is 87% overall and 98% for those between the ages of 15 and 24. Of the roughly 4.4 million students enrolled in universities, 60% were women as of the 2012–13 school year, and some 44% are majoring in one of the STEM fields (science, technology, engineering, and mathematics). After Russia and the United States, Iran is the world's fifth-largest producer of graduates in engineering (reliable statistics for China and India are not available, but it is likely that they occupy slots one and two)—although the education they receive in Iran is not always of the highest quality. Still, some 7.5 million Iranians, or about 13.3% of the country's working-age population, have completed a university-level education, making Iran the most educated country in the Middle East. For the sake of comparison, Mexico's university graduates make up 12.5% of its working-age population; Brazil's, 11.7%; and Indonesia's, 6.9%.

Looking ahead, we expect the participation rate to rise significantly over the medium term, both for men and especially so for women. Not only is Iran modernising and developing welfare-state attributes that encourage female participation in the labour force, but literacy rates have risen tremendously across the generation, meaning that today's Persian women are more ready to join the labour force due to developments in the education system. Data from the United Nations (UNESCO) show literacy rates in the population of those aged between 15 and 24 at 98%. This is more than three times as high as the literacy rate for those aged 65 and older, at 26%. Enrolment in tertiary education has been gradually increasing throughout the new millennium, as shown in Figure 4 below. And Iran's cabinet has the highest number of US college alumni serving in any foreign government cabinet in the world, according to Reza Aslan, a creative writing professor at the University of California at Riverside. SCImago, a Spanish firm that monitors academic journals, expects Iran's scientific output to have become the world's fourth-largest by 2018, ranking just behind China, the US, and the UK, and ahead of Germany and Japan.

Driven by unprecedented government support at the highest levels, Iran could very well become a regional science and technology leader. But in a country where 60% of the population is below the age of 30, innovation cannot materialize without some form of social liberation. It is along these lines that the paradox of Iran's scientific and technological capabilities will develop.

Here are six trends that will shape the future of this sector:

Government spending on research and development

Iran's nuclear programme is a subset of a larger government portfolio of scientific spending. Despite sanctions, research and development (R&D) expenditure has been effective in building national capabilities in areas such as nanotechnology, biotechnology, stem-cell research, genetics, chemical engineering, aerospace research, agronomy, laser communication systems, computer science and electronics, among others. The government has singled out technological development among three top national priorities between 2016 and 2021. As sanctions unravel and the government's fiscal space expands, R&D budgets have been marked for a 400% increase by 2030, reaching 4% of GDP. If these figures materialize, Iran could very well become a regional leader in the development of commercial technology across sectors.

Funding and incubation of start-ups

Iran's start-up sector has already begun to attract serious attention from technology investors around the globe. With only three venture capital companies in the country and a handful of government programmes supporting small and medium enterprises, opening up to foreign investors will make it much easier to develop business in the country. However, Iran's start-ups are not only in need of cash: they would also benefit from unrestricted access to new technologies across sectors. With international tech companies already racing to set up shop in Iran, the creative horizons of tech entrepreneurs will likely be expanded. What local start-ups could only dream of achieving for years will become a feasible possibility overnight. More sophisticated, flexible and innovative business models will be at the disposal of an Iranian entrepreneur's start-up palette.

Keeping Iran's talent at home

Despite being among the world's top spenders on education, business owners in Iran still find it difficult to hire skilled workers. Each year about 20% of government social spending in Iran goes to education, and for more than a decade the country has spent an average of 4.5% of its GDP on this sector. This places Iran among the countries that spend the most on education. But on the flip side, the country also struggles with one of the highest brain-drain rates in the world. Every year around 150,000 specialists emigrate, costing the country double (by some estimates) what it makes from selling oil. Creating a suitable environment for the return of young Iranians has been a top priority for President Hassan Rouhani's government. While lifting sanctions may encourage some to return, much more needs to be done to ensure that Iran's technology sector has the young visionaries and pioneers it needs to move forward.

Mainstreaming entrepreneurship across society

Innovation is deeply rooted in Iranian culture, but being an entrepreneur is not. Traditional government and private-sector jobs are still viewed by society as the safest bet for making a living. Bringing Iran's wide variety of scientific research to the market requires more risk taking. But few talented entrepreneurs from middle and low income families have the social safety nets to rely on if they fail. Local NGOs such as the Iran Entrepreneurship Association are trying to address these challenges by organizing awareness campaigns and supporting policies aimed at creating a better entrepreneurial environment for Iran's youth. One example is a recent nationwide partnership to organize 100 start-up weekends over the next three years. Students and young entrepreneurs can now experiment with their business ideas and receive coaching and guidance before making any serious life decisions.

Further reforms to internet access

Iran is home to the largest number of mobile phone and internet users in both the Middle East and Central Asia. Yet it remains to be one of the least digitally empowered countries in the world. Excessive government censorship has created a virtual brain drain in which internet content and resources are hosted abroad instead of staying at home and contributing to economic activity. But beyond censorship, high-priced and low-quality communication services make it difficult for businesses to connect with their customers at home and in neighbouring countries. Despite this reality, partial internet reform has gained pace over the past two years. President Rouhani's government has reversed decisions limiting internet speeds for residential users and has issued 3G and 4G licences to the country's two main mobile operators. But much more needs to be done if the country is to realize the full commercial potential of tech-sector innovations.

HEALTHCARE

With the population of 77.7 million, Iran is considered one of the most populous countries in the Middle East. According to the World Health Organization(WHO), Iran ranks 58 in health care section as of 2013. The life expectancy in Iran is 73 years and healthcare spending is calculated to $346 per capita. Total expenditure on health in Iran is increasing, while the public sector's share is decreasing. Currently, 25% of Iran's total health expenditure, on average, goes on medicine. Private sector expenditure as out-of-pocket payment is remarkably high as it accounts for more than 50% of the whole expenditure. Iran's expenditure on pharmaceuticals is expected to reach $4.14 billion by 2019 with a compound annual growth rate (CAGR) of 11%, taking inflation into account, according to IMS Health Institute.

Sixty foreign companies have applied to invest in hospital projects in Iran and agreements with two Korean companies and an Italian company have been finalized, said Ebrahim Raeesiyuon, economic advisor to the health minister. "According to the MoUs, South Korea's Samsung company will build a 1000-bed hospital in Tehran. Also Pesina company of Italy will construct three 500-bed hospitals, one each in Tehran, Rasht (Gilan Province) and Nishabur (Khorasan Razavi Province).

According to BMI, Healthcare projection is IRR711.91trn (US$22.39 billion) in 2014 to IRR819.73trn (US$22.77 billion) in 2015; +15.1% in local currency terms and +1.7% in US dollar terms. Forecast slightly upgraded from previous quarter.

BMI View: Iran will remain an attractive market in the region due to its large size, but it will register low growth in US dollar terms, due to the depreciation of the rial. With a deal over the country's nuclear activity reached in July 2015, the easing of international sanctions should see a rise in imported medical devices into Iran over the coming months. We do not expect a sharp rise, however, as import growth will likely be tempered by lower oil prices and the country's lack of investment over the past decade. From $865 million in 2015, the market will rise to $1.2 billion in 2019.

INFORMATION TECHNOLOGY

New York, Dec. 31, 2015 /PRNewswire/ — Easing sanctions on Iran by major countries such as the US, Germany, etc., coupled with growing expenditure on R&D, technology advancements and increasing IT spending is forecast to drive Iran IT services market over the next five years. Post the signing of nuclear deal with the US and P5 countries, Iran IT services market is projected to grow during the forecast period. The government is increasing its focus on developing new technology parks across the country and this is anticipated to boost the market for IT services in Iran in the coming years.

According to "Iran IT Services Market Forecast & Opportunities, 2020", IT services market in Iran is forecast to reach US$ 2.8 billion by 2020. Increasing IT spending, growing mobile penetration rates, coupled with easing economic sanctions are boosting IT services market in the country. In 2014, Tehran dominated IT services market in Iran, while Kermanshah region emerged as a rapidly growing IT services market. Moreover, IT captive management services accounted for a lion's share in Iran IT services market, followed by IT telecom, IT infrastructure services, and IT product development segments. This segmental trend is expected to continue through 2020, however, the share of IT captive management services segment is expected to decline by 2020.

Iran's mobile phone penetration is 129%, representing the fact that many Iranians have more than one phone or subscriber identity module (SIM); however, the number of smart phones on the market remains relatively low. There are an astounding 23 million internet users in Iran, but only 2 million have access to broadband.

Iran is by far the biggest market in the Middle East for mobile phone subscriptions, with 90 million by end-2012. In terms of revenue, it is the fourth most lucrative market, in the region of $9.2 billion. Its estimated growth rate of 6%- 7% per annum puts it among the top-five countries in the world.

According to the Electronic Journal on Information Systems in Developing Countries (EJISDC), the sector employs 150,000 people and accounts for 1.3% of GDP.

Rural expansion has been a key element in the government's growth strategy, and the country was recently awarded the UNESCO special certificate for developing telecommunication services in rural areas. The current administration is targeting to provide computers and internet to every school in the country.

Iran's mobile telephone segment is the centrepiece of its ICT sector. The current level of 90 million subscribers is up sharply from 68 million at the end of 2011 and 35 million in early 2008. The vast majority of subscriptions are in the form of pre-paid users.

The data segment is now seen as the key driver of the industry, as players vie for various 3G technology rights.

Data's share of the total revenue is expected to double over the next five years reaching $4.5 billion by 2014. By the end of 2009, Iran's mobile telecoms market was the fourth-largest market in the region at $9.2 billion and it is expected to grow to $12.9 billion by 2014 at a compound annual growth rate (CAGR) of 6.9%.

Mobile and Internet

There is substantially more competition in the internet arena, where 11 private access providers (PAPs) and TCI vie for market share, offering ADSL2+, WiMAX, and other fixed wireless broadband services.

Iran currently has only 2 million high-speed internet users, compared to 7 million in similarly sized Turkey to the North West.

The government's fifth Five-Year Development Plan (FYDP) calls for the establishment of a fibre-based national broadband network by 2016.

Recognizing the role of multilateral broadband development in the nation's economy, the Iranian government has also awarded significant WiMAX tenders to private players in recent years.

TOURISM

Iran's Vice President recently announced that his country is preparing for a "tsunami" of foreign tourists. A country rich in historical and cultural treasures, Iran will unveil an investment package of 1,300 projects in the coming days to attract foreign investment and boost the badly-hit tourism industry. Iran is home to 19 UNESCO-registered sites. Even before sanctions are lifted, the number of foreigners visiting Iran has grown 12% in each of the past two years. In 2014, Iran hosted over 5 million tourists, bringing in some $7.5 billion in revenue.

- Iran aims to increase visitors to 20 million by 2025, which it's hoped will add £20 billion to the economy
- Number of hotels built in past year more than the total built in last century - and huge developments are coming
- Rotana, Accor, Melia and Jumeirah hotels have all signal their commitment and have unveiled some grand designs

Investment Risks, Barriers and Challenges

Isolated from the global economy for the past decade and with a population of 80 million, Iran is a fertile ground for business. But international investors will have to cope with obstacles including government control of as much as 70% of the economy, a judicial system deemed unfavourable to foreigners, a dual exchange rate and a culture in which tough negotiations often go hand-in-hand with doing business.

“There are multiple state actors in Iran,” said Michel Makinsky, managing director of Ageromys International, a consulting firm in Paris that advises companies planning to work in Iran. “Add to this the Iranian culture of having to negotiate your way through, and this makes for a very complex market.”

Even in those areas, government participation in the private sector may pose difficulties. A privatization program last decade saw dozens of previously government-owned companies floated on the Tehran Stock Exchange, including banks and petrochemical firms. Yet many of their majority shareholders are large state pension funds or conglomerates owned by state-run foundations or the Iranian Revolutionary Guards Corps.

About $46.4 billion of shares in government-owned companies have been sold off by various means, including through floatation’s on the stock exchange, since 2001, the Iran Privatization Organization (IPO) said in August. Almost 30%, more than $12 billion, of it has been transferred to the private sector in the past two years.

“As long as a policy is not adopted that doesn’t nurture the private sector to the level that it seizes the whole of the economy, Iran will not witness the level of development that it needs,” Mohammad Sadr Hasheminejad, chairman of Iran’s Eqtesade Novin Bank and the Stratus Holding Group, one of the country’s first privately owned conglomerates, said in his office in an affluent neighbourhood of Tehran. Iran’s economic “sickness won’t be treated.”

But attracting foreign capital may prove difficult. Investors will be wary of Iran’s lacklustre attempts at market liberalization, and those who decide to invest will have to overcome a deep strain within Iranian political thought that is hostile to the very idea of foreign engagement.

Investors may also balk at Iran’s many troubling economic indicators. For one, Iran performs poorly in international ratings of the economic and legal institutions necessary for development and growth. On the World Bank’s 2015 Ease of Doing Business Index, for example, Iran ranked 130th out of 189 countries—not prohibitively low, considering that Brazil and India were 120th and 142nd, respectively, but far from optimal.

Iran is also a poor protector of intellectual property rights. According to a 2013 worldwide ranking of property rights regimes by the U.S.-based advocacy group Property Rights Alliance, Iran ranked 111th out of 131 countries. In comparison, Brazil, China, and India were all in the top 60.

Iran fares just as badly in corruption rankings. Iran ranked 136th out of 174 countries on Transparency International’s 2014 Corruption Perceptions Index, a standing comparable to Russia’s and Nigeria’s.

Finally, the shortcomings in Iran’s institutions and business culture are also evidenced by the World Economic Forum’s 2014–15 Global Competitiveness Index, where, overall, Iran ranked 83rd out of 144 countries. Iran fares particularly poorly in the areas of business sophistication, financial-market development, institutions, and labour-market efficiency.

All these weaknesses will give foreign investors pause, even once sanctions no longer prevent them from doing business in Iran. And even if investors decide to bet on Iran, a different obstacle might stand in their way: Iran's conservative elite, which harbours a deeply ingrained ideological opposition to the idea of foreign involvement in and influence on Iran. Iran's conservatives have fostered a narrative of the country's history centred on the idea that foreign powers have always tried—and will always try—to dismember Iran and to keep it militarily and economically weak and dependent. Although there are many dimensions to this narrative, a large one focuses on several historical episodes of apparent economic exploitation or political meddling at the hands of Western powers.

Economist Laylaz pointed to another obstacle: a dual exchange rate — one announced by the Central Bank of Iran and another used on open markets — that complicates operating in the country for foreign businesses.

"As an investor you should be able at any time to change your dollars in the open market but the government doesn't consider it legitimate," Laylaz said. "Only if the exchange rate is unified can foreign investment officially be brought inside."

For some investors the political risk of working in Iran still poses serious questions, particularly when it comes to guarantees on their capital. The current nuclear deal contains a "snap-back" mechanism that would reinstate sanctions if Iran is seen to have not kept to its terms. "If that begins, make damn sure your contracts have some provisions in there," Charles Hollis, a former diplomat and managing director of FTI Consulting, said on Sept. 24 to a conference on investing in Iran.

Yet there is still cause for optimism. In deciding where to put their capital, investors take a country's starting position as a given and look for the potential for dramatic gains. In this respect, Iran looks promising. If even a few of its economy's massive sources of inefficiency were removed, Iran could see immediate and substantial growth, becoming a premium investment destination. With greater economic opportunities at home, its brain drain may stop or even reverse, allowing Iran to leverage its human capital. And if Iran is able to sustain growth beyond a decade, the country's young people might find themselves in a position to provide domestic support for the country's investment needs as they grow into adulthood.

If Iran wants to reap these benefits, however, it will need to foster an environment conducive to foreign investment. First and foremost, investment capital will need to be protected by laws that encourage certainty and stability in free markets. At a minimum, such laws should secure physical and intellectual property rights, enforce contracts, reform the bankruptcy regime, encourage strong corporate governance, and require transparent financial reporting based on internationally recognized accounting standards.

Without such laws, troublesome obstacles will continue to stymie investors who may wish to participate in Iran's privatizations or invest in the Tehran Stock Exchange. Not only will investors have to figure out the complex and opaque web of partial state ownership in companies, but they will also have difficulty accepting Iran's unsophisticated corporate governance rules. Investors will demand risk premiums to compensate for the lack of transparency, effectively taxing the Iranian economy.

Iranian officials have told visiting trade delegations that government regulations are designed to keep foreign investments safe using the central bank as a main guarantor. But questions remain over legal jurisdictions and how future disputes between a foreign commercial entity and the Iranian government can be resolved.

IRAN'S GLOBAL ECONOMIC RANKING – IRAN/TOTAL COUNTRIES

Corruption Perceptions Index	130/168
Global Connectedness Index Score	132/140
E&Y Globalization Index Score	60/60
World Bank's Ease of Doing Business Rank	130/189
Ease of Paying Taxes Rank	122/186
Freedom of the Press	187/195
Global Competitiveness Report	73/140
Global Enabling Trade Report	128/138
Index of Economic Freedom	171/178
Inward FDI Potential Index	61/141
KOF Index of Globalization	153/185
Management Index (Political Leadership Towards Democracy and a Market Economy)	124/129
Networked Readiness Index (NRI)	93/142
Status Index (Political and Economic Transformation)	121/129

Indo-Iranian Economic Relations

India's exports to Iran could jump by over a third to $6 billion this fiscal year as an easing of sanctions against Tehran would help boost sales of agricultural commodities though competition for non-farm items would rise, a leading trade body said.

Iran has been buying most of its basmati rice and sugar from India in the past few years using rupees for its oil due to restrictions on its dollar trades. On Tuesday, Iran and six major world powers reached a deal that will see the Islamic nation curbing its nuclear programme that the West has suspected was aimed at a nuclear bomb.

"It's true that some of our exports, especially non-agricultural ones, will suffer but our farm exports will more than compensate for any loss," said Ajay Sahai, director general of the Federation of Indian Export Organisations (FIEO).

Iran's trade with India will no longer be governed entirely by how much oil it sells to the South Asian country, giving it more leeway to expand purchases of food items which India produces in abundance, such as rice, sugar and soybeans.

Rupee-denominated trade with Iran - India is its biggest oil buyer after China - started in 2012. India's oil refiners settled 45% of Iranian oil payments by depositing rupees in Tehran's commercial banks' account with India's UCO Bank.

Iran used funds in the account to import other goods.

"Now, both Indian and Iranian traders can look forward to conventional deals," said Vijay Sethia, former president of the All India Rice Exporters' Association.

India is Iran's top rice supplier, accounting for the bulk of its annual requirement of 1-1.2 million tonnes, mainly basmati. Iran imported nearly 1 million tonnes of basmati in 2014/15, with 930,000 tonnes coming from India.

Sethia expects India's basmati exports to rise 10-15% this fiscal year.

"Of late there has been some slowdown in India's rice exports to Iran which has built a buffer to avoid any shortage due to the sanctions. But volumes will pick up," he said.

India and Pakistan exclusively grow the long-grain, aromatic basmati in the foothills of the Himalayas.

The deal between Iran and the West could also cut freight rates, helping some Indian food exporters.

However, a 20% drop in the euro in over past year will help European firms win market share from India in automobile parts and machinery tools, among other things.

The India-Iran $15.7 billion bilateral trade must move beyond the old-style oil and fertiliser, cereals and chemicals export basket. Those are necessary of course, given India's dependence on Iranian oil and Iran's dependence on those revenues. But our vital statistics are virtually the same, and providing modern amenities that are robust and affordable for a youthful, tech-savvy population can ensure that India leapfrogs to the front of Iran's mind and market share. This means rolling out our IT, pharma, auto, agri-business and financial services for Iran, and stepping up the private sector engagement.

Iran has used the years under the sanctions to develop internally, with good roads, water and housing supplies and an education system where women predominate—nearly 70% of Iranian science and engineering students are women. Close to 300,000 engineers in Iran have built home-grown replacements not just for nuclear technology but also for internet and mobile applications. Iran's young, 20-something IT community has created Cafe Bazaar in place of Google Play; Bamilo instead of Amazon; Taxi Yaab instead of Uber, Mazando instead of Ebay. Since June 2012, Iran has held 62 'start-up weekends', there are innovation accelerators, and banks like Turquoise Partners are seed-funding this e-commerce take-off.

This year Germany played tech godmother, hosting the iBridges tech conference for regional start-ups where Iranian players made a spectacular appearance.

Alas, India doesn't figure in this new picture. Bengaluru, with its large entrepreneurial community, should loom large in Tehran, but apart from Flipkart, even superstar Hessam Armandehi, the young CEO of Cafe Bazaar, is unfamiliar with India's start-up scene. They look instead northwards. Alireza Jozi, the co-founder of TechRasa—the Iranian version of Bengaluru's YourStory—is an émigré from Austria who returned two years ago to build Iran's tech ecosystem. His ambition for Iran's tech talent? To surpass Turkey and "become the tech hub of the region."

What Iran cannot buy from Israel—the other big regional supplier—it can get from India.

This is possible, given Iran's aspirations and Turkey's downward geopolitical spiral. India's private sector must actively contribute to the Iranian dream. So far, our engagement is largely through government, with the signature bilateral Chabahar port project caught in India's baroque inter-ministerial rivalries, and the Iranians losing patience. If New Delhi does not move decisively, Chabahar may, like Sri Lanka's Hambantota port, become a Chinese project and a critical link, through Afghanistan and Pakistan, to its one belt-one road initiative.

Meanwhile, there's a market craving credit and consumer goods. Under sanctions, Hawala financed Iran's economy. Now Tehran is offering generous incentives to foreign investors to formalise its economy: Equal access to the home market, taxes of 10% or less, 100% repatriation of profits, special economic export zones. India's private sector can offer consumer credit, factories for auto parts and electric vehicles, a pharma base and technology investments. What Iran cannot buy from Israel—the other big regional supplier—it can get from India, enabling her to become a regional goods and services supplier to the Gulf from a stable West Asian base. *www.qz.com*

With the lifting of international sanctions on Tehran, India's access to Iran, especially for food and allied products, machinery and tools, infrastructure projects and pharmaceutical products, will increase, according to Export-Import Bank of India (Exim Bank).

The recent lifting of sanctions and restoration of international banking and insurance channels are expected to increase Iran's international trade exponentially. This will also hold true for Iran's bilateral trade with India, wrote Indian business daily The Hindu Business Line.

"With the removal of sanctions … India's access to Iran's market will increase," said an Exim Bank spokesperson, who did not wish to be named. Exim Bank was established by the Indian government in 1982 under the Export-Import Bank of India Act, 1981, with a mandate to not just enhance exports from India, but also to integrate the country's foreign trade and investment with the overall economic growth.

Trade Deficit

India has had a significant trade deficit with Iran since 2006 on account of the surge in oil imports. According to Exim Bank data, nearly 82% of the total imports by India from Iran constitute mineral products, followed by chemicals that account for another 15%.

Agro and allied products, including processed, is the largest category of India's exports to Iran (40% share in 2014-15), followed by metals and products (19.7%), chemicals (11.7%) and capital goods (9%).

"Indian exporters in some sectors have benefited, as India did not back sanctions against Iran. With the lifting of sanctions, exporters in these sectors will face stiffer competition. However, exporters in general, and Indian pharmaceutical, information technology and commodity exporters in particular, will benefit on account of greater market access to the Iranian market," the spokesperson said.

"On the import front, increased supply of Iranian oil, in an already oversupplied market, will further drive down the crude oil prices."

Iran is a major buyer of rice, soymeal, sugar, barley and meat. Agro and allied products, including processed, was the largest exported product from India to Iran in 2014-15. Access to the food and allied products market in Iran is expected to increase following the removal of sanctions.

The Exim Bank official explained that "under sanctions, Iran paid a premium of up to 20% over global prices to buy from India. Food companies have gained under this setup. However, such preferences are expected to be disrupted in the medium term."

Capital goods and transport equipment accounted for 9% and 2.3%, respectively, of the total exports from India to Iran in 2014-15. India's exports under these categories have grown significantly after the imposition of sanctions in late-2011 and mid-2012.

The official observed that with the removal of sanctions, India's access to Iran's market will increase. However, Indian exporters will now have to compete with Eastern European manufacturers who produce low-end products such as spanners, hand tools and auto parts, and whose access to the Iranian market was limited due to the sanctions.

Infrastructure and Pharmaceuticals

Indian firms will have greater opportunities in infrastructure projects in Iran. This will include development of the strategic port of Chabahar, among others. The Exim Bank spokesperson, however, cautioned that competition for Indian oil and gas companies will be stiff from American, Chinese and European oil firms that can commit abundant resources and latest technology for the modernization of Iran's oil and gas infrastructure.

India also signed a $233-million contract to supply more than 150,000 tons of rail tracks to develop Iran's railroads. But the project has run into delays. Lifting of sanctions is expected to speed up the implementation of this project.

Iran's import of pharmaceutical products amounted to $1.228 billion in 2014, with India being the sixth largest import source for Iran. The spokesperson said Iran has reported shortage of several specialized medicines, even though these are exempt from sanctions. Upon the lifting of sanctions, India's exports in this sector are expected to grow further on account of easier financial transactions.

India's major exports to Iran 2014 (US$ thousand)

Code	Product label	Value (US$ '000)
Total	**All products**	**4117191**
'10	Cereals	1408881
'23	Residues, wastes of food industry, animal fodder	435704
'72	Iron and steel	393215
'29	Organic chemicals	208922
'84	Machinery, nuclear reactors, boilers, etc.	174160
'17	Sugars and sugar confectionery	168373
'85	Electrical, electronic equipment	156349
'09	Coffee, tea, mate and spices	114608
'28	Inorganic chemicals, precious metal compound, isotopes	92915
'27	Mineral fuels, oils, distillation products, etc.	92222
'55	Manmade staple fibres	88774
'48	Paper and paperboard, articles of pulp, paper and board	87190
'38	Miscellaneous chemical products	86912
'30	Pharmaceutical products	69400
'39	Plastics and articles thereof	47596
'02	Meat and edible meat offal	43097
'52	Cotton	41747
'69	Ceramic products	38870
'15	Animal, vegetable fats and oils, cleavage products, etc.	34530
'40	Rubber and articles thereof	34451
'12	Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	34044
'03	Fish, crustaceans, molluscs, aquatic invertebrates nes	32560

India's major imports from Iran 2014 (US$ thousand)

Code	Product label	Value (US$ '000)
Total	**All products**	**2153890**
'29	Organic chemicals	555649
'28	Inorganic chemicals, precious metal compound, isotopes	366351
'27	Mineral fuels, oils, distillation products, etc.	305850
'31	Fertilizers	220915
'76	Aluminium and articles thereof	178938
'39	Plastics and articles thereof	122744
'08	Edible fruit, nuts, peel of citrus fruit, melons	86802
'72	Iron and steel	86231
'38	Miscellaneous chemical products	44542
'78	Lead and articles thereof	44203
'79	Zinc and articles thereof	40367
'41	Raw hides and skins (other than furskins) and leather	28980
'25	Salt, sulphur, earth, stone, plaster, lime and cement	13012
'70	Glass and glassware	12267
'09	Coffee, tea, mate and spices	11906
'40	Rubber and articles thereof	11352

Auto components -The auto industry in Iran and the aftermarket was not showing growth for the last couple of years due to low movement of goods. Once sanctions are lifted, original equipment manufacturers from markets like Europe will rush to Iran. India already enjoys an image of a quality supplier with such companies. We hope to expand exports," said Rajinder Kakroo, general manager in charge of exports at Shriram Pistons.

The industry, led by the Automotive Component Manufacturers' Association (ACMA), will be participating in the annual Iran International Auto Parts Fair (November 16-19) after a gap of three years. Compared to the normal space of 100 sqm, ACMA opted for 250 sq. m. this year, said a person familiar with the development. India had a prominent space in the Tehran event, next to the German pavilion, he said.

New participants include Bharat Forge and N K Minda Group. Regular participants are Shriram Pistons, Anand Group and Talbros.

Iran, the biggest automobile market in West Asia, imported components worth $102 million from India in the year ended March, up 69% from the previous year. India exports pistons, engine parts, bearings, forgings and rubber products to Iran, mainly to service the aftermarket. Some exports are also done for manufacturers.

Indian exports to Iran had received a setback in 2011 following the US sanctions that made the payment mechanism in dollar and euro difficult. Importers were opening rupee letters of credit as UCO Bank set up a payment mechanism for Iranian banks. Exports declined from $76.5 million in FY11 to $55 million in FY13. Indian firms also stopped attending the Tehran fair. Component makers from China and Turkey expanded their presence during the sanctions, said an industry executive.

India may invest Rs 2 lakh crore at Chabahar port in Iran (*Oct 2015)*

"India is ready to invest Rs 2 lakh crore at Chabahar SEZ in Iran but the investments would depend on gas prices as India wants it to be lowered," Gadkari said.

He added that various Indian companies are ready to invest in Iran in various projects ranging from road and rail to shipping and agriculture.

The total investment in the projects will be around Rs 2,00,000 crore, Gadkari said.

Asked about the development of the port, he said: "Various ministries have given their report to the Shipping Secretary and Prime Minister Narendra Modi will soon take a call on it."

With the US and other western powers easing sanctions against Iran, India has been in talks with Tehran to set up a gas-based urea manufacturing plant at the Chabahar port, besides developing a gas discovery ONGC had made.

The development of Chabahar Port and Chabahar Free Trade Zone is vital for India's interests. To counterbalance the Chinese presence in the Pakistani port of Gwadar, connect India to Afghanistan through a railway line (to be built by Ircon International) and most importantly, open up a route for India to link to the International North-South Transport Corridor – a ship, rail and road route that connects India, Russia, Iran, Europe and Central Asia – and scope out new ties with Central Asia.

Based on a preliminary agreement signed between the two countries last May, India will invest $85 million over the construction of two berths at Chabahar port which is located in Iran's south-eastern Sistan-and-Baluchestan province.

Chabahar is the closest and best access point of Iran to the Indian Ocean and Iran has devised serious plans to turn it into a transit hub for immediate access to markets in the northern part of the Indian Ocean and Central Asia.

Indian Oil Said to Plan $3 Billion Petchem Plant in Iran

Indian Oil Corp. is seeking to build a $3 billion petrochemicals plant in Iran, according to people with direct knowledge of the matter. The plan hinges on assurances from Iran that the 1 million-ton-a-year project will have access to cheap natural gas as feedstock, said the people, who asked not to be identified because the information isn't public.

Indian Prime Minister Narendra Modi's government is eyeing energy and infrastructure investments totalling billions of dollars in Iran, including upstream gas production and port developments. India has sought to secure ties with Iran and ensure access to its abundant hydrocarbons as years of sanctions on the Persian Gulf nation may be nearing an end. A natural gas-fed petrochemicals plant will allow Indian Oil to diversify from its existing projects that use oil products from its own refineries.

Iran sanctions lift-off: 'India-Kazakh transport corridor can become operational'

A multimodal freight link between Kazakhstan and India through Iran can "technically" be operational now that sanctions on the Islamic Republic is formally off. The rail link until the Iranian port of Bandar Abbas was already established. Kazakhstan railway authorities have given mandate to Adanis to work for two terminals at Mundra and Bandar Abbas. They are now doing the due diligence on the proposed projects. The rail link could currently carry two to three million tonnes of freight annually. "This capacity is proposed to be upgraded to eight to 10 million tonnes. Regular freight movement would also require finding solution to the problem of railway line gauge differential, existing between Kazakhtan and Iran.

India, Iran and Afghanistan come together for international transit corridor

India is looking to step up the pedal over its ambitious Chabahar port project in Iran by signing an international transit corridor agreement with Iran and Afghanistan. One of the reasons why the port project is important for India as it will facilitate access to Afghanistan, bypassing Pakistan. Over the past 2 days, officials from the 3 countries have met to finalize agreement for a Chabahar transit corridor.

While India and Iran are developing the Chabahar port jointly, Sinha said, Afghan businesses are investing in the attached free trade zone where Iran has allotted land for Afghan investors.

For India, Chabahar port is an important initiative involving three partners, and is a critical alternate trade route for Afghanistan. What came as a shot in the arm for India was that the port was welcomed by all regional partners of Afghanistan at the VI RECCA (Regional Economic Cooperation Conference on Afghanistan) conference held in Kabul on September 4, 2015.

The transit corridor will be significant for Afghanistan too with President Ashraf Ghani declaring that his country wants to revitalize the Silk Road and act as a regional hub for connecting South Asia with Central Asia.

Indian officials said though that the primary motivation for the port and transit corridor was not bypassing Pakistan. We are actually hoping that Pakistan too at some stage will join all trade and transit agreements being negotiated under Saarc by all other member nations?," said an Indian official.

After the latest round of talks for the corridor, Azer News quoted Iran officials as saying that along with other international corridors — the North-South ITC, the Kyrgyzstan-Tajikistan-Afghanistan-Iran road corridor, and the so-called Ashgabat agreement on international transportation signed by Uzbekistan, Turkmenistan, Iran and Oman — the construction of the Iran-India-Afghanistan international transit corridor will not only promote the development of regional trade, but also will be an important historical event.

India and Iran have already signed an MoU for the Chabahar port and it is likely to become operational by the end of next year.

The talks for trilateral transit corridor had started in 2013. Afghanistan is looking at the Chabahar port and the trilateral transit corridor to reduce its dependence on Pakistan.

India and Iran want to increase the Chabahar port capacity from the current 2.5 million tonnes per year to 12.5 million tonnes per year.