

Even if US-led sanctions against Iran are removed, it will take years before the Islamic Republic is able to build up its infrastructure. In the meantime, old trading partner Dubai is best placed to benefit.

BY NEIL HALLIGAN

IRAN'S WINDOW TO THE WORLD



▲ There are opportunities in every sector in Iran, with development plans for industrial infrastructure, hotels, hospitals and housing.

THE INK HAD BARELY DRIED ON THE framework agreement that signalled the start to the end of trade sanctions imposed on Iran when businessmen from both sides of the Strait of Hormuz were busy readying for the plethora of opportunities that await should the deal be finally passed on 30 June.

In return for the gradual lifting of sanctions, Iran has promised to make significant cuts to its nuclear programme.

The trade route between the then Trucial States (now UAE) and Iran is as old as time itself, dating back to a time when pearling was the main industry, and the 100-mile distance between Dubai and the Iranian port of Bandar Abbas meant that commerce flourished.

Their economic stories have gone in different directions during the last century, but the core trade route between Dubai and Iran always remained, even after the US began imposing its first sanctions in 1979 as a result of the Islamic revolution.

Further US, EU and UN sanctions

have followed in the 35 years since then, but the US-EU sanctions in recent years saw trade drop from its peak of \$10bn in 2009 to \$6.8bn in 2012, which recovered slightly to \$7bn the following year.

The clamour for business in Iran is clearly justified, and it's hardly surprising that flights between Dubai to Tehran have reported an increase in passenger numbers in recent weeks, as the emirate looks to harness its near-monopoly position when it comes to trade with the Islamic Republic.

With a population of 77.45 million, Iran has an economy that's just waiting to explode. Backboned by oil reserves of 160 billion barrels — almost 10 percent of the global total — it also has the world's largest gas reserves of almost 34 trillion cubic metres, 18 percent of the global

77.45m

The population of Iran. The country also has a very educated human capital base.

total (ahead of Russia with 17 percent and Qatar with 13 percent).

Production peaked at over 6 million barrels per day (bpd) in 1974 and despite the disruption of wars and sanctions, the country still managed to produce 4.2 million bpd in 2008.

The US-EU sanctions imposed in response to concerns over Iran's nuclear programme saw production drop even further to 3.4 million bpd since 2012.

With domestic consumption believed to be in the region of 2 million barrels a day of crude and refined products, the remainder is for exports, which is down from the 2.5 million it sold before sanctions were imposed.

With oil majors ready to re-enter once the right conditions are restored, exports could grow by as much as 1 million bpd within 12 months, according to experts. But, like most aspects of Iran's immediate future, it will take some time before that happens, according to international trade and business lawyer, Farhad Alavi, managing partner of Akrivis Law Group in Washington, DC.

A regular visitor to the GCC region, Alavi says the oil and gas technology in Iran is in serious need of refurbishment.

"They don't have access to the necessary drilling technologies and I'm sure some of these oil wells have gone dry," he says.

"Oil wells have a shelf-life of 40 or 50 years, and Iran is producing well below what it can and that's not just because of the fact that they're not allowed to sell more than a certain amount. It's really because there's badly needed investment that's not happening."

The investment required is expected to run into billions of dollars to get the fields up to modern-day standards, and to get the power plants online.

Dr Amir Kordvani, an associate based in Clyde & Co's Abu Dhabi office, who advises clients with respect to legal issues related to Iran, agrees. "Billions of dollars are required in the oil and gas sector to redevelop and modernise the existing oil and gas fields, and to be able to operate the joint oil fields with Iraq or the gas field with Qatar. They need around \$90bn of



▲ Farhad Alavi, partner at the Akrivis Law Group.



▲ Dr Amir Kordvani, associate, Clyde & Co.

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investment in the power sector to bring new power plants online," he says.

The country's aviation fleet, which currently consists of 140 aircraft, is also in need of modernisation and expansion in order to cater for the expected growth in demand.

Ali Reza Jahangirian, head of the Iran Civil Aviation Organisation (ICAO), was quoted by state news agency IRNA as saying the order for new aircraft would be in the hundreds over the next ten years, dwarfing the current order books of Emirates, Qatar Airways and Etihad Airways combined.

"That [140] is lower than the average international norms in terms of international indexes of population and area," he said. "We will need 400 to 500 aeroplanes over the next ten years," he added.

160bn

Iran's estimated oil reserves in barrels — almost 10 percent of the world's total.

Boeing and Airbus have reportedly already held talks with aviation officials in the country.

"There have already been ongoing discussions between Iranian aviation officials and the two global aerospace giants," Amir Ali Handjani, an Iranian-American energy executive, told *The Guardian* newspaper.

"Those discussions have happened with the approval of Europeans and Americans. They recognise how important an issue this is for Iranians, who have some of the oldest passenger planes in the world."

Alavi, who advises US companies that want to get authorisations to do certain types of permissible business with Iran, says that the progress of any aviation deals will depend largely on what the US decides. He says while many sanctions will be lifted, he believes that many sanctions will stay, including the one that prohibits the US doing business with Iran.

"The US has agreed to lift many so-called secondary sanctions which mean, for example, if a UK company was to invest in Iran's automotive industry, it would no longer need to be afraid of US penalties. But that doesn't mean that General Motors can go into Iran's automotive industry, for the time being, based on what's agreed to. The US may make some unilateral decisions later on, but that was not part of the negotiations," Alavi says.

“One of the big challenges, on which other things hinge, will be Iran’s reintegration into the international banking system”

With regard to any possible aviation deal, he says there might be an issue with companies that have a high content of US-origin products, like Airbus planes and Rolls-Royce engines.

“Export control laws in the US prohibit that. Even in the ‘good old days’, in the late 1990s and early 2000s, when the rest of the world was doing business with Iran and not the US, they still couldn’t buy planes because these planes had Rolls-Royce engines that might have had a high US content. I would imagine that Iran would want to negotiate this, and Airbus and Boeing are very mindful of this,” Alavi says.

There are opportunities in every sector in Iran, with development plans for industrial infrastructure, hotels, budget accommodation, and hospitals, as well as housing.

“They are making significant investment in low-cost housing, not just in major cities like Tehran, Shiraz, Tabriz, in other cities as well,” Kordvani says.

The Iranian parliament is currently debating various legal reforms to address its current needs, as well as formulating its development plan to encourage business growth.

“Iran is also developing the next five-year development plan, which is going to be the sixth one and will come into force in 2016,” Kordvani says. “In the draft document that was released a few months ago, there was a clear mention of the government need to create a business environment for further participation by the private sector, domestic or foreign investment, because they need money and finance in almost every sector you can imagine.”

Kordvani says the government has introduced laws that it hopes will encourage investment and employment in the private sector, which is estimated to be no more than 20 percent of the country’s economy.



▲ Dubai looks to harness its near-monopoly position when it comes to trade with the Islamic Republic.



▲ Iran has introduced laws that it hopes will encourage investment in the private sector.

“More recently in 2002, they passed a foreign investment promotion and protection act, which offers a lot of incentives to foreign investment and tax exemptions. Even more recently, the new government has been taking steps to create a business environment for the private sector,” he adds.

“The government recognised a big problem for the Iranian economy is its massive public sector, which people say is 80 percent of the economy, or according to some in Iran, 95 percent of the economy. The private [sector] has a very limited role and has been very weak, so they want to encourage the private sector to participate in projects, bring in their skills and know-how,” he says.

34tr

Iran’s estimated gas reserves in cubic metres — the planet’s largest.

To help create that environment, authorities recently passed a public-private partnership (PPP) law and the parliament is working on a piece of legislation that aims to reduce or minimise the obstacles on competition.

The government is also working towards creating a one-stop shop for foreign investors in key projects, cutting through red tape and negating the need to get multiple licences approved.

However, much of what happens in Iran if the sanctions are lifted, and the pace at which it develops, will depend largely on creating a solid banking sector that meets international standards.

“The mechanisms for moving money in and out of Iran are going to take some time to be re-established and while money does get out from and into Iran, it’s really a very cumbersome process,” Alavi says.

“That’s what greases the wheels of commerce internationally, whether it’s outbound or inbound investment. One of the big challenges, on which other things hinge, will be Iran’s reintegration into the international banking system, making the movement of money a lot easier,” he adds.

And banks in the region are ready to move, once the stability returns. Shayne Nelson, CEO of Dubai’s biggest bank Emirates NBD, and an experienced international banker, said in an interview with *Arabian Business* last month that he believes banks in the UAE are ready and waiting.

“If, and this is a big if, Iran ever gets sorted on geopolitical basis, that is a huge opportunity for the UAE as a whole and for the banking industry,” he said. “It’s an

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▲ Iran’s decades-old oil and gas technology needs urgent upgrades.

under-served industry with not great technology that needs massive infrastructure spend and it has got a lot of pent-up demand. That would be a big opportunity. But no-one in their right mind would look at that opportunity until the sanctions are lifted.”

The country has had issues with its currency, which has been fluctuating against the US dollar. In 2012 the value of Iranian rial was slashed in half overnight because of the sanctions.

“They’re trying to come up with measures which allow the market to decide the value of the currency, instead of the regulator and the central bank controlling everything. As long as the sanctions remain, it will be very difficult to manage that,” says Kordvani.

Inflation is another problem. In 2013, it went up to 40 percent, but dropped to 15 percent in January this year because of the new policies and the fact that Iran has been in negotiations over the sanctions.

Twelve months down the line, what will the landscape look like if the sanctions are lifted?

“We’re not going to see a Starbucks on every corner,” says Alavi, “but we’re going to see a gradual re-integration into the world economy. Iran has a large economy with a very educated human capital base, so I would argue that it doesn’t even need to be fully reintegrated to become very powerful.



▲ Iran’s inflation went up to 40% in 2013, but dropped to 15% in January this year because of new policies.



▲ Iran’s aviation fleet is in need of modernisation and expansion.

“What I think will be really interesting to watch is how the reintegration will affect Iranian business in terms of having to compete with foreign counterparts. Also, how this will affect issues of corruption. For example, if banks have to adhere to international standards, this could have a very positive effect in terms of making business in Iran much more transparent and much more aligned with best practices,” he adds.

And it’s the UAE, and Dubai in particular, that look set to be the biggest beneficiary in Iran as it comes to terms with the lifting of the sanctions.

“All these companies are in Dubai not just to build stuff in Dubai; they are there because it’s the most palatable place to live in the region,” says Alavi.

“All these business that will go to Iran eventually, lawfully, will probably want to go through Dubai. In terms of having their people there, in terms of port facilities and air transport, in terms of banking, it will take Iran quite some time to develop its own infrastructure in these fields. All these

things will ultimately impact Dubai and the greater Gulf over the next few years.”

Dubai in the coming years will more than likely be the port of entry for Iran to be reintegrated into the world economy, just like it was before the sanctions.

“You could wire money to Iran, but most of it was happening through Dubai. It has traditionally served as Iran’s window to the world. It could have a slightly evolved role in this, but I still see Dubai being very critical to Iran’s lawful trade with the rest of the world and also its economic reintegration,” says Alavi. The benefits may already have started. Some analysts are linking the recent pop in the Dubai Financial Market to, among other things, better prospects for a resurgent Iranian economy. Stocks that are likely to benefit include not just the likes of DP World, Air Arabia and Aramex, but banks and property companies too.

Once again Dubai, despite its comparatively small size, looks set to play a pivotal role in the future of Iran and its economy. **ab**