THE AMBASSADOR PARTNERSHIP

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Boyd McCleary CMG CVO reports on his recent visit to Iran, the new kid on the block

I visited Iran in late February/early March as a member of a trade mission sponsored by the Middle East Association (MEA). This was a good opportunity to see first-hand how far things have developed since the signing of the nuclear deal (July 2015) and the lifting of sanctions (January 2016).

Tehran is a big, bustling, polluted city set below mountains with snow and ski resorts. Spring was in the air. The people are friendly and happy to see Westerners back. US dollars, Euros and Sterling are all readily acceptable in the money exchange establishments, which are widely available. Tourists are starting to come.

Political and Economic Climate

The results of the 26 February elections to the parliament (Majlis) and the Assembly of Experts were announced as we arrived. Voting is not yet complete (a second round is required in some constituencies), but in Tehran itself all 30 Majlis seats went to moderates/supporters of the government. This was widely seen as an endorsement of the nuclear deal and of President Rouhani's modernizing strategy, and something of a slap in the face for the hardliners. But it should be remembered that the conservatives still hold a majority within the wider apparatus of government. One of the main drivers of support for Rouhani and of opening up the country is that the economy is in poor shape, with unemployment at 30-40% (much higher among young people) and inflation at 15%. And of course the sharp fall in oil prices, Iran's major export commodity, has not helped.

The Opportunities

With a population of 78million and a land area larger than the UK, France and Germany combined, Iran is a country with huge potential. It has the largest gas resources in the world and the 4th largest oil reserves. But the economy is diversified and there are many opportunities for foreign investors. Iran has very significant mineral resources, is the second largest car producer in the Middle East and is a major producer of cement, steel and petrochemicals. There are also significant opportunities in respect of infrastructure, agriculture and healthcare. Iran's gross government debt is only 11% of GDP and net debt is only 3.4% of GDP. Central Bank reserves are over $75 billion. The country also has very young population and high levels of tertiary education, particularly in the fields of science and engineering.

China has been Iran's largest trading partner for the last few years, followed by India and Turkey. These countries are likely to remain major players. But, with the lifting of sanctions, there is massive interest in Europe and more widely in doing business with Iran. MOUs have already been signed for the purchase of over 100 Airbus aircraft. French companies also have an MOU for the development of Tehran airport and Peugeot are planning major investment, as are Siemens, Daimler and a number of other German companies. The Swiss President had visited Tehran just before I arrived. In town were Joint Economic Commissions from Singapore and Romania. The Russians were concluding a bilateral Customs Treaty. The Koreans signed a Bilateral Investment Treaty and have secured a $1.6bn deal to build a steel mill.

Challenges

But there are significant challenges too. There is a real lack of transparency over who owns what and Iran scores uncomfortably high on the Ease of Doing Business Index. One of the toughest things for foreign companies will be to find the right partner. Due diligence is going to be crucial. There is also some fear that one of the parties might renege on the nuclear deal, which could lead to sanctions being re-imposed: so-called "snap back".

But by far the biggest challenge right now is the reluctance of major international banks to engage, because of concerns that this might prompt action by the American authorities that would jeopardize their operations in the US. For now none of the big deals in prospect can be financed. But some smaller European banks – who are relatively less exposed in the USA - already indicating they are prepared to enter the market. UK Export Finance announced, while I was there, that they are open for business and on cover for Iran. Other Export Credit Agencies are either on cover or are moving that way. So financial problems are likely to ease in the months ahead.

Conclusions

My conclusions are that Iran is moving in the right direction and that there are real opportunities and a great deal of interest in doing business there. It is early days yet, caution is in order and there will be no immediate bonanza. But for many international businesses there is a new kid on the block, and one that it could be a mistake to ignore.

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