

NEWSLETTER

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Iran Canada Business Council

Founded in 1992, the Iran Canada Business Council today operates across Canada within Canadian Manufacturers & Exporters, Canada's leading business network. Drawing on the resources of CME, the purpose of the Iran Canada Business Council is to:

- Promote and support trade and investment between Iran and Canada
- Serve as an advisory body to government in Canada on matters related to trade and economic relations with Iran.

Membership is open to companies carrying on business in Canada. For information contact Gloria Finnigan at (905) 568-8300 ext. 229.

Outlook for the Iranian Economy

*Prepared by Andrew Shisko, Counsellor (Commercial),
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Twenty years after the Revolution, the Iranian economy remains dominated by the public sector, which accounts for an estimated 75% of the economic activity in the country. While some public enterprises have been successful, many are shackled by operating inefficiencies, economic distortions due to commercial privileges, and some political influence in the commercial decision-making process. Line Ministries oversee stables of government companies in virtually all sectors of the economy, from the mammoth National Iranian Oil Company to car manufacturing to the functioning but loss-making banking system. That the economy functions as well as it does is due to Iran's huge daily exports of 2.3 million barrels of oil, some capable public sector managers, generally good infrastructure, and an entrepreneurial (if sometimes latent) spirit in the private sector.

Efforts to both attract investment and to enable Iran to acquire more experience in a global economy are reflected in the establishment of three Free Trade Zones along the Gulf and numerous Special Economic Zones throughout the country, but investment to date is not substantial.

The biggest challenge the Iranian economy will face over the next 10 years is creating sufficient jobs for the 1 million young people who will enter the work force annually. Hence the tentative openings to foreign participation in the strategic oil sector. But Iran still does not fully recognize that it must compete with other countries for the international investment dollar, whether in oil and gas, mining, or industry.

Despite rhetoric that Iran is dangerously dependent on oil, little has been done to diversify the export economy, and oil prices have historically rebounded before drastic measures were required. To avoid repetition of that scenario given the surge in the oil price to above \$30 in the past year will require firm economic management of which there is little evidence to date despite wide recognition that Iran's economic future depends upon a re-integration into the world economy (i.e. liberalization and privatization of the economy) and eventual membership in the WTO. Nor will sustained high oil prices solve Iran's unemployment problem.

Key Economic Issues (US\$):

Iran depends on oil exports for 80% of its hard currency earnings. The oil price increase in the past 18 months has taken the pressure off but astute management of hard currency earnings remains critical and non-oil exports, despite government rhetoric to focus on export diversification, is stuck at between \$3 and \$4 billion annually, largely due to red tape, a captive domestic market stimulating little innovation and an almost total absence of international marketing savvy. Foreign reserves have been built back up to a comfortable level from the minimum of around \$3 billion (or 3 months worth of imports) in the months of \$10 oil in 1998.

Iran's hard currency will be used, firstly, to import strategic commodities, including wheat (40% from Canada), vegetable oil (including Canola oil), rice, sugar and a few essential industrial goods. Secondly, Iran will continue to service its foreign debt, now at about \$12 billion. Thirdly, any monies left over will be used to import industrial capital goods, either for existing industries or new projects. There remains severe competition to be on the priority list for imports even after a year of high oil prices. In principle, under the Third five-year plan (March 2000 - March 2005), Iran is to set aside oil earnings in excess of \$15 per barrel for future investment but it remains to be seen whether Iranian ministries can keep their hands off windfall revenues.

Despite these short and medium-term economic difficulties, the economic fundamentals remain sound: Iran's debt to GDP ratio is an enviable less than 20% and Iran possesses the world's second largest reserves of natural gas and fourth largest of oil, as well as the world's largest deposits of zinc and second of copper.

The 3rd five-year Development Plan (March 2000-March 2005) currently in the initial stages of implementation includes an increased role in the economy for the private sector, attraction of foreign investment, reform of the tax system, reduction in subsidies, relaxation of a rigid labour law, and movement toward a single unified exchange rate. However, one indication of the difficulties of implementing such an economic plan was the arbitrary decision by the outgoing Parliament to increase the nominal gasoline price by only 10% in March 2000, meaning a 10% reduction in real terms over the previous year - and gasoline still costs a paltry 7 cents per litre. The President's margin to manoeuvre on economic issues is constrained by the increased unemployment that would result from the necessary reform measures; he is also on the record for stating that social justice takes precedence over economic development and thus with the recent election of a reform-minded Parliament a coherent and realistic economic reform package cannot be taken for granted.

Iran is also plagued with multiple exchange rates, which permit the import of strategic commodities at an artificial exchange rate roughly one-fifth of the present street rate for the dollar, thereby providing a huge national subsidy to such commodities as wheat and bread.

One consequence of government budgetary shortfalls, printing of some money as a partial solution, and fears of price increases as some economic restructuring goes forward, is inflation. Officially down to around 20% last year, it is unlikely to fall much lower in the next couple of years.

Iran has been slow to take advantage of multi-billion dollar lines of credit available primarily from European lenders, partly because of their recent cash flow problems, partly because of a hangover from wide-open import policy of the early 1990s, partly due to bureaucracy. Some of these lines are drying up due to lack of use but there is probably as much international money available as Iran could prudently use, and almost all of the EU countries have in place insurance for medium and long-term borrowings. Iran is also considering its first borrowings (likely around US\$300 million) from the international financial markets since the Revolution, more in order to establish a credit rating and track record than a real need for the funds.

A new foreign investment law is being considered by the Majlis but likely will not go far enough to reassure investors. Current Investment Law dates from 1955 but is in conflict with a number of articles in Iran's post-Revolution Constitution. There are still points at which a decision on such issues as repatriation of profits or rates of taxation will be subject to the (arbitrary) decision of an "economic council" as opposed to being clearly rules-based. The most prominent area where some form of foreign "participation" is being allowed is through buy-back projects in the oil sector. This concept is now being extrapolated to the mineral sector but no projects have yet been signed. This approach gets around the constitutional prohibition on foreign ownership of resources but is not to the taste of international oil companies who are involved now primarily in the interest of positioning themselves for future production-sharing concessions. Nor is it suited to mining projects which are by definition a longer-term investment requiring hands-on management by the foreign investor.

One wild card for the Iranian economy is the eventual re-establishment of economic and commercial relations with the United States. While there is an illusion in some quarters that

Iran's economic difficulties would then be solved, the major problems within the economy are in fact internal and structural. Nonetheless, renewed USA-Iran relations would improve the investment climate, would bring competitive suppliers into the market with a beneficial impact on import costs, and would facilitate Iran's full re-entry into the global economy. Earliest estimates of this "rapprochement" are in no less than one year following Presidential elections in the USA (November 2000), in Iran (May 2001) and the expiry of the USA's Iran-Libya Sanctions Act (August 2001). There is no doubt that all other countries exporting goods to Iran would export less as a result in the immediate aftermath.

Recent Developments in Iran—Canada Commercial Relations

In 1999 bilateral trade with Iran exceeded \$660 million when Iran was once again Canada's biggest international wheat market. Efforts in recent years on both sides to further diversify this relationship have resulted in exports from Canada of telecommunications equipment, oil field equipment, mining equipment, bovine semen (for dairy cattle), and paper. Crude oil accounts for more than 95% of Iranian exports to Canada, with the balance being carpets and dried fruit and nuts.

Recognized, world-class Canadian capabilities are well matched to Iranian needs, in particular in the Power and Energy, Oil and Gas, Mines and Metals, Agriculture, Telecommunications and Transportation Sectors. In addition, Canada is considered very favourably at the political level in Iran. Reasons for this include Canada's principled stance on international issues, our multicultural society in which Iranians feel at home (including the 250,000 Iranian-Canadians now resident primarily in Toronto, Vancouver and Montreal), our lack of political baggage, our straight forward business practices and our world-class competitively priced North American technology.

Oil & Gas

- Calgary's Bow Valley was the first international company to sign an oil buy-back project, in July 1997 for the offshore Balal field valued at \$200 million.
- Petro-Canada, Husky, Talisman and Canadian 88 are among Canadian firms sniffing out possible buy-back deals.
- Several Calgary-based firms are suppliers to the National Iranian Oil Company, which has a purchasing office in Calgary that claims to buy (an unverifiable) \$40 million annually of Canadian oilfield equipment and supplies.
- Canadian expertise in horizontal drilling, sour gas handling and treatment, enhanced oil recovery and reservoir analysis are highly sought after

Power

- Canada's reputation in Iran, apart from quality wheat sales, was established in the power and energy sector by Acres (hydro-power) and Agra-Monenco (thermal) Despite its USA parentage, GE Hydro signed a \$35 million contract in October 1999 to supply generators for the

Masjid-e-Suleiman dam project and is pursuing other hydro-turbine (Lachine, Quebec) and hydro-generator (Peterborough, Ontario) contracts with public sector entities in Iran.

Transport

- GM Diesel Division (locomotives) in London, Ontario, was forced to withdraw from a signed, \$90 million railway locomotive contract with the Iranian Railways, due to pressure from the USA government on its USA parent and the important USA content in the product.
- Bombardier's regional jet is ideally suited to the Iranian market, with a number of distant, medium-sized cities, but there is insufficient money for such purchases at this time.

Telecom

- Mitel is well established in Iran's telecommunications market, selling several million dollars worth per year.
- Nortel entered the market in June 1999
- Newbridge Networks launched its marketing effort in Tehran in October 1999.
- Despite the hard currency shortfalls, Iran is proceeding with essential telecom service expansion. The fate of Iran's Zohreh telecommunications satellite is less clear: required to be in orbit by mid-2000 to preserve the orbital slot, there may not be available the \$200 million required at this time; and
- Telesat Canada had to withdraw its winning bid to provide consulting services during satellite contractor selection, construction and launch due to the tightening by the USA of ITARs (regulations governing International Trade in Armaments) which restricted technology Telesat needed to use.

Agribusiness

- In addition to wheat, Canada is poised to break into the \$800 million dollar vegetable oil import market with Canola oil. Important soybean and corn sales have been recorded recently.
- Though modest in terms of annual sales, which hover around \$1 million, Canadian genetic material is widely present in Iran's commercial dairy herds, frequently accounting for more than 50% of genetic origin, and has brought Canada a positive reputation, which far exceeds this monetary value.

Mining

- The mining sector appears to hold the greatest potential for a significantly enhanced commercial relationship.
- Major Canadian mining companies are well aware of Iran's mineral potential but improvements and clarifications in the investment climate are still required.
- The mining and minerals sector has been targeted by the Iranian government as one offering the most immediate potential to diversify foreign currency earnings away from oil.
- Zarcán, a Vancouver-based company, is actively exploring a 30,000 square km territory in Sistan-Baluchistan

Province near the Pakistani border, and has rights to a gold property in NW Azerbaijan Province where they are currently undertaking delineation drilling.

- Cominco is poised to invest US\$250 million in a JV partnership to exploit the rich Angouran zinc deposit.
- Noranda is looking at exploration activities, primarily for copper.

TEHRAN STOCK EXCHANGE AND PROTECTION OF FOREIGN INVESTMENT

*Contributed by Joseph Tavana, Tavana & Associates
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Tehran Stock Exchange has been in operation for over 30 years. Currently, there are over 200 companies quoted on the stock exchange. You can follow the movement of the shares by logging on to www.tse.or.ir.

Foreign individuals can buy shares on the Tehran Stock Exchange and, recently, can apply for protection of their investment under the Law and Regulation concerning the Attraction and Protection of Foreign Investment in Iran. This law and its regulations have been on the statute books for nearly 45 years with little change. The law gives the investor protection against expropriation and allows the repatriation of capital and dividends. The process is long winded and could take as long as six months to complete. The definition of foreign investment under the regulation does not include the purchase of shares of Iranian companies. However, it seems that the Ministry of Finance & Economic Affairs has extended this protection to purchase of some shares on the Tehran Stock Exchange.

FINANCING BUSINESS WITH IRAN

EDC has insurance in place for short-term financing by Canadian Banks for up to one year. The CIBC is the most active Canadian bank in Iran, while the Royal Bank has financing in place (on a pro-active basis) for wheat business only. Both ScotiaBank and TD visited Iran during the past year for the first time in many years. EDC, the Iranian Central Bank and Ministry of Economic Affairs and Finance, after three years of effort, finally reached an agreement in June 2000 on medium-term financing (up to 8-1/2 years), in support of GE Hydro's \$35 million hydro-generator contract. Both sides recognize, however, that this is a model financing agreement that can now be used for other capital projects in Iran. It is also an essential tool to enable Canadian firms to compete for capital projects of which there are currently several under consideration for or expected to seek EDC financing.

On May 18, 2000 the **World Bank** voted on its first loan to Iran since 1994, for sewage and health care projects.

ICBC—ANNUAL GENERAL MEETING

The ICBC held its AGM in Toronto on November 30, 2000. The meeting coincided with the visit to Canada of a major Iranian construction mission led by Mr. Bahaeddin Adab, Member of the Iranian Parliament. Over 80 business people attended the seminar which followed the business portion of the AGM.

ICBC WELCOMES NEW IRANIAN AMBASSADOR

The Iran Canada Business Council welcomes to Canada H.E. Dr. Seyed Mohammad Ali Mousavi, Ambassador of the Islamic Republic of Iran to Canada.

Dr. Mousavi received his Ph.D. in Economics from the University of Durham, England in 1996. He previously served in Ottawa as Charge d' Affaires at the Iranian Embassy from 1986 – 1990 and prior to taking up his position as Ambassador to Canada, Dr. Mousavi was Director General, Economic Policies at the Ministry of Foreign Affairs, Tehran.

Doing Business in Iran – Seminar, Nov. 30, 2000



Under the Chairmanship of Oskar Sigvaldason (left) Dr. Mousavi addresses the Annual Meeting of ICBC in Toronto, November 30, 2000

AN OPEN LETTER TO ICBC

“I had the pleasure of an extensive discussion with Dr. Mousavi, the new Iranian Ambassador to Canada, before he departed Tehran for Ottawa in November, and I extend to him a warm Canadian welcome. We share a large number of common interests and objectives in the economic and commercial relationship, and I look forward to working closely with Dr. Mousavi, whose previous experience in Canada will be of considerable benefit, to consolidate and enhance the existing business ties between Canada and Iran. These ties now encompass not only our well-established trading relationship but extend to two-way technology partnerships and joint ventures, an excellent example of which is Grober’s recent investment with Golshad Industries in Yazd to produce calf milk replace for Iranian and neighbouring markets. There are serious investment discussions taking place as well for the mining and oil and gas sectors, but we are continuing to encourage the Iranian Government to put in place clear, user-friendly guidelines that will provide the required assurances and stability for foreign investors.

The continuing support of the Iran Canada Business Council will

be instrumental in achieving our mutual goals. Dr. Mousavi and I are both looking forward to the visit of a senior Iranian public and private sector delegation to Canada in 2001 to increase the profile of the business potential between our two countries, to bring together the key decision-makers from both sides, and to follow-up on the excellent relationships established and cultivated during the February 1999 ICBC Mission to Iran under the co-leadership of ICBC Chair Dr. Oskar Sigvaldason and then Industry Canada Associate ADM for Operations, Mark Corey. I know that I can count on the ICBC to play its usual pivotal and hospitable role in welcoming our Iranian friends to Canada, as you are indeed doing so well today.

Please accept, Oskar, the heartfelt thanks of myself and the Embassy for the invaluable support provided by you, your board, the ICBC, CME to the mutual commercial interests of Iran and Canada.

Terence W. Colfer
Canadian Ambassador to the Islamic Republic of Iran”

FUTURE EVENTS

2001

January	Tehran	Multi-Publication of Iran International Magazine Special on Canada-Iran Economic and Cultural relations
February 7	Vancouver	ICBC Luncheon Meeting with Iranian Ambassador to Canada
February 8	Calgary	ICBC Luncheon Meeting with Iranian Ambassador to Canada
February	Vancouver	GIS2001 - 10 Iranian companies
March	Toronto	Iranian delegation to the Prospectors and Developers Annual Convention 2001
March	Ont/Man/ Sask	Third Iranian Canola Mission to Canada (TBC)

(for details contact ICBC at 905 568-8300 ext. 230)

FOCUS ON ICBC MEMBER FIRMS

CANADIAN BEARINGS LTD.

Canadian Bearings Ltd. is one of the oldest and largest distributors of bearings and power transmission components in Canada. Over 50 years experience, 32 branches and over 375,000 stock keeping units in inventory are used to serve the leading companies in all economic sectors of Ontario, Quebec and Atlantic Canada. CB has family connections to Iran and chose the challenge of introducing North American style industrial distribution to the Iranian market as a way to find new markets for its services and to assist Iran in the emergence of its economy.

In July 1998, Canadian Bearings opened its office in Tehran. Today the company has a staff of eight and is learning how to modify North American distribution to conditions in Iran. There is tremendous potential in Iran, which has a young population and an industrial infrastructure needing investment and modernization. To tap the potential requires patience, flexibility and good local people. Canadian Bearings is convinced that they are well on their way to achieving their business objectives in Iran.

BTI / QMI

In 1996, **Business Transformation International Services Inc. (BTI)** visited Iran with the objective to identify opportunities to assist Iranian organizations to improve. Although a number of opportunities were identified, the establishment of an internationally recognized and credible ISO 9000 / ISO 14000 / QS 9000 registration and training organization was selected. A partnership with North America largest registrar, Quality Management Institute (QMI), began. An office was established in Tehran in June 1997. Currently QMI Iran has a staff of 25+ employees working in cooperation with BTI , Ajax, Ontario.

In just over two years, QMI Iran has registered over 75 organizations to ISO 9001, 9002 and ISO 14001 making it the second largest registration body in the country in total registrations. This explosive growth is attributed to BTI's focused strategy and QMI's outstanding reputation globally.

With success so evident, BTI is looking to expand its involvement in Iran in the coming months.

CHALLENGES OF THE IRANIAN MARKET

Unquestionably, the biggest challenge of the Iran Canada Business Council and indeed the trade section of the Canadian Embassy in Tehran remains to attract Canadian companies to consider doing business in Iran for the first time. The stereotypical, unbalanced and ill-informed image presented of Iran abroad by the media, and which Iran has until recently been uninterested in modifying, discourages all but multinational or well-informed Canadian companies, or firms with family connections to Iran, to pursue opportunities here. This perception acts as a natural filter but convincing other firms to visit Tehran is an uphill battle. Without exception those who do visit go away with a much more positive view of the country than they had expected: security concerns and negative stereotyping disappears - business is still a challenge but that is just business.

KEY CONTACTS AT THE CANADIAN EMBASSY IN IRAN

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Note: *symbol indicates major sector of activity

Counsellor (Commercial) and Senior Trade Commissioner

Mr. Andrew Shisko

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*Management of commercial/Economic Section

Canadian Wheat Board

*Economic Reporting

*Financial Institutions (EDC, Cdn. Banks, Bank Markazi etc.)

Investment (in Canada) Iran Canada Business Council and counterpart Iran Canada Chamber of Commerce.

Trade Commissioner

Mr. Eric Robinson

Email: eric.robinson@dfait-maeci.gc.ca

Chemicals and Petrochemicals

*Environment

Medical Health and Pharmaceuticals

*Oil and Gas

*Power and Energy

Services (consulting engineering)

Commercial Officer

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*Agriculture

Consumer Products

Education and Cultural Products

*Mining and Mineral Procession

*Telecommunications and Information Technologies

Commercial Officer

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Construction Equipment

Fisheries and Sea Products

Forest Products

*Geomatics

*Industrial Machinery

Instrumentation and Electronics

Packaging

Safety and Security

*Transportation

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