

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION



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„THE INTENTION TO REFORM IS NOTICEABLE“

How the development of the German-Iranian economic relations will be influenced by the election of Donald Trump as US president?

We assume that the result of the US-American presidential elections will not have a great influence on the bilateral economic relations. Whichever president would have been chosen – regarding the German-Iranian economic relations, this issue plays a minor role.

It is not expected, that the new administration is going to introduce sanctions against Iran again. This decision is not taken by the United States alone anyway, because at the Nuclear Agreement participated the 5+1 states (USA, Great Britain, France, China, Russia and Germany).

What factors affect the further economic development in Iran?

There is some work to be done in Iran, a lot of areas are in need of reforms. The biggest concrete barrier to investment is the matter of financial transactions, there are only a few credit institutions that can carry out direct financial transactions.

There is an excessive bureaucracy in Iran, the tax system is not really transparent, internationally valid compliance-rules are difficult to enforce. Legal certainty is not always given. Sometimes the situation reminds me on Russia in the 1990s.

Protectionist measures through the interference of authorities and state-owned enterprises are observed as well. An example: a short while ago a German managing director of a German company was hindered from leaving the country, because before his tenure a tax problem would have appeared. Actions like that do not help to build up confidence.

But an intention to change these things is noticeable– the first reform steps have been taken. Thus, from the next year there is going to be only one exchange rate for the rial. The high unemployment rate should be reduced. The inflation could have already been contained below 10 percent, these are steps in the right direction.

For which industries is Iran of particular interest?

Above all, for mechanical and plant engineering, automotive, the energy sector, and for renewable energies, too. Other noteworthy industries are healthcare, such as construction and operation of clinics, the logistics and the food industry. These branches are probably the most active ones now.

Nevertheless, due to the great catch-up demand of the Iranian economy, the country is of interest for nearly all branches, and German products are highly welcome.

What factors make Iran interesting as a production location?

Iran offers a pool of good personnel companies can draw upon. From a logistical viewpoint, Iran is a favorable location. There is a good access to the neighboring countries, but the most important argument for a production in Iran is certainly the service of the domestic market. With pure exports from Europe, it certainly will no longer be possible to carry it out in many fields.



René Harun

Managing Director of the German-Iranian Chamber of Industry and Commerce in Tehran

So why do just a few European companies produce in Iran?

Iran is very new for the companies, the country and the economic relations are currently in a state of transition, and it is not easy to assess in which direction it is running. The companies are rightly careful with direct investments; the appetite for adventure is limited for many of them due to experience in other countries.

The big hype at the beginning of the year changed in some places to a certain disillusionment. Some have expected more on both sides, a faster development of the Iranian market and a stronger commitment of the European companies. However, some more confidence has to be built up first.

„ZAHLUNGSVERKEHR IST EINE UNSERER WICHTIGSTEN DIENSTLEISTUNGEN“

Many European companies report about problems with payment transactions by doing business with Iran. What are these problems and what are the causes?

Unfortunately, many European and German banks are still cautious with the receipt or the transfer of payments from Iran. Due to the still existing US-sanctions and their incomplete binding interpretation to the lifted extraterritorial Iran-sanctions, banks with US-connections and US-business are actually not ready to enter the payment transactions. The fear of being subjected to penalties by violation is too high yet.

The development in the European banking sector concerning the regulatory requirements should not be forgotten either. The rising standards of FATF (Financial Task Force on Money Laundering) require comprehensive measures from the banks to implement the legal requirements.

Besides the identification of the contract partner, and, when appropriate, of the economic beneficiary (KYC-process), the money-laundering act regulates issues, for which special safety and monitoring measures are needed. The FATF-evaluation currently still considers Iran as a high-risk country, requiring enhanced due diligence at banking transactions.

In addition to compliance with the UN and EU sanctions, increasingly establishing as a political instrument, the support of Iran-business is associated with increased efforts not all institutions want to carry.

Which solutions are available to companies?

Due to our long-standing expertise, we have good correspondence associations with Iranian banks that also predominantly keep accounts at our bank. Therefore, the proceeding of payment transactions from and to Iran is one of our most important services. Furthermore, the branches of Iranian banks in Germany can support Euro-payments from Iran and to beneficiaries in Iran.

The exporters should inquire with their banks if they accept incoming or outgoing payments over credit institutions in Germany, with Iranian state bank background, for the planned business transaction.



Sabine Hummerich

Member of the Managing Board of Europäisch-Iranische Handelsbank AG

Our bank would check on demand if there is a correspondent bank connection with the exporter's bank and build one up, if appropriate.

Also should be mentioned, that regional banks, savings banks and cooperative banks are opening with the wish to support their customers in the export/business with Iran at the local market.

What financing opportunities exist for companies that want to export to Iran or to finance projects on site?

From my point of view, there are less exporting companies looking for a financing, but rather the importers in Iran, awaiting the granting of payment terms or looking for a medium- or long-term investment financing.

The granting of payment terms in a short-term field (up to one year) can be shown by the opening of letters of credit, while for medium-term financing either government guarantees can be considered, or a Joint Venture for a long-term resource allocation. What developments do you expect in 2017 for the Iranian market?

We keep on counting on a high demand at the Iranian market for European products and on a significantly increased business processing based on letters of credit for European and Iranian SMEs.

COME AND VISIT THE COUNTRY AND THE PEOPLE!"

How do you assess the economic perspectives of your company for 2017 in Iran?

I would describe the perspective as „cautiously positive“. A convenient impulse is the intensifying cooperation of Iran with the western partners, especially with Europe, after the settlement of the atomic conflict. The European financial institutions resume cooperation, Hermes guarantees are provided again.

What external factors does the success of your company depend on?

A very important factor of success is the further political and economic stability of Iran.

Not less decisive are the developments in specific practical areas, as for import regulations, issues of the international payment transactions and the bank and export guarantees. The Hermes guarantees have a special meaning for exports to Iran. An interesting question is the further development of the competitive situation with regard to the cheap products from China.

What country-specific barriers companies have to fight with in the Iran business?

There is a whole range of issues impeding efficient business activities.

These include the complicated procedures of registration and foundation of companies. They can be partially explained by the working moral and culture of the public authorities; the bureaucracy is often complicated and inefficient. Approval procedures take much time.



Alirezah Rahimizadeh

Managing Director
of Wirtgen Qeshm Ltd.

The Wirtgen Group is an internationally operating group of companies of the construction machinery industry.

A weak trademark and tradename protection supplies an extremely stiff competitive situation in some branches.

A problematic issue can also be the contract compliance: the agreed measures and processes are not always respected in fact.

Should a removal of these barriers be expected in the coming years?

It seems that the problems are being addressed and the shortcomings are going to be eliminated. A concrete example is the establishment of E-Government, appointed to remove the bureaucracy and to shorten the duration of processes.

At the same time, ERP-systems are set up by authorities, for example, between the central bank and other financial institutions. This is a big step towards a better and equitable recording of the taxable income of the companies.

What advice can you give to European companies who wish to expand their activities to Iran?

Based on my long-lived experience on the Iranian market I can really give some concrete advices to interested companies. The most important of them could be: „Come and visit the country and the people!“. For that, you can join a delegation trip, leading to Iran in a large number in the last time. There is a good opportunity to make valuable new contacts and to collect some ideas.

Very important is the cooperation with consultants or interim managers with Iran-specific experience and competences. They can help to create and to plan an appropriate strategy for Iran right from the beginning, and to implement it if needed – for instance, in issues of business creation and development, staff recruitment and sales organization. This approach, that may be expensive, pays off, because many mistakes can be avoided from the very beginning, and no time will be wasted for unsuitable concepts. In any case, companies should not take the many barriers concerning business with Iran as deterrent. Patience and endurance will benefit. European companies, presented at the local market for years and decades, for the most part with a great success, can prove that.

OVERVIEW

CONSULTING SERVICES FOR THE IRANIAN MARKET

Since „Implementation Day“, Iran is on the top of the priority list of many European companies, and the interest for consulting services concerning Iran was and is correspondingly keen this year.

A big topic is the **recruitment of managing personnel** for the new established representations and subsidiaries of the companies.

At present, sales-related profiles are required all above – the focus for the most companies is currently to analyze the market and to establish or restore contacts to distributors and clients. Experienced managers with financial background and working experience in international companies are also in demand.



Christian Tegethoff

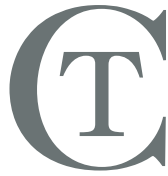
Managing Director of
CT Executive Search

Due to the long isolation of the Iranian market, the identification and selection of candidates is challenging. Companies should approach this topic at an early stage and adjust their expectations to the qualification available on the market.

In cooperation with local partners CT Executive Search also provides/facilitates general services related to market entry:

1. **Legal advice**, for instance in connection with the registration of legal entities, employment and residence-related issues and general contract and corporate law topics;
2. Use of **shared offices and outsourcing** for accounting and payrolls;
3. Market entry consulting: support with the choice of a suitable market development strategy and with the **distribution partner search**.

Against all political and economic uncertainties, for the year 2017 we count on a consolidation of the positive economic trend in Iran and on a growth of the Iranian/European trading volume. The perspectives are especially promising for companies entering Iran at an early stage – the opportunity for that does still exist.



EXECUTIVE SEARCH

EXECUTIVE SEARCH EXPERTS IN ASIA, RUSSIA & CIS

CT Executive Search assists international companies in recruitment for key positions in middle and senior management. We set ourselves apart through a clear focus on the economic area of Asia, Russia and the other countries of the former Soviet Union, and on sectors in which our consultants feel perfectly at home due to many years of experience.

Via structured and documented searches processes, our consultants ensure access to the best candidates on the market. They are experts in cross-border recruitment processes and familiar with the characteristics that candidates require in order to work successfully in multinational companies.

HELSINKI

Partner Office
Paciuksenkatu 27
00271 Helsinki, Finland

MOSCOW

CT Executive Search LLC
Central Office
Shlyuzovaya nab. 8,1
115114 Moscow, Russia
Telephone: +7 499 678 2111
E-Mail: office@ct-executive.com

TEHRAN

CT Executive Search
Iran Desk
Teheran/Berlin/Moscow

SHANGHAI

Partner Office
Suite 919, 993 West Nanjing Rd.
Shanghai 200041, China

BERLIN

CT Executive Search LLC Liaison Office
10117 Berlin, Germany

NEW DELHI

Partner Office
301 Eros Corporate Tower
Nehru Place
New Delhi 110 019

DUBAI

CT Executive Search
Middle East Desk
Dubai/Berlin/Moscow

