

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION



IRAN: FROM EUPHORIA TO REALISM



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“EUROPEAN QUALITY AND TECHNOLOGY ARE HIGHLY VALUED IN IRAN”

To what extent have the high expectations towards Iran’s economic development been met, which were linked to the lifting of sanctions?

After the JCPOA was signed, large parts of the international business world were attracted to Iran. The euphoria within the companies and the expectations towards the Iranian market were enormous. These high expectations were not met. This is mainly due to challenges in the banking and finance sectors.

For many years, Iran has been excluded from international developments and the Iranian banks have had to catch up a long way – especially, in the area of compliance. On both the European and Iranian sides a first disillusionment has occurred after the initial euphoria in the first half of 2016, and the expectations have adapted to reality. What we can now observe is a consolidation of inquiries and projects. The number of companies interested has recently fallen somewhat, but the projects are now being implemented.

What factors hinder the engagement of European companies in Iran?

Probably the most important factors hindering doing business in Iran are payment processing and financing. Although unlisted Iranian banks were linked to SWIFT as of January 16, 2016, direct transfers are still possible with only a few European banks. The same applies to letters of credit, which until now are offered only by a few banks for Iran.

In the project business in particular, financing is a hurdle for European companies. For most European banks, Iranian banks are difficult to evaluate, as they have been isolated for many years by the sanctions. There are also no ratings of international agencies for Iranian banks.

It is therefore essential to establish the required level of trust between banks in the EU and Iran. This, of course, takes time. Asian banks, which often act as an extended arm of the economic policy goals of their governments, are, of course, much less conservative.

In some areas import controls and import tariffs, by which Iran wants to protect domestic companies, represent barriers for doing business in Iran. These issues should not be underestimated. However, it is expected that these obstacles will be relieved in preparation of Iran’s WTO accession planned in 2019.

In which sectors do you see particularly great potential for European companies?

There is a need to catch up on infrastructure, energy, renewable energies, energy efficiency, waste management and environmental technology, water and sewage technology. Here, modernization has been neglected for years. In some cities, environmental problems, garbage and water have already become a political issue. Key industries, such as the automotive industry and petrochemicals, also have an urgent need to invest. In other industries, Iranian companies are very well positioned, e.g. in the pharmaceutical and food sectors. There are opportunities for cooperation for European companies, either on third markets or in order to bring new products to Iran.



Dr. Georg Weingartner

Delegate at the Austrian Trade Office Tehran of the Austrian Federal Economic Chamber (WKÖ)

What developments do you see for the European-Iranian trade in the next three years?

Already in 2016 the EU-Iran trade rose to 13.7 billion euro. Imports to the EU from Iran increased by 345%, as from the beginning of 2016 Iranian petrochemical exports were again possible. Official sources predict GDP growth in Iran to be 4-5% over the next few years. This growth will also have a positive impact on the European-Iranian trading volume. European quality and technology are highly valued in Iran and in many areas of industry the Iranians know very well what is technologically the latest state of the art and also demand precisely these technologies.

Which recommendations would you like to give to Austrian and European companies?

Iran is probably one of the key markets of the future for the EU. The Iranians want to cooperate closely with the EU economically, they have enormous need for modernization and they also have the possibility to finance their projects in the medium and long term.

In order to transform the opportunities to business success, European companies need to show patience and acceptance for Iran and the Iranians. Anyone who works actively with an Iranian partner and, in the best case, provides financing, can build up a long-term business in Iran and secure a market that is unrivaled in the region.

ANALYSIS

SALES MANAGERS WANTED!

Companies from both the capital and consumer goods sectors are currently setting up sales subsidiaries in Iran. Accordingly, marketing and business development professionals are in high demand at the moment.

The Iranian labour market has been changing since the influx of international companies started last year. With regards to managers and executives, the following trends can be observed:

1. Most of the international companies currently prefer to assign **Iranian candidates** to their key positions, rather than seconding expatriates. This is explicable by the fact that most senior positions are currently in sales, business development or marketing, where Iranians have advantages due to their local networks and market knowledge. Interest in expatriates may rise as technology transfer and implementation of corporate standards could become more important for companies in the future.
2. Iranians without a „western“ background, e.g. due to work experience in a European company or studying abroad, are only considered in exceptional cases. Companies expect candidates to be familiar with international business standards, e.g. regarding compliance, reporting and leadership.
3. Relatively few positions in international companies are assigned with **expatriate Iranians** returning to Iran. While expatriate Iranians can be found at company HQs in Europe or elsewhere, not many are prepared to completely relocate back



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to Iran. Moreover, not all of these Iranians were willing or able to maintain their contact networks and keep themselves updated regarding events in Iran, which might put them at a disadvantage compared to "local" Iranians.

4. Many Iranian managers are interested in working in foreign companies. European employers are especially **popular**. They are not only considered more attractive compared to Iranian companies, but also in comparison with Asian enterprises.
5. Executive **remuneration** is still relatively low compared to Europe. However, salaries are on the rise - with the influx of international companies, the demand for skilled candidates is gradually increasing. A competition for high-potential candidates with a technical and sales background is already noticeable, and there is also a lack of financial managers who are familiar with IFRS and international compliance regulations.
6. Foreign companies are competing for the relatively few top-notch candidates, who can frequently choose between several job proposals. Accordingly, their **willingness to move** is high and can be expected to further increase in the future. Experience from other emerging markets shows that loyalty to the employer tends to be low when many foreign companies are simultaneously pushing into the market, competing for relatively few local candidates.

On the whole, however, European companies are still in a good negotiating position in recruiting processes due to their attractiveness. Although competition for talent has toughened, the market is not overheated yet. From a HR perspective, the conditions for entering the Iranian market are still favorable.

OVERVIEW

IRAN: OPPORTUNITIES IN SPITE OF UNCERTAINTY

Since the implementation of the JCPOA, European-Iranian trade relations have developed less dynamically than many have hoped and expected.

On the basis of the EUSTAT figures, German **exports** rose by about 27 percent to 2.6 billion euro for the full year 2016, but this figure is only 8 percent higher than in 2014. Among the most important export goods were machinery and equipment as well as measuring, testing, precision and medical instruments. The EU-28 countries jointly accounted for an export volume of 6.4 billion euros by November 2016. Alongside Germany, Italy, the Netherlands and France are important European exporters.

The macroeconomic indicators for economic development in Iran are comparatively more favorable. The Iranian official **inflation rate** has declined to 7.5 percent in 2016, after hovering at about 40 percent in 2013. The **exchange rate** of the rial to euro and dollar is relatively stable. For the full year 2016, **economic growth** is assumed to be 7 percent; The most important growth driver is the doubling of oil exports after the end of the sanctions. The International Monetary Fund expects an annual economic growth of 4.5 percent in the medium term.

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The lion's share of investment in Iran goes into the **oil and gas sector** - within the next four years, a further \$ 200 billion could flow into the industry.

But other sectors also show a positive dynamic. According to GTAI, the Iranian **automotive industry** is planning to modernize its aging model range and a medium-term production increase to 3 million units per year. This would practically triple the output in 2016/2017. The local producers are in negotiations with a number of European OEMs, as well as several Chinese companies.

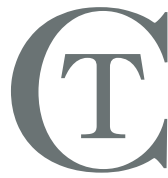
The Iranian **machine-building industry** suffered during the years of sanctions under the weak investment activity and the strong competition from abroad, especially from China. The Chinese suppliers have now in their turn to fight with the European products again available on the market. The entire machine-building industry is still waiting for a noticeable strengthening of the capital goods investments.

According to GTAI, the Iranian **construction industry** could return to the growth path after a nearly five-year recession in 2017, provided that the numerous planned projects are actually implemented. Here too, the problem is the problematic financing of the ambitious projects in rail transport, the metro system, airports and port construction. Numerous hotel projects are still expected after the **tourism industry** has already had a very successful year in 2016.

Iran has high hopes in the further development of the **metal industry**. An investment volume of 40 billion euro is expected here for the next four years, with the funds being invested primarily to produce steel, aluminum, copper and zinc. Correspondingly, there are opportunities for European EPC companies and their suppliers.

In the **food industry**, a growing commitment by international companies is expected while the market is still dominated by Iranian producers. The international corporations already represented in the country will certainly expand their capacities. Imports of processed foods are unattractive due to relatively high duties, encouraging direct investments.

Thus, Iran can once again become an important market for the European economy, especially if the existing barriers to the financial sector and in the political sphere can be overcome.



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