

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

IRAN



## IRAN: DRIVING ON SIGHT



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## “THERE IS NO TOTAL EMBARGO”

### **How does the US withdrawal from the nuclear agreement affect the work of European companies in Iran?**

The consequences are rather negative for the companies, and much of the business becomes more difficult. Some companies and banks have already announced their intention to withdraw from Iran.

But there are also companies that want to continue. These usually have no activities in the United States. However, they are indirectly affected by the situation, for example because money transfers with Iran are becoming more difficult.

Nobody knows exactly what happens under the sanctions. In the worst case, companies can end up on US sanctions lists, which is sort of the worst case scenario. Then things will be difficult for such a company, because some banks and companies may want to stop doing business with it.

The goal of American action is to create insecurity. Precisely because the concrete consequences are unknown, companies should be led to keep their hands off the Iranian market. Each company must individually check with the help of lawyers, which risks it takes and then decide on this basis.

### **How do companies react so far?**

The AHK needs to provide a lot of legal information, but I do not see any panic. Many want to fulfill their contracts until the 4th of November and then wait and see how things develop. Some want to continue in Iran as long as Germany and the EU stick to the nuclear agreement. But as I said, panic is not recognizable.

### **How did the Iranian people take the American step?**

The population sees the topic even more relaxed than the companies. For the Iranians, all this is nothing new, they have been used to it for the last 40 years. There are also plenty of internal issues, such as inflation, the devaluation of the rial and the water problem in many regions. For many Iranians, sanctions are not a superficial, pressing problem.

### **How effective are the EU's announced measures to protect European companies from US penalties?**

The measures announced so far are neither practical nor effective. It was important that the political signal came, that was constructive. But there are still missing practical solutions. For example, companies need banks to finance and settle payments. The companies need planning security. The announced measures are not feasible and plausible. The EU is currently working with the Iranian government to solve the problems in the financial sector and with Iran's oil exports.



**Amir Alizadeh**

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

## What further economic development do you expect in Iran?

It gets difficult here. There are really massive challenges, such as unemployment and inflation. The sanctions further make it difficult to address these issues. Iran needs the money from oil sales, including for investment.

The EU still wants to buy the oil, but how should payment be handled? The actual proposals involve many difficulties. So far, no answer has been found on how these issues will be solved from November on, when the sanctions come into force.

## What do you recommend to foreign companies?

Do not panic, do not make hasty decisions! First of all, unlike in 2011, we are not dealing with UN and EU sanctions. Nor are they sanctions against the whole economy, but only against certain sectors. There is no total embargo.

Payment channels are complicated, but the opportunities in the unsanctioned sectors are huge.

Even sanctioned areas offer opportunities on closer inspection. And there is hope that the EU and Iran will come up with something together.

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## “WE ARE ENGAGED IN SCENARIO-DEVELOPING”

### How do you notice the American exit from the nuclear agreement in your work?

The step has caused many questions and uncertainties, the information requirements of foreign companies is huge. However, according to my impression, the overwhelming majority of German and European companies continue to do business in the Iranian market. We also perform registrations of new companies, for example in the transport sector. For example, one of our new clients specializes in logistics issues related to the import of pharmaceuticals.

We expect companies with US ownership shares to close. Especially in the automotive industry as well as among oil and gas service providers, many company retreats can be observed. Other companies set up Iranian companies and become local. At the moment, we are mainly engaged in the development of scenarios to show companies their options against the background of their concrete business and risk profile.

In addition to the sanction topic, questions of tax and social security law arise when thinking about the further design of the Iran business. Companies with a large presence in the US usually opt to withdraw from Iran by 4th November at the latest. But many German companies want to wait at least until the end of the year and then decide how to proceed.



### Alireza Azimzadeh

Managing Partner of the legal and business consulting firms Persia Associates and Persia Consulting / Senior Advisor of CT Executive Search

## **Which services are in particular demand in the current situation?**

Especially legal and tax advice. These topics are also important in liquidations or the “hibernation” of branches. In the latter case, the companies need a representative, which can also be a lawyer, who then acts as a “door keeper”.

Another problem is the money transfer. How do you get money into Iran to pay bills? In fact, there is a financial embargo that is ignored only by individual banks, such as German small banks.

Companies should pay their bills in Iran in any case, so as not to leave a scorched earth behind. As a rule, companies do not leave Iran overhasty and without angering the authorities, because they do not want to break their long-term opportunities.

## **Which companies are currently involved in Iran? Is this only about sales or are you working on direct investments?**

The government is talking about an increase in foreign direct investment by 48 percent, but you can not allocate that number. None of our clients made direct investments.

There have been a number of joint ventures with Iranian partners, but here, too, most companies are stepping on the brakes. The future of many joint ventures is not clear. Many foreign companies find it hard to get Iranian project approved at the headquarters.

## **For which sectors do you currently see potential in Iran?**

In the consumer goods sector there is basically demand. However, after the Iranian New Year, Iran introduced a foreign exchange regime that turned out to be an own goal. As a result, there is not sufficient foreign currency for the import of luxury and household products, the rial has lost much of its value.

The foreign exchange regime and central bank policy make imports very complicated. Local companies can at least circumvent some of the problems.

The problems that companies face when dealing with the Ministry of Health are one of our main issues. Imports of pharmaceuticals are barely profitable, so that non-vital drugs are becoming rare. In particular, imports of products that are also produced in Iran are affected by state measures.

It is therefore always necessary to check whether local competition exists. However, the complicated rules also allow benefitting from prosperous niches. The political problems deter many companies - and thus competitors, with whom you compete in other markets. Those who are not afraid and despite all challenges determined to go forward, can be successful.

## GREAT INTEREST IN EUROPEAN EMPLOYERS

Although the European economy remains keenly interested in Iran, the US exit from the nuclear deal has noticeably cooled sentiment.

Most international banks had already previously refused to provide Iran financing or even payment services, which had complicated business.

The demand of European companies for executives has developed accordingly. After the massive demand spike two years ago, interest in recruiting managers in Iran has declined.

Most of the direct investments planned two years ago were never implemented. However, foreign companies usually stick to their sales offices, which they often have recently installed or re-activated.

Sales-related positions are almost exclusively filled with Iranians, who should bring along a „Western“ background, for example through work experience in a European company or study abroad. Companies expect candidates to be familiar with the way international firms operate - and with it, the sensitive issues of compliance and matrix reporting.

The share of the much-vaunted expatriate Iranians among the executives of international companies in Iran has remained de facto low. One reason for this is their general reluctance to return permanently to Iran. With the latest deterioration of the foreign policy situation and the US withdrawal from the nuclear agreement, a career in Iran has lost its appeal to many.

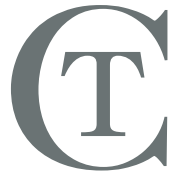
The interest of „local“ Iranian managers in a position in a foreign company is great. It is striking that European employers are not only more attractive to most Iranians than local companies, but also Asian companies. The willingness to change from an Iranian or Chinese company to a German or French company is correspondingly high. The change from a local distributor to an international OEM is usually understood as progress.

All in all, European companies are therefore in a strong position in the recruitment process. From a HR perspective, the conditions for entry into the Iranian market continue to be favourable.



**Christian Tegethoff**

Managing Director CT Executive Search



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