

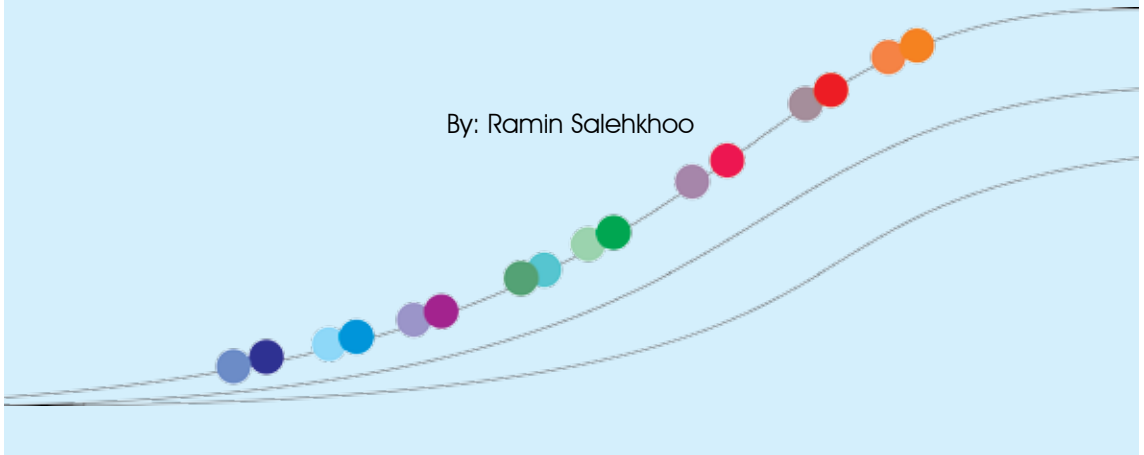


Iran Chamber of Commerce, Industries & Mines

The Islamic Republic of
IRAN
BUSINESS GUIDE

Edition 2011

By: Ramin Salekhoo





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Iran Business Guide

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June 2011

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Foreword



Pundits have increasingly labeled the Iranian economy as a “transition economy”, as evidenced by the fact that in the last few years, a massive economic liberalization program has been underway.

The removal of resource sapping subsidies in all sectors of the economy, lifting of price controls on a number of goods, and the removal of tariff and non-tariff barriers in key sectors are all indications of these steps.

Complementing these steps however, has been the implementation of the largest privatization directive in Iranian history. In accordance with a privatization decree issued by the highest authority in Iran, combined with a ground breaking reinterpretation of Article 44 of Iran’s Constitution, which, in past readings, was deemed to limit private sector participation in key sectors of the economy, Iran’s economy has indeed been undergoing a major ‘transition’.

The effects of these steps can be seen in a broad cross section of the Iranian economy. In the past, state entities were responsible for over 60% of Iran’s GDP. By the year 2010, this figure has fallen to less than 45%. During the same period, Iran’s GDP increased from \$361.2 billion in 2009 to \$416.1 billion in 2010 and is predicted to reach \$449.1 billion in 2011.

The Tehran Stock Exchange, the main conduit for the privatization process, with a valuation of over \$81 billion, and 1.2 billion shares traded daily, in 2010, reached its highest growth level in the forty three years since it was established, in the process, becoming ranked by the World Federation of Exchanges (WFE) as the world’s second best performing equity index. At the present time, companies encompassing over forty different industries are listed on the Tehran Stock Exchange.

A key element of Iran’s economic strategy has been the development of non-oil exports. In the year 2005, non-oil exports generated only \$7 billion in income, whereas in 2010 this figure was just under \$30 billion, reflecting an annual increase of nearly thirty percent per annum.

However, all of these achievements would not have been possible, had there not been the development and active presence of a thriving private banking sector facilitating macroeconomic stabilization and private banking. Following ground breaking legislation in 1998, allowing the private sector to establish private banks for the first (since the 1979 Revolution), sixteen private (and privatized) banks are now active in Iran, with a further forty applications now under review. With over \$100 billion in hard currency reserves and record levels of gold deposits, Iran has been ranked 14th among 138 countries in foreign exchange reserves, ranking Iran 17th globally based on gross domestic product.

The 'transition' in the Iranian economy however is much more far reaching than the simple implementation of privatization measures and the execution of broad based macro-economic policies. Following a demographic population boom between the years 1976 to 1986, Iran's population of seventy five million is now symbolized by its youth, with some 45% of the population under the age of fourteen and a further 26% between the ages of fifteen and thirty years of age.

As a result of this demographic shift, Iran is now reaping the benefits of a "demographic dividend", the economic theory that when young working age adults comprise a disproportionate percentage of a country's population, the national economy is affected in positive ways, as was the case in East Asia when the demographic dividend drove one third of the region's economic growth between 1965 to 1990. One of the key elements of a demographic dividend are innovation and rapid growth. As can be seen in Chapter One of this publication, scientific output in Iran has grown eleven times faster than the world average. Concomitantly, with over eight hundred thousand people entering the work force each year, demand for all manner of capital goods, ranging from cars to house hold appliances are increasing rapidly every year, enabling Iranian companies to reach economies of scale which afford them the opportunity to compete globally, as evidenced by the global rankings of two of Iran's automobile companies and the recent takeover of a leading Korean electronics group by an Iranian company. As a result of the composition of Iran's demographics, it is foreseen that by the year 2050, the bulk of the Iranian population will reach their peak purchasing power, resulting in an almost linear demand curve for all manner of goods for years to come.

As with the transition that the Iranian economy is experiencing, the Iran Chamber of Commerce of Commerce, Industries and Mines is also experiencing a major transition. As we celebrate our 127th year of existence, the Chamber is now becoming directly involved in the national economic decision making process, as highlighted by, inter alia, the fact that the Chamber is now a member of the General Assembly of the Central Bank of Iran.

It is within this context that we are pleased to provide this publication at such a unique juncture in Iran's economic history. Not only are many of the points in this introduction highlighted in the publication, but, as one will see, Iran's locational attributes, skilled manpower, rich resources and geo-economic positioning all serve to highlight Iran's position in the global economy.

Dr. Mohamad Nahavandian
President of Iran Chamber of Commerce, Industries & Mines

June 2011

A General Overview

- Iran's History as a Trading Nation
- Modern Iran
- Key Cities
- Climate and Topography
- Demography and Education
- Educational Trends
- Gender Economics
- Ethnicity, Language and Religion
- Political Structure
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- The Executive Branch
- The Legislative Branch
- The Judiciary



Iran's History as a Trading Nation

Since the beginning of the 4th Century B.C, Iran has been at the forefront of trade. This history can be traced back to the days of the Silk Road, the famous historical trade route between the Mediterranean Sea and China. The most famous traveler of the route was none other than Marco Polo of Venice.

This ancient route passed through Ekbatan (today the city of Hamadan in Iran) and modern Saveh, located 120 km. from Iran's present day capital, Tehran - the place where Marco Polo reportedly saw the tombs of the three Magi who had visited Jesus of Nazareth.

When the Silk Road was at the height of its glory, the Persians acted as middlemen in the trade of goods, in particular, the trade of brilliant fabrics, buying from those who brought them from the East and selling them on to the West. Eventually, the main route and numerous feeder routes crisscrossed Iran, from Saveh, the road continued to the city of Rey (on the outskirts of modern day Tehran), the religious capital of ancient Media. Further to the east, it passed through Parthia

and reached Hecatompylus (proximate to the city of Damghan in Iran) and Susia (near Mashhad). Here the road forked and the southern branch went through the Arian capital Artacoana to Kapisa (today's Herat and Kandahar in modern Afghanistan), and from there either to the southeast to the Lower Indus or to the northwest to Gandara (the valley of the Kabul) and the Punjab.

Modern Iran

In light of this rich history, the land which today is modern Iran, continues the tradition of being a vital link in regional trading equations. Modern Iran, officially the Islamic Republic of Iran, possesses the largest market in the Middle East, with a population that exceeds the combined total of all of its southern neighbors in the Persian Gulf. Strategically located between the growing markets of Pakistan, Afghanistan, Iraq, Turkey, not to mention the littoral states of the Persian Gulf, Sea of Oman and the Caspian Sea , with a span of 1,648,000 square kilometers, Iran is five times the size of Italy and equals the total areas of England, France, Germany, Belgium, Holland and Denmark combined.

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Iran has thirty provinces, 241 towns and 678 cities with close to 60% of the population residing in urban areas. Iran is experiencing tremendous growth in its urban areas and, on average the number of new towns is increasing by 12% per annum, the number of new roads by 7.3%, freeways by 56%, highways by 48%. At present, Iran has the 28th largest road network in the world.

This growth is exemplified by unique demographic trends covered elsewhere in this Chapter.

Key Cities

Companies looking to set up regional centers for their business activities require at least three key criteria: geographic proximity to intended markets, first rate infrastructure and world class support staff. Complementing these factors is the comfort of life in the prospective location. For a company seeking all of the above and wishing to position itself for success in the midst of one of the largest consumer markets in the world, a company

need not look any farther than Iran's major cities such as Tehran – the capital; Isfahan – a city renowned worldwide for its beauty; Mashad a strategic geo-economic link to the markets of Central Asia and Tabriz, a city unique for historically being at the forefront for economic and social development, all of which, due to their unique attributes, have emerged as regional hubs for business.

Tehran, the capital of Iran for over two centuries, has emerged as a fascinating and cosmopolitan capital city, backed by an intelligent support network in the logistical heart of the Eurasian continent. The capital is backed by large scale distribution facilities and direct speedy connections to road, rail and air networks, and supported by a modern international airport -

In terms of comfort of life, Tehran has been repeatedly recognized by the Economist Intelligence Unit (EIU) as the second least expensive capital for doing business in the world, and the least expensive capital in the Middle East.

Imam Khomeini International Airport ('IKIA') with a storage capacity of 700,000 tons of cargo, a special handling area for the transit of goods combined with the ability to handle twenty million passengers per annum. Concomitantly, the recent commissioning of the Tehran subway has successfully linked all major urban and business districts as well as outlying

industrial and urban areas such as Karaj.

In terms of comfort of life, Tehran has been repeatedly recognized by the Economist Intelligence Unit (EIU) as the second least expensive capital for doing business in the world, and the least expensive capital in the Middle East. The EIU survey, compiled for use by companies in determining expatriate compensation, bases evaluations on the purchasing power of a citizen of a country, and is a comparison of the cost of maintaining a typical international lifestyle in the country, rather than a comparison of the purchasing power of a citizen of a country. As such, the index is based on typical urban prices an international executive and family will face abroad. The prices are for products of international comparable quality found in a super market or department store and not local markets or bazaars unless the available merchandise is of a specified quality. Furthermore, utilities costs in Tehran are just five percent of the rates in New York, seven percent of those in Dubai and 16% percent of those in Cairo and Istanbul. Labor costs have been found to be forty percent less than those in New York. The study further pointed out that in terms of transportation costs, Tehran has the cheapest costs in the Middle East, between twenty to sixty percent of comparative costs in comparison to other Middle Eastern capitals, and only one third of the cost of transportation in New York. Overall, it is of note that while the average cost of an entire family basket in the Middle East is fifty to seventy percent of that in New York, in Tehran it is just thirty eight percent of that in New York.

In comparison with other capitals, and using New York as a base index, Istanbul came on top as the most expensive city in the Middle East followed by Dubai where every item except food was found to be more expensive than major capitals such as New York, London and Tokyo. Concomitantly, utilities costs in Tehran are just five percent of the rates in New York, seven percent of those in Dubai and 16% percent of those in Cairo and Istanbul. Labor costs have been found to be forty percent of those in New York. The study further pointed out that in terms of transportation costs, Tehran has the cheapest costs in the Middle East, between twenty to sixty

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The combination of geo-economic positioning, first rate infrastructure and quality of life would be incomplete if not backed by world class local staff. In Tehran there exists a wide availability of young, well educated bi-lingual and multi-lingual work force groomed by Iran's top notch university system. Tehran stands at the apex of a major international trade route, combined with a developed capital market, strong infrastructure, low business costs, educated work force and cultural acceptability leads to the fact that Tehran stands alone among its neighbors in the region as a modern city serving as the hub of one of the world's largest markets.

Mashad is the second largest city in Iran. It is located 850 kilometers (530 miles) east of Tehran and strategically located proximate to the borders of Afghanistan and Turkmenistan. With a population of over two and a half million, its favorable climate, large pool of skilled manpower and abundant natural resources have made the city a major trading and industrial hub.

Though the city has no direct access to ports, the city has gained a central role as a transit and warehouse center for goods destined for the markets of Central Asia and the Caucasus. This has been facilitated by the linkage of Mashad's rail lines to the Bafgh Bandar – Abbas rail line in 1995 (covered elsewhere in this book). The transit of goods has been facilitated by numerous warehouses, including several refrigeration plants with 6000 ton freezers enabling the storage of perishables. The city's rail links are complemented by air links via Mashad International Airport, the second largest in Iran.

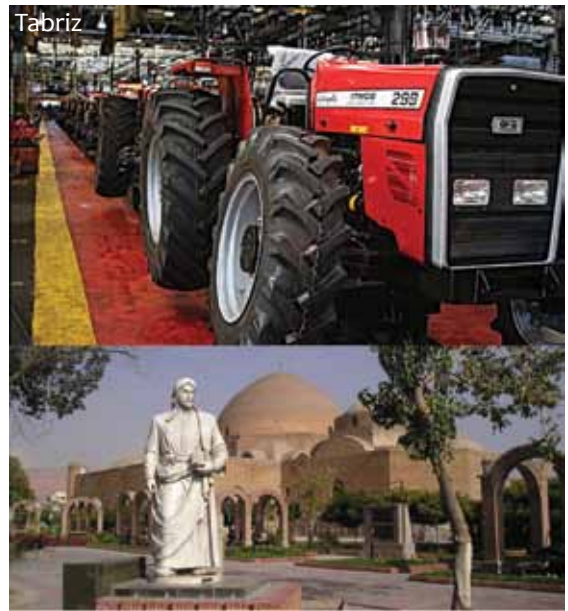
Mashad's Ferdowsi and Azad University are unique in that they have close relationships and student exchange programs with their counterparts in Central Asia and the Caucasus, thus providing companies setting up operations in the region not only access to a young educated workforce, but also acculturation to the economies and cultures of regional markets



as well. These steps have been backed by the establishment of a science and technology park with the objective of providing first rate research and development activities as well.

Mashad is also one of Iran's leading tourist hubs. The second largest holy city in the world, Mashad attracts more than 20 million tourists and pilgrims every year, many of whom come to pay homage to the Imam Reza shrine (the eighth Shiite Imam). It has been a magnet for travelers since medieval times.

Tabriz is the fourth largest city in Iran, and the second largest industrial city. It is the capital of East Azerbaijan Province. It was the second largest city in Iran until the late 1960s, and was once the capital of Iran. The city has emerged as one of Iran's leading commercial, industrial, and transportation hubs. Due to its location as a western gateway of Iran, many modern developments have been adopted first in this city, leading to its moniker as a "city of firsts". These include:



Due to its location as a western gateway of Iran, many modern developments have been adopted first in this city, leading to its moniker as a "city of firsts".

- Iran's first printing house was founded in Tabriz (1811).
- Iran's first modern school was founded in Tabriz.
- The first Iranian special school for deaf children was founded in Tabriz.
- The first Iranian special school for blind students was founded in Tabriz.
- The first Iranian kindergarten was founded in Tabriz.
- Iran's first modern-style municipal government was set up in Tabriz.
- Tabriz Chamber of Commerce was the first of its kind in Iran (1906).
- The first public libraries in modern Iran were founded in Tabriz.
- Iran's first cinema was founded in Tabriz (1900).
- Tabriz was the first city in Iran to install a telephone system (about 1900).

As the second largest industrial city in Iran, it has emerged as a manufacturing hub for industries

as diverse as machinery (heavy and light), vehicles, petrochemicals, chemicals, refined petroleum products cement, electrical and electronic equipment, home appliances, textiles and leather, food and dairy factories and woodcraft.

One of the keys to the success of Tabriz is the availability of first rate educational facilities as Tabriz is a site for some of Iran's most prominent universities. The main university of the city is University of Tabriz established in 1947. The University of Tabriz is the most prestigious university in north western part of Iran. The University is complemented by five other public universities with their campuses in the city and numerous technical colleges and vocational training centers.

Complementing these key attributes is first rate infrastructure. The city is in the final stages of completing an east-west metro line while the city itself is linked to Europe through Turkey at the Bazargan border via Turkey by the Ghotour Bridge.

Tabriz International Airport opened in 1950 due to the quality of its services, became the first airport in Iran to be awarded ISO 9001-2000 certification. Its international air routes include, inter alia, London, Paris, Dubai, Istanbul and Baku.

Isfahan is believed to have a history of over 2,500 years and with its fine art, delicate architecture and atmosphere is symbolic of Islamic Iran. With a population of over one and a half million, it is Iran's third largest city.

Isfahan is located on the main north-south and east-west routes crossing Iran, and was once one of the largest cities in the world. It flourished from 1050 to 1722, particularly in the 16th century under the Safavid dynasty, when it became the capital of Iran for the second time in its history. Even today, the city retains much of its past glory. It is famous for its Islamic architecture, and boasts a UNESCO World Heritage Site.

Notwithstanding its fame for its architecture and beauty, it is also a hub not only for the production of steel, alloys, textiles, but also aerospace, where Iran's first domestically manufactured passenger plane, the Iran 140 is manufactured.



The city has an international airport which handles domestic flights to Iranian cities and international flights, mostly to regional destinations across the Middle East and Central Asia. The city is expected to inaugurate its first metro line first line by the end of 2010 with 21 km length and 20 stations. Isfahan is connected to three major rail lines: Isfahan-Tehran, Isfahan-Shiraz, Isfahan-Yazd and Isfahan to Bandar Abbas to Zahedan. Isfahan is connected by modern highways to Tehran at 400 km North and Shiraz at about 600 km south as well as all its satellite small cities surrounding the metropolitan in different directions.

The city boasts numerous universities including the renowned Isfahan University of Technology. Complementing the university system are over fifty technical and vocational centers, many of which offer their services free of charge.

Isfahan is a sister city with numerous renown cities across the world, including, Barcelona, Freiburg, Venice, Istanbul, Yerevan and Florence.

Climate and Topography

“ My Fathers Kingdom extends far to the South where man cannot live because of the heat and northward to where he cannot live because of the extreme cold” – Cyrus the Younger, Son of Cyrus the Great, circa 548 B.C

The above quote still rings true today as Iran

is one of the few countries in the world that due to its size and geography, one can experience all four seasons at the same time, varying from the sub-tropical to the sub-polar. The country's diverse climate can be categorized within the following climatic zones:



1- The lush Caspian littoral is characterized by heavy precipitation and deep hardwood forests. The Caspian Sea, with a surface area of 424,240 sq. km is the largest landlocked body of water in the world.

The Caspian is rich in fish, including sturgeon, the source of Iran's famed caviar. The Caspian has several major ports, including Anzali, Noshahr and Turkman.



2- Three chains of mountains cross Iran mountainous regions of Iran. Centered on a triangular central depression, the areas are known for their extreme cold. The central range, runs roughly to a diagonal from Lake Rezaieh to Kerman and reaches a height of 14 to 15,000 feet in the Yazd and Kerman areas. The western mountains of Iran, known as the Zagros range, run from the northwest in Kurdistan to the southwest and span over 992 km length and 192 km in width, passing through Fars province to Baluchistan.

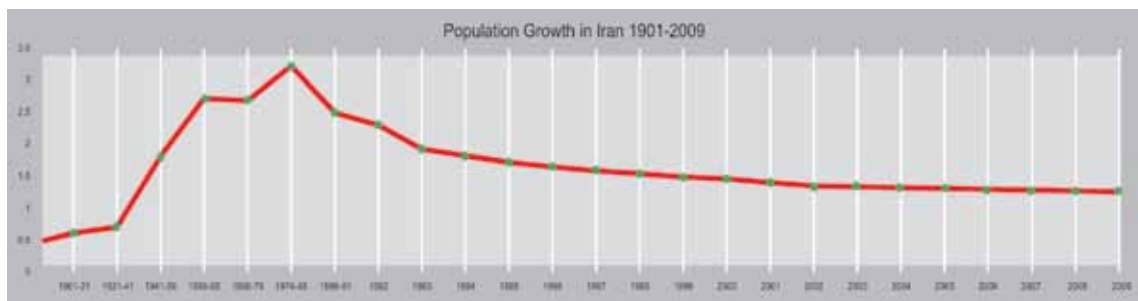
Below the pastures on the higher slopes of these mountains are dense forests of oak, walnut, almond and pistachio. Lower down in the high valleys, produce as diverse as pomegranates and figs are grown as well as extensive cultivation of wheat and barley. The northern part of the triangle is covered by the Alborz mountain range, a continuation of the Asia Minor and Caucasian mountain regions, of which its highest peak,

Mount Damavand, stands at some 5,699 meters. The Alborz range separates the northern coastal areas of the Caspian Sea with its lush vegetation from the desert regions of the interior, and fuses with the Hindu Kush and the Himalayas. From the western end, the Alborz range reaches Iranian Azerbaijan, a densely populated area with fertile valleys where wheat, cotton, rice and tobacco are cultivated. To the east, the Alborz range forms the mountains of Khorasan, wherein lie exceedingly fertile valleys in which wheat, barley, rice and cotton are grown.

3- The climate of the southern coastal region of the Persian Gulf which is characterized by its palm groves, low rainfall, high heat and humidity levels and moderately warm waters. The Persian Gulf extends from the Hormuz Strait sweeping in a northwesterly direction. Extending some 800 km., it covers an area of some 250,000 sq. km. and is at some points some 100 meters deep. Important islands in the Persian Gulf include the free trade zones of Qeshm and Kish (which are explored in Chapter 3 of this book), the oil terminals of Khargh, Lavan and Sirri and the islands Greater and Lesser Tumbs. The Sea of Oman, which is in fact an extension of the Indian Ocean, joins and becomes the Persian Gulf at the Hormuz Strait.



4- The climate of the central plateau with lengthy hot and dry periods and barren stretches of desert. Two great deserts occupy the central plateau and are characterized by extensive deposits of minerals, including chlorides, sulfates and carbonates.



Demography and Education

Between 1976 – 1986, Iran underwent a fundamental demographic shift, experiencing an average population growth rate nearing 3.85% per annum, one of the highest rates in the world during this period. As a result, Iran's population has doubled from approximately thirty million inhabitants to a current population level of approximately seventy million. Widespread and effective implementation of family planning programs have now reduced population growth to less than 1.2% per annum with a resultant drop in average fertility rates. As a result of this population growth rate, Iran has now emerged as the most populous country and the largest market in the Middle East.

Iran's population is now symbolized by its youth, with some 45% of the population under the age of fourteen with a further 26% between 15 and 30 years of age.

Based on these unique demographics, Iran is poised to take advantage of a 'demographic dividend'. First coined by noted demographer David Bloom, this theory proposes that when young, working age adults comprise a disproportionate percentage of a country's

Iran is poised to take advantage of a 'demographic dividend'

population, the national economy is affected in positive ways. By way of example, in East Asia as a whole, the demographic dividend drove one third of the region's economic growth between 1965 to 1990. As a result of the resulting demographic dividend, young workers have a tendency to diverge from traditional career paths into more entrepreneurial paths and when these risks pay off, the results for the economy are innovation and rapid growth.

according to the Canadian data-analysis company 'Science Metrix', scientific output in Iran has grown eleven times faster than the world average.

By way of example, according to the Canadian data-analysis company 'Science Metrix', scientific output in Iran has grown eleven times faster than the world average. Based on a report titled "Geo-Political Shifts in Knowledge Creation" published by the said company, the study states that Iran is experiencing the highest rate of growth worldwide in science. The report further states that "Iran's publications have emphasized inorganic and nuclear chemistry, nuclear and particle physics as well as medical and agricultural research". These achievements have been evidenced by the fact that in January 2010, Iran became the first country in the region

SHEEP CLONE

In January 2010, Iran's first transgenic goat was produced by researchers at Iran's famed Royan Institute. According to the Federation of European Laboratory Animal Associations, transgenic animals are defined as those that have undergone genome modifications, the genetic makeup of an organism responsible for inherited characteristics. One of the objectives of such activities is to produce animals that contain the gene for producing tissue plasminogen activator (tPA) which is a thrombolytic agent (clot busting drug) approved for use with patients that suffer from heart attacks and strokes, in effect, dissolving blood clots which are the cause of such problems. This drug is now slated for mass production.



In 2006, Iran became the first country in the Middle East and among the few countries in the world to gain access to cloning technology with the cloning of a sheep.

IRAN RANKS 15TH IN NANO-TECHNOLOGY ARTICLES

Iran has been ranked 15th in the world for Nano-Technology Articles. Iran has emerged as a world leader in this rapidly growing scientific field, as evidenced by numerous breakthroughs, including, inter alia the production of the first nano-organic iron chelated fertilizer in the world and the production of nano-fibers with new morphologies via the synthesis of functional aureole nano-fibers.

A DEMOGRAPHIC DIVIDEND: DEMAND FROM YOUNG NEWLYWEDS FOR TELEVISION SETS EXCEEDS 800,000 UNITS PER YEAR – CONSUMER ELECTRONICS DEMAND EXCEEDS \$8 BILLION.

Iran’s ‘demographic dividend’ is not only fueling rapid developments in the sciences, but also is creating huge demand across the board for consumer and capital goods. Iran’s domestic consumer electronics market, including computing devices, mobile handsets and video, audiovisual and gaming products is forecast to be worth over \$8.2 billion in 2010 and is expected to increase to \$10.8 billion in 2014 driven by the growing popularity of flat screen television sets and on-going expansion of the retail sector. According to Business Monitor International, Iran’s steadily increasing population will sustain private consumption growth, while consumer electronics spending will also be driven by new technologies and expanding internet and mobile telecoms penetration (see adjoining box “Iran’s Demographic Dividend and the Information and Communications Technologies (ICT) Sector”)

According to statistics from Iran’s Ministry of Industries, demand for television sets alone topped 1.6 million units, with a staggering half of this demand being driven by newlyweds. What is even more remarkable is that demand for television sets is rising by twenty percent per annum as more and more Iranians enter the workforce and increase their purchasing power. It is estimated that demand for television sets alone in 2011 will top two million units with 1.4 million being manufactured by Iranian companies.

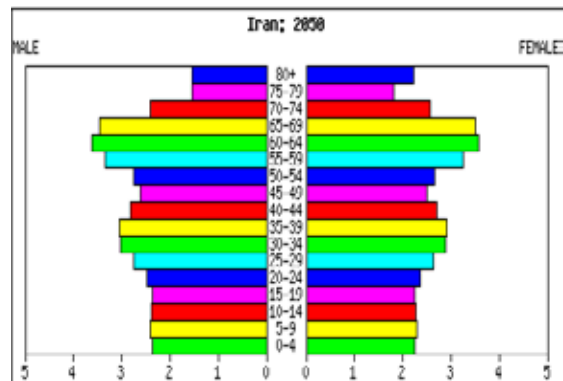


Iran’s steadily increasing population will sustain private consumption growth

Such growth has allowed Iranian companies to achieve economies of scale that have enabled them to expand globally. One group, Entekhab Industrial Group, has successfully acquired Korea’s Daewoo electronics for \$518 million. The buyout by the privately owned Iranian company came amid heavy competition from Sweden’s Electrolux. Entekhab, which is located in Isfahan, produced washing machines, televisions and refrigerators.

In the period of the Iranian fiscal year March 2008 to March 2009, Iran exported \$180 million of home appliances, an increase of 115 % over the preceding year. In the first half of the Iranian year commencing March 2010, Iran exported \$75 million of home appliances reflecting a further growth of 26% against the corresponding period in the preceding year. It bears mention that over 75% of the raw materials required for Iran’s home appliance industry are produced locally.

to produce transgenic animals and in February of the same year launched a satellite into space with living organisms. At the same time, Iran has become one of the few countries that have achieved the technology to clone animals. In terms of Information Technology skills, an earlier report by the international skills certification company ‘Brainbench’ cited that the number of certifications received by Iranians for information technology skills has even surpassed advanced countries such as Japan.



Concomitantly, another opportunity provided by Iran’s demographic dividend is the fact that

17-YEAR RISE IN LIFE EXPECTANCY

Life expectancy has increased by 17 years following Iran’s 1979 revolution. In 1979, life expectancy stood, on average at 56. At the present time, life expectancy in Iran stands at 73 years for men and 74 for women

IRAN'S DEMOGRAPHIC DIVIDEND AND THE INFORMATION AND COMMUNICATIONS TECHNOLOGIES (ICT) SECTOR

One of the benefits of Iran's demographic dividend has been the rapid growth of the ICT sector. As mentioned earlier in the chapter, the number of certifications received by Iranians for information technology skills has surpassed even Japan. In 1993 Iran became the second country in the Middle East to be connected to the internet. Iran is among the first five countries which have had a growth rate of over twenty percent and the highest level of development in telecommunications.

Iran currently has the most internet users in the Middle East / North Africa (MENA) region, with 57 users per 100 inhabitants. The gaps between Iran and the MENA countries further widens with Iran registering 41.1 million users with Egypt coming second with 12.6 million users. When examined relative to population size, the widest access to the internet was found in Iran, followed by the UAE. Globally, Iran has been ranked 17th in the number of internet users, with 1.6% of internet users worldwide being Iranian. Fifty three percent of Iranian villages are connected to the internet and there are sixty three million fixed and mobile phone users in Iran, and Iran has been awarded the UNESCO special certificate for providing telecommunications services to rural areas.

The rate of growth in Iran's mobile market has been remarkable, and as mentioned earlier, in the period of 2006-2007 alone, the number of mobile phone subscribers doubled from 14.33 million to 28.51 million, overtaking Saudi Arabia to become the largest mobile market in the Persian Gulf region. In absolute terms, no market in the region gained more new connections than Iran. This extraordinary growth (a 98.9% annual increase) can be attributed to the launch of Irancell, the second company to be awarded a national (as opposed to limited and regional based licenses) cellular license by the Iranian government and the first arising from the formation of a joint venture between local and international companies.

The combination of liberalization, transparent foreign investment laws and unique demographics of the Iranian market has served to attract much interest for foreign investors in this sector. Having the largest population in the Middle East, Iran's population is symbolized by its youth with some 45% of its population under the age of 14 and a further 26% between the ages of 15 and 30, with a key segment in the 17-24 year age group, the demographic grouping attributed to having the highest receptivity to IT activity

Having started operations at the end of 2006, Irancell managed to attract a whopping 150,000 customers in its first two months of operation alone, and by the end of its first quarter of operation, managed to surpass the one million mark. By the end of its last business quarter in 2007, the company hit the five million mark and rounded out the year with 6.01 million customers. This represents a phenomenal annual growth rate of 3800%, a figure unmatched in any other cellular market.



To capitalize upon this growth, Iran has initiated eight national and international projects in order to turn Iran into a regional ICT hub, with the launch of high speed voice and data transfer via 3G networks and WiMax and connection to global optical fiber networks in a manner that, according to Mohammad Bagher Zohrourifar, Director General of Iran's Telecommunication Infrastructure Company (TIC), will "match the best in the world".

with 800,000 people entering the work force each year and achieving greater purchasing power, the benefits are crossing over to different sectors of the economy as a result of increasing consumer demand for all manner of capital and consumer goods. By way of example, in the telecommunications sector, Iran has emerged as the largest market in the region in terms of volume of cellular phone subscribers, and in one single year (2006-2007) the number of new subscribers practically doubled from 14.33 million subscribers to 28.51 million subscribers. In absolute terms, no market in the region has gained more new connections than Iran. Even in more traditional sectors such as capital goods, the continuous demand for capital goods such as cars has propelled Iran's two major automobile companies to be ranked among the top twenty worldwide, while, according to statistics from Iran's Ministry of Industries, young newlyweds are driving demand for over 800, 000 television sets per year (see side bar).

What is unique about this demographic structure is that this demand for goods is expected to increase continuously and be sustainable as Iran experiences one of the largest population shifts ever recorded. While the population surge

Iran ranks First in Female Inventors Contest

The Islamic Republic of Iran ranked first in the 'International Female Inventors Competition' held in Seoul, South Korea. Iran's female inventors, won twelve gold, five silver and six bronze medals. With twenty five countries participating, the grand prize went to Iranian inventor Mehrnaz Golchinfar who has invented an electricity generator system for Third World countries. Her power station, free of environmental pollution, was selected as the best invention and received the special jury award.

Fellow competitor, Sonia Saberi's nano-composite earned her the World Intellectual Property Organization (WIPO) Award and Maryam Eslami's implement for reparation and surgery of osseous diseases in olecranon grabbed the International Federation of Inventors' Associations (IFIA) Award.

Some of twenty women inventors from Iran competed with participants from 25 other countries across the world at the prestigious festival held in the South Korean capital of Seoul.

TEHRAN AND SHARIF UNIVERSITY RANKED AMONG THE TOP IN THE WORLD

In 2009, Tehran University climbed 117 places in global rankings of top universities and is currently ranked as 368th in the world. The University was also ranked 112th for engineering and IT, 298th for life sciences and 183rd for social sciences. Other Iranian Universities such as the Sharif University of Technology, has climbed ranks and is now ranked 145th in the world for engineering and IT.

Year	2007	2008	2009
Engineering & IT	244th	165th	145th

Concomitantly, Sharif University of Technology, Iran's leading University, continues to gain recognition as one of the world's leading academic institutions. Accolades include those of the Chair of the Electrical Engineering Department of Stanford University who states that "Without a doubt the finest university in the world preparing undergraduate Electrical engineers is Sharif University of Technology in Tehran".

dividend is a young, educated workforce. Iran's demographic trends have been paralleled by marked shifts in literacy since the 1979 Revolution. From a literacy level of approximately 20% in 1970, the provision of widespread access to public education has now brought literacy levels to over 90%. Since the 1979 Islamic Revolution, access to university level education has been expanded and is now widely available across Iran including rural areas. The Islamic Azad University, which is responsible for the provision of half of the nation's higher education in Iran, has seen student enrollment rise from less than 2,500 students in 1983 to over 1,000,000 today. Vocational training has also received considerable attention, including the provision of key computer and technical skills. Foreign language training is widely available and many Iranians are at least partially fluent in a second language.

Gender Economics

Nowhere are the results of Iran's unique demographic and educational trends as apparent as their effect on gender equality. Access to higher

Taxi Driver on Weekday – Race Car Driver on Weekend

Parvaneh Soltani has not only overcome one stereotype by her day job, but is also making waves on the race track as well.



Founded in 2006, the Women's Wireless Taxi Company is a new concept in Iran's burgeoning urban transportation system. A cooperative founded by and for women, the company has a fleet of taxis all driven by women. It not only provides the opportunity for a multitude of women to gain financial independence, but as many of the women are provided financing for the purchase of their vehicles via a microfinance scheme, it also affords the opportunity to become the owners of their vehicles as well.

Parvaneh Soltani, 35, a divorced mother of two, starts her day at 6 o'clock in the morning and finishes at 8 o'clock in night. Her average income is comparatively higher than the average family income in Iran. This income also allows her to indulge in her favorite pastime – automobile racing.



Following the paths of female racers such as Zohreh Vatankhah, the first Iranian woman to partake in a WRC sanctioned rally and Laleh Seddigh, the first Iranian woman to partake in an international Formula 3 race. Soltani believes that she has been able to break two enduring stereotypes in Iran, namely that women cannot drive taxi's and the second that they cannot compete equally with men on the race track.

Soltani's activities have garnered the attention of her bosses at the taxi company, who sponsor her car at the Motorcycle and Automobile Federation's (MAFIRI) annual races.



The races garner vast media attention and are attended, on average, by a crowd of at least ten to twelve thousand spectators (surprisingly, after football, auto racing is Iran's second most popular spectator sport) per race. Having already broken one stereotype behind the wheel of her cab, she now aims to break a second stereotype – behind the wheel of her race car.

of particular note is the ever increasing presence of women in the political arena and at present, the Iranian cabinet comprises of not only a female Vice President, but for the first time a female cabinet Minister as well a significant number of Parliamentarians.

levels of education have opened new windows of opportunities to women of all segments of society. According to the World Bank, in a report "Work Environment for the Women of the Middle East and North Africa", Iranians rank first in terms of social acceptance of the presence women in the economic sector. According to the report, Iran has the highest percentage of women active in the job market in the region. This trend has been growing since the 1970's. In 1976, the number of Iranian women aged 15 years and older stood at 9.2 million, of which, 1.2 million (equivalent to 13.4%) were economically active. By 1986, the number of women in this age bracket had increased by 44% to 13.2 million, but the number of economically active women had actually decreased by 49,000. This decline however, is misleading, as upon closer scrutiny, the decrease in the number of economically active women primarily took place in the 15-29 age bracket, whereas the number of economically active women in the age bracket of 30 - 34 had concurrently increased by a significant 56%. Upon further study, it was shown that the decrease of

The Council of Iranian Businesswomen – Iran's largest National Women's Organization

The Council of Iranian Businesswomen of the Tehran Chamber of Commerce is the largest women's organization in Iran, with over 100,000 registered members. The Council is actively working with the Chamber of Commerce to boost entrepreneurship among Iranian women, and active steps have included the formation of different associations, NGO's and councils dedicated towards fostering entrepreneurship among women. A major step in this regards has been the formation of the 'National Association of Female Entrepreneurs and Women's Council' under the auspices of the Tehran Chamber which has been actively holding training courses for Iranian female entrepreneurs.

economically active women in the 15-29 age bracket and the subsequent increase in the 30-34 age bracket was primarily correlated to the increased numbers of women who were pursuing higher education and thus entering the workforce at a later age.

Iran's geographical position at the center of one of the world's major cross-roads has had a direct bearing on her long history and ethnic composition.

the text), 7,276 women registered their candidacies, 4,688 of whom were from urban areas and the rest from rural areas. Overall, 783 were elected to the Municipal Councils. At the Governmental level, approximately 5.3% of administrative posts are held by women.

Furthermore, in 1978 only 25% of Iranian women were literate. Today this figure stands at just under 90%. It bears mention that currently 64% of all university admissions in Iran are women.

Further analysis of the number of women active in the professional sector confirms these findings, especially when comparing pre-Revolution and post-revolution trends. In 1976, thirteen percent of all economically active females held professional occupations. By 1986, this percentage had risen to 32.8% and by 1991 had further increased to 39.7%.

In the period of 2001 to 2002 alone, the presence of women in the workplace increased by over 128%. These gains are further bolstered by Iran's institutional framework. The Iranian Constitution in particular provides for the key role of women in all aspects of society and the economy. Women's rights are further bolstered by Iran's Labor Laws and Codes which comply with all international norms pertaining to women's rights in the workplace. As a result, women are active in all fields of the economic and political spectrum. These activities cover a broad range of professions ranging from the legal and medical fields to serving as members of Iran's police forces. Of the 86,000 cooperatives registered in Iran, 15% are run by women. Of particular note is the ever increasing presence of women in the political arena and at present, the Iranian cabinet comprises of not only a female Vice President, but for the first time a female cabinet Minister as well not to mention a significant number of Parliamentarians.

By way of example, after Iran's first post-revolutionary Parliamentary elections in 1979, three percent of the candidates and 1.85% of those actually elected were women. In contrast, in Iran's most recent parliamentary elections, 7.3% of the candidates were women accounting for 4.1% of those elected. In the first ever Municipal Council elections (covered further ahead in

Ethnicity, Language and Religion

Iran's geographical position at the center of one of the world's major cross-roads has had a direct bearing on her long history and ethnic composition. Some of the world's oldest settlements have been found in Iran, and the name Iran derives from the generic term "Arya" by which the various tribes inhabiting the Iranian Plateau have referred to themselves since the Second Millennium BC. when Indo-European tribes settled in the area. Among the ancient tribes of the Iranian Plateau, the Elamites, circa 2,700 B.C, were among the foremost. The plateau was the scene of many invasions, but one of the strongest tribes to invade were the Aryans. A branch of the Aryans, the Medes, settled in the western portion of the plateau, making their capital at ancient Ekbatan, today's Hamadan. From there, the Medes extended their power to Azerbaijan and the Caspian littoral. Concurrently, another branch of the Aryans, the Pars (Fars) settled in the south-east portion of the plateau with their capital at Pasargard, in the vicinity of today's Shiraz. In a subsequent war, the Pars defeated the Medes and the two people were united laying the foundation for what was to become by 520 B.C the Persian Empire. With subsequent conquests, the Persian Empire, at its zenith, defeated the Greek Empire and extended from the Sind to the Danube and from Central Asia to the heart of Africa. History has shown that the Persians were known for their fair administration of justice, system of coinage, weights and measures, construction of roads and dams and the encouragement and development of trade. It was during this period that the foundation of the Silk Road and the first attempt to build the Suez Canal in order to connect the Persian Gulf and facilitate trade to the Indian Ocean with the Mediterranean took place.

The Iran of today is a multi - ethnic society. Though, according to Article 15 of the Iranian

Constitution the common language of Iran is Farsi (Persian), the language of the ancient Pars, approximately 23% of the populace also speak a second Indo - Aryan dialect or language as well. Among these people are the Kurds, who are of Iranian origin, and whose language is a north - west dialect of the Indo-European family of languages and who reside primarily in the province of Kurdistan; the Azeris who reside primarily in the north-west of Iran and who speak a dialect of Turkish known as Oghoz which is associated with the Turkish spoken in the Caucasus regions surrounding Iran; the Lurs a tribe living in the Zagros Mountains west of Isfahan who speak Luri, a Persian dialect as do the Baluch, an agrarian, semi-nomadic group residing in the south - eastern part of the Iranian plateau and who are renowned for their horsemanship; the Armenians, who despite a different ethnic heritage, have maintained their Indo - European linguistic identity and are concentrated primarily within Tehran, Isfahan and Azerbaijan. Additional national and ethnic groups include the Assyrians as well as, the Zoroastrians followers of the oldest monotheistic religion in the world and who have congregated primarily around the city of Yazd, where their rituals, temples and language can



be witnessed firsthand and the Jews who, as the Armenians, have retained their ethnic, linguistic and religious identity. South - western Iran has a substantial Arab population who are descended from migrants from the Arabian peninsula to Khuzestan province, in the early centuries A.D. According to Article 16 of the Iranian Constitution, the teaching of the Arabic language as the

language of the Holy Quran is mandatory as part of the religious studies curriculum of Iran's school system.

The advent of Islam to the region in 640 A.D not only affected Iran but that of Western Asia and resulted in the assimilation of various peoples who together shaped and vitalized Islamic culture. In Iran particularly, the assimilation of its pre and post Islamic heritage led to a close mingling of national identity with Islamic heritage. As such, approximately 98.8% of Iranians are adherents of Islam with 91% belonging to the Shia branch and 7.8% belonging to the Sunni branch. Additionally, followers of the Christian faith command a population of 0.7%, members of the Jewish faith comprise 0.3% of the population and Zoroastrians approximately 0.1 %. Accordingly, the Iranian Constitution has been drafted in a manner so as to fully secure the cultural, social and political liberties of Iran's religious minorities. As per Article 13 of the Constitution, Zoroastrians, Jews and Christians are officially recognized as religious minorities and are free "to perform their religious rights and ceremonies and shall act according to their canons as far as their personal status and religious teachings are concerned."



Political Structure

In a national referendum shortly after the Islamic Revolution in 1979, an overwhelming majority of over 98% of Iranians voted for the establishment of an Islamic Republic. The Islamic Republic was subsequently institutionalized in a new Constitution drafted by an elected Assembly of Experts (Majlis-e-Khubregan) and was subsequently ratified by the populace

in a national vote in December 1979. Iran's Constitution is a unique document in light of the fact that it exemplifies an authentic attempt to present an Islamic alternative to existing political systems. A distinctive feature of the Islamic tradition is the belief that Islam is a total, comprehensive way of life and that it has an integral, organic relationship to politics and society. Therefore, Islam provides a normative system in which religion is integral to all areas of Muslim life - politics, economics, law, education and the family.

The Constitution

From an economic and social standpoint, Iran's post-revolutionary Constitution has been drafted in a manner by which a positive role for Government has been foreseen so as to set favorable macro-policies and in establishing micro-support programs so that all strata of society can realize their full potential in creating wealth.

The role of the constitution in Iranian economic life in recent years has taken on a new form following one of the greatest transformations in Iran's economy. In 2004, Iran's Expediency Council (see below), undertook a major reinterpretation of Article 44 of the Constitution, in order to make clear that the private sector would have a major role in the Iranian economy. In the past, a literal reading of this Article had caused many to conclude that most economic activities would fall under state control. Following this reinterpretation, direct private sector activity in formerly state dominated activities such as, inter alia, the downstream sectors of oil, gas and energy; banking and insurance; power generation and other formerly state dominated activities were opened to the private sector.

This new interpretation of the Constitution was further bolstered by the Leader of the Islamic Revolution, Ayatollah Seyed Ali Khamenei, by mandating that 80 percent of the shares of major state companies and factories be ceded to private ownership as a key initiative to give private sector a new lease of life. Iran's Supreme Leader specifically ordered the heads of the three branches of power, namely the executive, legislature and judiciary as well as the State Expediency Council (SEC) to implement national initiative.

The details of the strategic privatization policies, which indicate the scope of privatization, are as follows:

1. State-owned entities involved in the fields of major mining and mother industries (including major downstream oil and gas industries) except for the National Iranian Oil Company and gas and oil exploitation and production companies.
2. Banks, excluding Central Bank of Iran, Bank Melli Iran, Bank Sepah, Bank of Industry and Mine, Bank Keshavarzi (Agriculture), Bank Maskan (Housing) and Export Development Bank of Iran.
3. Insurance firms, except for Central Insurance of Iran and Iran Insurance Company.
4. Aviation and shipping firms, excluding Civil Aviation Organization of Islamic Republic of Iran and State Ports and Shipping Organization.
5. Energy supply centers, excluding main power transmission networks.
6. Post and telecom companies, except for mother telecom companies, frequency-related affairs and mail service management.
7. Armed forces-affiliated industries, except for defense and security products

The Leader also made clear that the privatization be implemented within the following framework:

- A. Prices of shares will be determined in the stock market.
- B. Public notices will be issued to encourage public participation and prevent monopoly and insider dealings.
- C. Share pricing must be in conformity with commercial laws and regulations.
- D. Valuation must be conducted prior to ceding shares.
- E. Existing management capacities need to be used to employ experienced, specialized and efficient managers in privatized firms.
- F. The Government is committed to undertake its new role in making policies for and supervising national economy instead of directly partaking in it.

G. A portion of privatization proceeds should be invested in high-tech industries

The leader's announcement also includes authorization of sales installment of a minimum of 5 percent of shares of state companies to their managers and personnel.

The implementation of these strategic policies has been undertaken in order to facilitate the fulfillment of important objectives such as expediting economic growth, seeking social justice, removal of poverty and meeting the objectives of Iran's 20-Year Vision Plan.

The leader emphasized that the government should no longer own or manage companies, and should rather supervise their activities and that private and cooperative sectors should be further strengthened and should be supported for supplying goods at the international level.

Supreme Jurisprudent

As can be seen by the key supporting role played by Iran's Supreme Jurisprudent in pushing Iran's economy to become more competitive, in keeping with the Islamic principles of governance, the Iranian Constitution provides for the establishment of leadership by a Faqih (Jurisprudent) possessing the following necessary qualifications: scholarship, piety, political and social perspicacity, courage, determination, and the necessary administrative abilities for leadership. Thus the Vali-e-Faqih (Supreme Jurisprudent) is one who supervises and correlates Government policies with Islamic precepts.

The Council of Guardians

Second to the Leader in the hierarchy of office is the "Council of Guardians" (Shuray-e-Negahban). The Council is composed of six theologians appointed by the Velayat Faghih, and six jurists qualified in Law nominated by the Judiciary for approval by the Parliament. The Council reviews the laws passed by the Parliament so as to determine whether they are in conformity with Islamic Religious Law (the Sharia) and the provisions of the Constitution. If they are not, the Council has the authority to veto them.

Decisions as to whether a given law is

constitutional are to be made by a consensus comprising of all twelve Council members whereas the question of conformity with Islamic Sharia is decided via a majority vote of the theologians. The Council also oversees Presidential and Parliamentary elections as well as plebiscites. In the case of conflicting interpretations in the clauses of the Constitution, the Council is empowered to give a binding ruling on what it considers to be the correct interpretation.

The Assembly of Experts

The Assembly of Experts (Majlis-e-Khubregan) is a seventy two member body elected by popular vote. Its members comprise of the nation's leading jurists and scholars of Islamic jurisprudence. Having originally drafted the Constitution of the Islamic Republic, the Assembly carries the mandate of filling any vacancy in the post of Velayat Faqih.

The Expediency Council

The Expediency Council (Majma-e-Tashkhis-e-Maslehat Nezam) was established via Article 112 of the Constitution with the aim of mediating issues pertaining to the interpretation of law in case of differences of opinion between the Parliament and the Guardians Council. The members of the Expediency Council are appointed directly by the Leader. The Expediency Council played a defining role in providing a clear and transparent interpretation of Article 44 of the Constitution and clearing up any ambiguities concerning private sector economic activity in Iran.



City and Village Councils

The newest feature of the Iranian political system has been the formation of City and Village Councils. Article 7 of the Iranian Constitution declares participation by the citizenry in decision making as the most important condition for the establishment of a participatory democracy and identifies several types of popularly elected consultative councils as the means for ensuring mass participation. As such, February 26, 1999 marked the first ever holding of national elections

for city and town council elections, an event that many political pundits view as one of the most important socio-political events in Iran, as it effectively marked the first time in Iran's 2,500 year history of the transfer of authority over the administration of cities, towns and villages from the central government directly to the citizenry.

The Councils serve as agents of transparency as their functions are broad based and encompass an amalgamation of responsibilities, including, inter alia: election of mayors; supervision and auditing of the income and expenditures of municipalities; endorsement or rejection of Articles of Associations and other legal matters of companies and institutions affiliated to Municipalities; planning, coordination and execution of social, economic, cultural educational and other social affairs pertaining to their constituencies.

The Executive Branch

The President of the Islamic Republic is elected by a direct vote of the nation for a four year term and is eligible for a second four year term. Presidential candidates must be Iranian nationals "enterprising of a good background and be pious and honest". The Constitution assigns the President as the Head of the Council of Ministers and charges him with direct responsibility for planning and budgetary affairs, although each of these duties may be delegated at the President's discretion. The cabinet comprises of twenty one Ministers. Members of the Cabinet must be approved individually by the Parliament and are accountable for their actions. The Parliament may censure each Minister and call for dismissal of any number of Ministers at any time.

The Legislative Branch

The Parliament of Iran, better known as the Islamic Consultative Assembly, (Majlis-Shora-e-Islami or 'Majlis') is composed of 290 elected deputies representing various constituencies. The Constitution provides for an increase in the number of Majlis seats every 10 years based on "demographic, political, geographical and similar factors" and limits the number of new seats to a maximum of 20 every 10 years. At the present time, the government has presented a bill to increase the number of lawmakers by 20 to a total of 310 for the year 2010. Elections to the Majlis are held every four years and sessions

are run by a governing board comprised of a Speaker, a First and Second Deputy Speaker, a Secretary and two Board Members. There are 22 permanent committees that oversee all aspects of governmental, socio - legal affairs, accounting and public petitions.

The Judiciary

The Judiciary in Iran is completely independent of the executive and legislative branches. The Minister of Justice acts merely as a liaison between the Judiciary and the other two branches. Instead, the Judiciary is headed by an individual appointed by the Leader for a five year tenure. According to the Constitution, the Head of the Judiciary must be "a just jurisprudent, well versed in judicial affairs, resourceful and possessing managerial skills."





The Geo-Economic Positioning of Iran

- Geo-Economics
- Ports
- Rail links
- Air Transport
- Road Transport
- Free Trade Zones
- Anzali Free Zone
- Aras Free Trade -Industrial Zone
- Arvand Free Zone
- Chahbahar Free Zone
- Kish Free Zone
- Qeshm Free Zone
- Power Generation

Anzali Port



GEO-ECONOMICS

Overview

By the year 2015 Iran aims to have a port capacity able to handle 160 million tons of goods per year. Not only is this capacity being developed to handle Iran's burgeoning trade with the countries of Central Asia and the Caucasus, who are increasingly utilizing Iran's transit facilities as an outlet to the warm water ports of the Persian Gulf, but also due to Iran's rapid ramp up of the export of its non-oil, oil-by product and natural gas resources. Iran's non-oil exports are now rapidly approaching the \$20 billion mark and concomitantly Iran is preparing to export approximately twenty five million tons of petrochemicals per year (including olefins, xylenes and methanols) and by the year 2020, approximately 35 million tons of LNG. To achieve such targets, ample transportation, utilities and telecommunications facilities have been key to Iran's macroeconomic planning. The successful implementation of these policies are not only mandatory in enabling greater access to resources, goods and markets, but, when backed by strong utilities, including a national information technology, also results in a strong information services economy and a well organized distribution system leading to the facilitation of economic development by easing

access to goods and services, these steps are all hallmarks of Iran's economic planning.

By combining these key aspects of Iranian economic planning with the historical and strategic geo-economic position held by Iran at the crossroads of the ancient 7,000-mile Silk Road, has led Iran to embark upon a broad range of transportation and other key projects to reconstruct, revitalize, expand and diversify its economy in order to become the hub of Asian-Middle East trade while, also concomitantly returning Iran to its historical role as a cross road of trade between Europe and Asia. The policies of the Iranian government in this regards have strategic and economic significance for shippers and traders not just across Asia and Europe, but also the Arabian Peninsula, India and the Mediterranean.

The key step to this strategy was taken in 1995 with the commissioning of the Bafq-Bandar Abass railway connecting Shahid Rajaie Container Port, considered one of the most advanced ports in the Persian Gulf, to Bafq a city providing strategic proximity to the countries of Central Asia and the Caucasus. Shahid Rajaie is Iran's main container gateway, handling about 90% of the country's total throughput. This historical event led to the effective rail connection of

the land locked nations of Central Asia and the Caucasus to the warm water ports of Iran in the Persian Gulf. This groundbreaking event was complemented by the commissioning of the 295 Km. Mashad-Sarakhs-Tajan lines in May 1996. Inaugurated in the presence of some thirty Heads of State and Governmental delegates, 130 Km of the line stretches from Sarakhs (Iran) to Tajan (Turkmenistan) and the remaining 165 Km. connects Sarakhs to Farman (near Mashhad) in Iranian territory. This rail line, which was created with the aim of establishing an uninterrupted and integrated communications network between the railways of the newly independent republics in Central and North Eastern Asia and to provide transit via Iranian territory to Europe and the Persian Gulf littoral States, in effect symbolizes the modern day revival of the Silk Road and plays a remarkable role in the consolidation of political relations and the fulfillment of the desire of Iran's northern neighbors to gain access to free waters.

As a result of these policies, by 2007, international logistics companies such as the Mediterranean Shipping Company (MSC) the world's second largest container carrier, have chosen Shahid Rajaie Port as their hub for the Middle East and the Persian Gulf region.

Furthermore, at the present, Iran has transit cooperation with over fifty countries and the southern branch of the ALTID Corridor, the southern branch of the TRASICA Corridor as well as the East-West Corridor all pass through Iranian territory. The North-South Corridor currently has fourteen members, namely Iran, Russia, India, Turkey, Kazakhstan, Belarus, Oman, Tajikistan, Republic of Azerbaijan, Armenia, Syria, Ukraine, Kyrgyzstan and Bulgaria.

Excluding oil swaps, Iran serves as a potential market of over forty million tons of transited goods per year, and, with its present infrastructure, has the potential to transit twelve million tons of goods via its territory, reflecting a key sector with strong future investment potential.

A random look at growth trends reflects that in 2006, approximately four million tons of goods were transited from the north of Iran to the south of Iran and vice versa, reflecting a growth rate of 13.6 percent over the preceding year. By 2009, this figure had increased by a further half million tons, to 4.5 million tons. Most surprisingly however,

between the period of January to March 2010, Iran had registered a 63.7 percent increase in comparison to the same period in 2009 with some 2.459 million goods being transited through Iran as compared to 1.502 million for the same period in the preceding year. It is predicted that by the end of 2010, transit volumes will reach ten million tons per annum.

Based on the above, ample transportation facilities are critical to Iran's growing stature as the regional center for Trans-Asian trade. An analysis of Iran's investment in transportation as an economic driver in four key areas namely train, road, ports and shipping and aviation are reviewed as follows:

Ports

The development of Iran's southern ports is a lynch pin in Iran's strategy to develop and expand its port capacity in order to meet demand from the central Asian economies and the Caucasus. With a capacity of 120 million tons, it is expected that by the year 2015 the capacity of Iran's ports will increase to 158 million tons.

The ports of Shahid Rajaie (Bandar Abbas), Chahbahar and Bandar Imam Khomeini have been specifically designated to handle an estimated 6.2 million 'twenty-foot equivalent units' (TEUs) of containers and 26.6 million tons of general cargo per year by 2012. This capacity expansion is derived from the strong growth in demand for port and shipping facilities emerging from the region's largely landlocked countries including Iraq, Turkmenistan, Uzbekistan, Kyrgyzstan, Kazakhstan, Armenia, Azerbaijan, Afghanistan and the southern parts of Russia.

Concomitantly, Bandar Imam Khomeini, with a projected annual capacity of up to 10 million tons of bulk cargo and 800,000 TEUs, has been designated as the main grain and bulk terminal



and hub port for Iraq and the Caucasus countries.

Shahid Rajaie port plays a key role in this strategy. Encompassing an area of over 32.5 square kilometers, the port also doubles as a special economic zone and has, inter alia, a number of key advantages:

- Imports of goods without customs duties.
- State of the art warehouses
- Direct access to rail and road transport

The port is uniquely located in the Strait of Hormuz, a passageway by which over 10,000 ships pass each year and is currently ranked among the top sixty ports in the world. The Port recently successfully docked the world's largest container ship the 'MSC Beatrice' with a capacity of 14,000 TEU vessel belonging to Mediterranean

Iran Tops Middle East Maritime Standards

The International Maritime Organization ('IMO') has named Iran first in the region and thirty third in the world in terms of registering the highest volume of registered cargo around the world. Furthermore, according to Ali Akbar Marzban, the representative of the Iran Maritime and Port Organization to the IMO Iran has "an outstanding place among regional countries in playing an effective role in boosting maritime standards in the Middle East" drawing attention to the fact that Iran has been placed in the Paris and Tokyo Memoranda on Port State Control – a Protocol of inspection and safety in seas and oceans.

Shipping Company (MSC), the world's second largest shipping line. The port is now undergoing new investments including a new loading and unloading rail station in the port with an operational capacity of six million tons of oil per year by the year 2012.

As result of these investments and the unique geo-economic positioning held by Iranian ports, in 2009 , notwithstanding the global recession, container throughput at Shahid Rajaie increased with a year to year growth of 10.3%. This growth has maintained its momentum in 2010, with Shahid Rajaie port handling 898,642 TEU's in the period of January 2010 – April 2010, registering a monumental growth of 45.6% when compared to the same period in 2009. It is predicted that by the end of 2010, the port will handle 2.4 million TEU's.

Rail Links

Iran is ranked 11th in the world in terms of rail road use and 18th globally for rail freight. Iran's first rail link to the outside world appeared simultaneously with the launch of the country's railway system in 1916, with the connection of the city of Tabriz to Jolfa on the border of Russia (then known as the Russian Empire). The link continued its importance throughout the era of the Soviet Union, expanding with the signature of two major protocols on cross-border rail transport in 1940, with an amendment in 1958. With the break-up of the Soviet Union and the emergence of the newly independent sovereign state of Central Asia, as a result of the opportunities presented to Iran, investment in rail transport took on a new momentum. Today, Iran has the 25th largest



railway network in the world.

As covered earlier in the text, the start of the construction of the Bafgh – Bandar Abbas rail line in 1989 and its completion in 1995 launched a new era in regional trade transactions as the newly independent countries of Central Asia gained access to the warm water ports of Iran. Furthermore, in light of the geographic positioning of Iran, the utilization of Iran’s rail corridors can lead to major reductions in transportation of goods. By way of example, the transport of goods via sea from China to Europe, on average, takes approximately two months. However, by utilizing Iran’s rail links, this period can be reduced to eleven days.



station through the town of Gyzlgaya in Turkmenistan’s Balkan province toward Kazakhstan’s borders. Primarily built by Iranian contractors, and financed by the Islamic Development Bank, Turkmenistan has already constructed eleven stations as well as over 100 bridges and reinforced concrete pipes for the passage of mud flows. The total route is 900 km., of which 700 km. is in Turkmenistan, 90 km. is in Iran and 210 km. in Kazakhstan

The launch of this railway will shorten 600 km. from the current route of transporting goods from the Persian Gulf to Central Asia and it is expected that this new route will emerge as one of the most important transpiration links between China and Europe. Analysts believe that three to five million tons of commodities can be transported in the first phase, increasing up to twenty million tons of goods once all the phases of the railroad are complete. The preliminary agreement for the railroad was signed between the Presidents of Turkmenistan and Kazakhstan in April 2007 and the final agreement was signed in Tehran as a tri-lateral agreement between the presidents of Iran, Turkmenistan and Kazakhstan.

Concomitantly, in light of Iran’s unique position in the North-South corridor also provides it with a competitive advantage in the region. The corridor, in effect establishes a major transit link between the northern European countries, Scandinavia, Russia, the Persian Gulf littoral states, the Indian Ocean region and southeast Asian states via Iran. The route via Iran presents the shortest, most inexpensive and rapid route for the transit of goods between Asia and Europe, and effectively presents the nations of South Asia with an cost effective alternative to the Suez Canal. Some of the advantages offered by this route include, inter alia, increased trade between the nations of India, Pakistan, and the Indian Ocean littoral states with Russia and the countries of Central Asia.

As a result of this pivotal position in the region, Iran has been undertaking major expansion plans. Based on current planning, Iran aims to expand its current rail network of 11,000 km to 17,000 km by 2013 with the ultimate objective of expanding the network to 25,000 km. by the year 2020. In particular, several key expansion plans are underway, most notably:

- **Iran – Kazakhstan – Turkmenistan Railroad:** This key railway has been designed to facilitate the transportation of goods from Central Asia to the Persian Gulf. Expected to be completed in 2011, already some 300km have been completed linking the Berekat

- **Iran – Afghanistan Railway:** In 2009, a rail line connecting the city of Torbat-Haydarieh to Khaf on the border with Afghanistan was recently completed. This line is now being extended directly to Herat in Afghanistan at a cost of \$75 million and extends a further 191 km.
- **Iran – Iraq Railway:** Iran is connecting its railway to that of Iraq via two routes. The first route will connect the rail line from Iran’s southern port city of Khorramshahr to the Iraqi city of Basra. The 51km. connection will be connected via the border crossing of Shalamcha. Approximately 90% of the project is now complete. The project will serve to improve travel and transportation of goods between Iraq, Iran, Central Asia, Afghanistan and Pakistan. It is believed that with the implementation of this project, exchange of goods will increase to over 1.5 million tons per annum. The second route is from the city of Arak – Kermanshah – Khosravi route and is

still in its preliminary phase.

- **Iran - Armenia Railway:** Armenia is a land locked country which due to current geo-political equations, has seen over 80% of the length of its borders being effectively closed. As a result, it has two key functional border crossings, namely with Georgia and Iran. As a result, in 2009, Iran and Armenia came to agreement to undertake initial steps for the construction of a rail link between Iran and

Armenia. The Asian Development Bank (ADB) financed the initial feasibility study and a joint company named “Directions for Iran-Armenia Railway Construction’ has been founded. According to some estimates the construction of the 470 km. rail link will take approximately three years at a cost of approximately \$1.8 billion.

- **Iran – Tajikistan Railway:** In June 2010, Iran and Tajikistan inked an agreement for

IRAN AIR PREPARING FOR IPO



Iran Air, the national air carrier of Iran is preparing for an IPO. According to Chairman Farhad Parvaresh in an interview with Bloomberg, “our company will be going into the Tehran Stock Exchange,” and “we are creating the conditions for this. Whether that will be 100 percent, 70 percent, 60 percent, we are working on this.”

Homa Hotels, an Iran Air subsidiary, is already listed on the Tehran bourse, and Iran Air Tour, another unit, is expected to go public by the end of the Iranian calendar year on March 20, 2011, he said. Iran Air, which is the third ranked air carrier in the Middle East and North Africa is home to 10% of the total fleet of planes in the Middle East.

IRAN USES NANOTECHNOLOGY TO ENHANCE RAILROAD SAFETY

For the first time in the world, Iranian researchers have gained access to nanotechnology for building concrete traverses used in railroads. The invention was awarded a patent in 2009 and according to Kamran Radpouya, lead researcher of the project, the useful life of nano traverses have three times the longevity of regular traverses as they are highly resistant to frost, intense heat, and atmospheric changes, in addition to being environmentally friendly. According to Radpouya, with the utilization of the new technology, “rail related accidents will be curbed significantly” and indigenization of the production line will lower costs by 33% as compared to foreign counterparts”. Currently three production lines are now manufacturing this product in Iran.

IRAN THE ONLY REGIONAL MANUFACTURER OF TRAIN RAILS

Isfahan Steel Company (ISC) is one of five companies in the world and the only country in the Middle East with the capability to manufacture train rails. Under a deal inked between the ISC and the Iran Railways Company in the presence of the Minister of Roads and Transport, ISC will supply 20,000 tons of U-33 standard rails lines then ramping up production to 600,000 tons per year.

ECO FREIGHT TRAIN SERVICE LAUNCHED

In August 2009, the ECO freight train service was successfully launched on a pilot basis between Islamabad Pakistan, Istanbul Turkey and Tehran Iran. The launching ceremonies took place in the presence of Pakistani Prime Minister Yusuf Gilani in Lahore. It is expected that with the launch of the freight services, two other ECO rail links will be launched, namely Islamabad – Istanbul and Istanbul-Urumchi . According to ECO officials, the ECO freight train service is a major step towards socio-economic development of the region and that the ultimate target is to start a regular passenger train services between ECO members. On August 12, 2010, this service was officially launched. Using the moniker ‘Economic Cooperation Organization Container Train Service’, the train now runs on a regular basis between Islamabad and Istanbul via Tehran on the first Thursday of every month.

building a railway linking the two countries via Afghanistan. The project will play a major role in the development of ties not only among Iran, Afghanistan and Tajikistan, all three of which share a common language, but also other regional countries as such a rail link will serve to link the railways of China, Kyrgyzstan, Tajikistan, Afghanistan and Iran.

the air transport sector, with nearly forty million passengers travelling through Iranian airports each year, and an annual growth rate per annum of nearly 13%. There are over fifty four airports in Iran, of which eight are international. Of these existing airports, thirty have been targeted for expansion and a further twenty eight new airports have been slated for construction in order to keep up with passenger demand.

Air Transport

One of the fastest growing sectors in Iran is

In light of the fact that Iran's geo-economic position places it as one of the best flight paths

IMS CERTIFICATE FOR IMAM KHOMEINI INTERNATIONAL AIRPORT – NEW TERMINAL PLANNED

Located 35km. south of Tehran, Iran's Imam Khomeini International Airport ('IKIA') has received certificates for Integrated Management Systems (IMS) which includes OHSAS 18001, ISO 14001 and ISO 9001 which are integral for safety, hygiene, environmental protection and quality of management respectively. Since its inauguration in 2004, the airport has been growing rapidly. At present, over 600,000 tons of cargo is delivered to the airport, and customs revenues for the first four months of 2010 have increased by 115% over the same period in the preceding year. In 2010, the airport has witnessed a tripling in the number of flights from an average of 50 to 55 flights per day to a current average of 180 flights per day, reflecting a rise of over 300%. Factoring in the present annual passenger growth rate of eight percent of the airport, the airport is quickly reaching its current capacity of 6.5 million passengers per year.

As a result, the French firm ADPI, subsidiary of the Aéroports de Paris Group has been commissioned for providing a master plan development study, with a second phase of development offering a 26.5 Million Annual Passengers throughput capacity and a third phase of fifty million

passengers per annum, and a Phase 4 capacity of ninety million passengers per annum. Study and design for phase 4 will be done as soon as construction of phase 3 starts. In light of the rapid growth of the airport, the airport authority has been successful in attracting private investors in its development plans, including private sector investment in a new parking with 2500 cars capacity and a 4star 250 rooms airport hotel being built on a twenty five year BOT (Build Operate Transfer) basis with some of execution activities have already been started.



between Europe, Asia and Central Asia, the air transport industry and related infrastructure is receiving special attention in Iranian development planning especially in terms of spurring growth via the private sector.

Following the establishment of the first private airline in 1995, the state monopoly over the air transport sector ended, and in light of the huge passenger volume in Iran, there are now twelve private airlines, with a market share of nearly 40%. In 2008, the first private air charter company was founded in Iran and received its license to operate. Eight of nine government airlines have been privatized, with Iran's state carrier being slated for an IPO in the near future (see Side box).

However, the government strategy to encourage private sector investment to spur growth in this sector has not been limited to airlines. In 2007, Ramsar airport, located in Mazandaran province, a major tourist destination, was handed over to a private sector airport operator followed in 2008 by Arak Airport. In light of the successful privatization of these airports, the government has now drawn up over three hundred investment opportunities worth over \$8 billion in fifty four airports. According to an official of the government owned 'Iran Airports Holding Company' it was determined that most opportunities for investment were

available in international airports, with about \$6 billion of investment opportunities pertaining to Tehran's Imam Khomeini International Airport ('IKIA') alone.

Road Transport

With the 28th largest road network in the world, Iran has one of the most developed and competitive road networks in the world. Over three hundred million passengers are transported by road in Iran each year. Road haulage is the dominant form of transportation in Iran and truck transport costs are among the cheapest and most competitive in the world averaging approximately US 1.2 cents per ton/ km. With approximately 5000 forwarding companies in Iran, most transport is arranged via forwarding companies. Over five hundred million tons of cargo are transported in this manner of which over three hundred million are done with bills of lading. Iran has employed the ASYCUDA transit module at all main gateways, with time release for transit ranging from two hours to one day. Additionally, preferred road routes are provided for trucks in transit. Iran is a member of the International Road Transport Convention (TIR) and loaded trailers may be customs sealed at the departure point and pass unopened through transit countries. "On-Wheels" customs inspection and clearance is possible at any of

IRAN AT THE HEART OF TRADE ROUTE BETWEEN EUROPE AND ASIA

Hooman Peimani, head of energy security and geopolitics at the National Energy Institute in Singapore, believes Iran's development of its trade routes will amount to emerging as the heart of the trade route between Europe and Asia.

"The purpose of Iran in getting involved in such projects is to ensure that it is going to be used as a kind of transit route for international trade from and through Asia, mainly in the context of connecting Europe and Asia, mainly via Turkey and possibly via the Caucasus," Peimani says.

"Within this context, Iran has done a lot of work in terms of improving its roads. The infrastructure, particularly in the northern part of the country, has witnessed a major project to improve the roads, constructing new highways. Also Iran has spent a lot of money in order to expand its railway network."

Peimani says this is also due to the fact that "Central Asia is a landlocked region that doesn't have a lot of options." For international trade, the Central Asian states "mainly have to rely on Iran or Russia. Of course there is China, but it presents a very long route for international trade. Therefore, Iran is a necessity for Central Asia, particularly for Turkmenistan."

He notes that even China may use Iran as an export route. "China, despite all the problems Iran is facing with the United States, has actually increased trade with Iran, which is now equal to about \$22 billion a year," Peimani says.



Iran's customs terminals. Iran is directly linked to seven neighboring countries consisting of Turkmenistan, Azerbaijan, Armenia, Pakistan, Iraq and Turkey via fifteen border roadways, and has been fostering improved transport links through a series of bilateral agreements with neighboring states.

Key agreements include a road, designed to eventually provide a direct link to Russia, stretching from the Persian Gulf to Gilan Province on the Caspian Sea neighboring the Caucasus via the establishment of a path from Hormozgan in the south of Iran to Ghazvin, Rasht, Astara, and then onto Russia and Europe. In furtherance of this objective, Iran has formed a new working group for "Silk Road initiatives". Already the Ghazvin-Rasht section of this initiative is under completion. The overall objective of this initiative is to increase the capacity of Iran's roads to transport goods and reduce maximum transit times between Europe and China from two months by sea to 11 days by land.

The planned north-south road bolsters other projects aimed at improving links with Iran's neighbors to the east -- including a road-and-rail scheme connecting eastern Iran with Herat Province in western Afghanistan and a flagship tunnel project in Tajikistan linking the capital, Dushanbe, with Khujand in the north.

Free Trade Zones

In order to further bolster the development of key infrastructure, Iran has established seven strategically located Free Trade Zones (FTZ).

Iran's Free Trade Zones comprise of the Anzali Free Trade Zone; Aras FTZ; Arvand FTZ; Chahbahar; Qeshm FTZ and Kish FTZ. In terms of geographic proximity to target markets, Qeshm, Kish and Chahbahar are located at the southern coasts of the country and connected to the major international waterways via the Persian Gulf, the Oman Sea and the Indian Ocean. The Arvand FTZ is located proximate to Minoo Island along the Arvand Roud waterway making it uniquely accessible to the markets of the Persian Gulf and Iraq. The Aras Free Zone is located in north-west Iran on the bank of the Arax river. The Arax river forms the natural border of Iran with the Azerbaijan Republic, Armenia and Nakhjavan. The Aras Free Zone covers about 1,000 square kilometers and is located between two of the most beautiful protected areas of Iran, namely Kiamaki and Arasbaran. It is about 137 kilometers from Tabriz, the industrial hub of north-west Iran and Iran's second largest city.

Over the past five years, exports from the free trade zones of Iran have grown thirty six fold, with many pundits attributing this growth to the geo-economic strengths and incentives offered by the Zones, including, inter alia:

- Each have easy access to major air, sea and land transportation routes at the local, regional, and international levels;
- All are geographically proximate to regional markets with regard to import of raw materials, and intermediate or manufactured goods, and easy access to local and neighboring markets specially those of Western, Southern and Central Asia and the Persian Gulf;
- Have reliable Public utilities and services and access to competitively priced sources of energy, such as natural gas and oil;
- Have availability to skilled and semi-skilled manpower with regionally competitive wages;
- Have access to a broad array of mineral resources, unique in the Middle East, required for industrial production and exports;
- Enjoy growing reputations as major trade centers;
- Have appropriate climate, quality of life and

tourist attractions

Having such a wealth of strategic advantages at Iran’s Free Zones would not be complete without having a strong legal institutional framework, providing investor security and an attractive incentive structure. Key elements in this regards comprise of

- 100% foreign ownership;
- Free repatriation of net profits and capital;
- 15 year tax holidays
- Investor protection and compensation
- Ability to lease land at competitive rates, and own the buildings and other installations built on the land.
- Exemptions from customs duties and commercial benefit tax for imported goods;
- Exported goods from the Zones to the mainland, to the extent of the added value plus the value of the used domestic raw materials, are exempt from customs duties and commercial benefit tax;
- All goods, shipped to the Zones from the mainland, are deemed as domestic goods and are exempt from taxes and customs duties.
- Foreign nationals who choose direct entry

to the Zones, do not need to apply for visa in advance ;

- For entry into adjacent zones, a double entry visa can be obtained from the Embassies or Consulates of the I.R.Iran in any country from which they wish to apply.
- The offshore banking and non banking credit activities regulations in the Zones are flexible, and compatible with international offshore banking practices and standards and non-Iranian banks and financial institutions may open head offices, branches, and counters independently or in partnership with domestic partners;
- No foreign exchange controls; the conversion of the Iranian Rial to any other currency is readily permitted;
- Transfer of foreign currencies and Iranian Rials abroad is permitted.
- Flexible labor laws which are unique and in compliance with ILO (International Labor Organization) recommendations;
- Dispute settlement is carried out in accordance with the contract originally concluded between the parties.

An overview of each of Iran’s Free Zones are as follows:

Origin port & destination port	Distance via Abbas port - Anzali port - Astarakhan (Km)	Distance via Suez Canal (Km)	Shortness of direction from Iran
Singapore - Hamburg	12489	15890	3401
Singapore – Helsinki	11765	17038	5273
Singapore - Rotterdam	12944	15573	2629
Bombay - Hamburg	8029	12203	4174
Bombay - Helsinki	7485	11905	4420
Bombay - Rotterdam	8664	13351	4687

Anzali Free Zone

In 2003, Iran converted the Port of Anzali into a Free Trade Zone, effectively setting up this port into a duty-free transit corridor for the transit of goods to and from the nations of the Caucasus and Central Asia.



The port's infrastructure is already capable of handling its expanded role, as it is connected to five power stations and has an international airport 15 miles away in Rasht, capital of Iran's northwestern Gilan province and Iran's largest city on the Caspian.

The Bandar-e Anzali Free Trade and Industrial Zone covers approximately 12.3 square miles, with nearly 5 miles of shoreline and docks including industrial, trade, tourism and service zones. Bandar-e Anzali also produces some of the world's best caviar.

The establishment of Anzali as a duty free transit corridor comes at unique time. In September 2000 Russia, Iran and India signed an intergovernmental agreement in St. Petersburg to construct an international "North-South Transport Corridor," which in turn built upon an earlier trilateral agreement India and Iran signed with Turkmenistan in 1997. As envisaged, the "North-South Transport Corridor" will permit the transit of goods from Indian ports to Iran's Persian Gulf Bandar-e Abbas or Chahbahar ports, from where they will be conveyed via rail across Iran to Bandar-e Anzali and Bandar-e Amirabad. Goods then will be shipped across the Caspian to Russia's Mahachkala or Derbent ports, from where they can access the Russian railway network, to Europe.

For exporters in countries such as India, the 3,880-mile length is much shorter than an Indian-Suez Canal-Mediterranean transit of more than 10,000 miles. A sample of the distance saved for exporters from India and Singapore is as below:

Aras Free Trade -Industrial Zone

Located in the province of East Azerbaijan,

in north-western Iran, this Zone is strategically placed adjacent to the Autonomous Republic Nakhjavan, Armenia and the Republic of Azerbaijan via the Aras River, a 1,072 kilometer stretch of water which forms the natural border of Iran with the Republic of Armenia and Azerbaijan. The Zone is also located 137 km from Tabriz, one of Iran's major academic and industrial hubs and 761 km from the Iranian capital, Tehran. Jolfa, the center of the Zone, has a century old background in international commercial and customs activities.

The geo-economic position of the Zone has made it well placed to be a major hub for the export and import of goods, not only due to its proximity to the emerging economies of its neighboring countries, but also as a gateway between east and west. By way of example, exports to Europe from the United Arab Emirates (Jebel Ali Port), have to be transported via the Oman Sea, Indian Ocean, Red Sea, Mediterranean Sea, and Putty Port on the Black Sea to the northernmost part of the East -West Corridor in Kalingrad. This route, which is 11,000 km. in total, of which 8,200 km is covered by ship travelling at 20km. per hour. The same goods, if transited from Jebel Ali to the Iranian port of Bandar Abbas then to the Aras Free Zone and then Baku and Tiflis and from there to Europe, the distance would be reduced 6,000 km via rail at an increased speed of 50kph.

This potential is all the more feasible as available facilities at the Zone include: railways and roads, electricity, irrigation and water distribution, gas distribution, communication, branches of all major banks and insurance companies, border terminals, customs warehouses, an international airport (Tabriz), government offices and ministerial branches, hotel, motel and restaurants.

Though having only been established in 2003, the Zone already boasts forty four industrial units, eleven of which have been established by



foreign investors, and in 2010, any and all export tariffs for goods were completely eliminated. A unique attribute of the Zone is the existence of a “Greenhouse Town” which has paved the way for the presence of investors in the arena of hydroponic products (the growth of plants without the use of soil).

Arvand Free Zone

The Arvand Free Zone is located in the Iranian province of Khuzestan. Since the Achaemenid era, the area has been known for lush fertile plains, with the Greek geographer Strabon (1st Century BC) describing Khuzestan as one of the most fertile plains in the world. Today, the Arvand Free Zone stands located adjacent to the markets of Iraq, Kuwait and Saudi Arabia. With its fertile soil and fresh water, developed infrastructure, including a railroad, airport and comprehensive road network, the Zone has been making inroads as a launch point for the transit of goods to the recovering market of Iraq.

Backed by, inter alia, tax exemptions and guarantees for investor security, nearly five hundred and eighty one companies have set up activities in the Zone, one hundred and nine of which are commercial, two hundred and forty five are industrial and two hundred and twenty six are service industries. Eighteen companies have been set up by foreign investors from countries as diverse as Malaysia, Iraq, Saudi Arabia, Kuwait, India, Libya, Armenia, Lebanon, China and South Korea.

Because of its strong infrastructure and geographic location, the Zone has been successful in attracting large scale industrial projects in the oil and steel industry. An oil refinery with a capacity of 180,000 barrels of oil per day is currently under construction as well as the Arvand Steel Mill, with a capacity of two million tons of steel per annum.

Chahbahar Free Zone

Established in 1992, the Chahbahar Free Zone serves as the closest Iranian port to the Indian Ocean and providing direct access to the nations

With an unparalleled natural beauty Kish Island was ranked among the world’s ten most beautiful islands by *The New York Times* in 2010, and with its numerous tourist attractions, five star resort hotels, malls and shopping centers, with over four million visitors per year, Kish Island is the third most visited vacation destination city in the Middle East.

of Central Asia via the Bafq-Bandar Abass-Mashad-Sarakhs-Tajan rail lines, the Chahbahar Free Zone is recognized as the shortest and the most secure route connecting the countries of Central Asia and Afghanistan to warm waters. .



This geographic location is backed by a first rate infrastructure which has the lowest time for loading and unloading of ships, lowest storage costs, lowest tariff rates for the entry of ships and the ability to host ships with capacities over 100,000 tons. The port of Chahbahar is currently undergoing an expansion project, to be completed by the year 2012. Which shall see the commissioning of three multi-purpose jetties .

In May 2010, the infrastructure and fast turnaround time of Chahbahar has led the government of Afghanistan to the replacement of Karachi Port in Pakistan by Chahbahar as the export hub of Afghanistan. As a result, all goods exported from Afghanistan will be done so via the Port of Chahbahar.

Kish Free Zone

Kish Island is the second largest island in the Persian Gulf. With a historical role as a conduit for trade as far back as 325 BC, the island today is uniquely situated to capitalize upon its trading heritage. With an unparalleled natural beauty Kish Island was ranked among the world’s ten most beautiful islands by *The New York Times* in 2010, and with its numerous tourist attractions, five star resort hotels, malls and shopping centers, with over four million visitors per year, Kish Island is the third most visited vacation destination city in the Middle East, after Sharm-el-Sheikh in Egypt and Dubai. Concomitant with the development of Kish as a tourism center, the island has also emerged as an international trading hub, with its



free zone status leading many investors to set up their international trading companies in the. Kish Free Zone. In 2009, total foreign trade in Kish stood at \$9.2 billion.

Kish also enjoys several industrial parks, and is home to several high tech ventures by multi-national companies.

Of particular note has been the establishment in Kish of Iran's first oil trading exchange, the 'Iranian Petroleum Exchange' also known as the 'Iranian Oil Bourse'. Launched in 2008, the exchange is intended for the trading of petroleum, petrochemicals and gas in various currencies, primarily the Euro and Iranian Rial, and a basket of other major currencies. As the operations of the Exchange are still ramping up, the exchange is currently only trading in oil-derived products, generally those used as feedstock for the plastics and pharmaceutical industries. However, in the second phase of the Exchange, it is foreseen that the Exchange will commence trading in crude oil directly, with the objective of creating a "Caspian Crude" benchmark price analogous to Brent Crude.

Qeshm Free Zone

Established in 1994 and located proximate to the port city of Bandar Abass, the island hosts a 300 square kilometer free zone jurisdiction, is 135 km long, and lies strategically in the Strait of Hormuz, in the Persian Gulf., and is 2.5 times the size of Bahrain.

Qeshm is famous for its wide range of ecotourism attractions and according to environmentalists, about 1.5% of the world birds and 25% of Iran's native birds annually migrate to Qeshm's forests, in which lies Iran's first national geo park.

However, concomitant to its scenic sites, Qeshm has also emerged as energy and trading hub. Nearly \$3 billion has been invested by Iranian and foreign investors, with another \$2 billion in oil, gas and energy development projects. It is predicted that a further \$13 billion in oil and other energy projects will be carried out in Qeshm in the near future.



As a result, Qeshm is now preparing to implement a four phase expansion plan, as part of a broader 'Persian Gulf Expansion Plan' under which it is foreseen that Qeshm will be transformed into a regional hub for investment and trade. . In the first phase, the authorities of Qeshm plan to complete and expand the Kaveh Jetty at the mouth of the Strait of Hormuz in turn followed by the second and third phases comprising of the construction of railways and roads connecting the jetty to the key transit routes of Iran to the countries of Central Asia and the Caucasus. The rail and road links will link Shahid Rajaie Port to Kaveh Port in Qeshm. The fourth stage of the plan, is the construction of the Persian Gulf Bridge. The 2.46 km bridge will be largest of its kind in Iran, and will connect the port city of Bandar Abass to Qeshm.

Power Generation

"Our plan is to develop the linkage of the national power network to regional countries. Iran has the second largest natural gas reserves worldwide, and therefore has a special status for the production of electricity. Hence, instead of selling natural gas, we could export electricity". – Hamid Chitchian, Deputy Minister for Energy

In this chapter, we have seen that key infrastructure such as ports, railways and air transport, backed by free and special economic zones have served to elevate Iran's position in the region as a geo-economic hub for transit and trade. Ample transportation systems are critical to economic development, enabling access to resources, goods and markets. However, without ample development of key utilities such as elecly, manufacturing, long distance transportation, highways and other key infrastructure will face major bottlenecks. As a result, Iran has not only successfully addressed this issue, but has also successfully linked its electricity grid to almost all regional countries and is actively exporting its surplus energy.

Today, Iran ranks first in the region in electricity generation and 18th globally. In the period of the Fourth five Year Plan (March 2005-March 2010) 18,000 megawatts of electricity was added to its electricity grid and by the end of the Fifth Plan, this figure is expected to increase to 25,500 megawatts. In the period between March 2010 to November 2010, electricity generated by Iran increased by 8.52% to 168,654 gigawatts per hour as compared to the same period in the preceding year.

This growth is buoyed by the increasing privatization of this sector. In June 2006, the 6th unit of Isfahan's Chehelsotoun power plant became the first private power plant to enter the electricity grid. Based on a Iran o-German joint venture, this plant paved the way for the entry of other private sector entities. Since then, a number of plants have been privatized, and new permits have been issued for the construction of new power plants by the private sector, with the capacity to produce over 30,000 megawatts of



energy. By the year 2010, the share of the private sector in electricity generation had increased to 8% of total generation, a 22% increase over the preceding year reaching 14,440 megawatts.

As a result of this growth, in 2009, Iran exported nearly 5,000 MWH (Mega Watt Hours) of electricity, an 87% increase over the preceding year. Iran currently exports electricity to Turkey, Iraq, Pakistan, Afghanistan, Azerbaijan and Armenia. Iran is currently expanding its electricity linkages with other regional countries, including the Persian Gulf littoral states and Russia. Of particular note is Iran's export of electricity to Pakistan and India. With the commissioning of a 700 km. transmission line and second line to the city of Gawdar, the groundwork has been laid for the export of 1100 megawatts of electricity from Iran to Pakistan. Concomitantly, Iran and India have agreed on the establishment of a joint power station and to boost the exchange of electricity between the two countries to over 6,000 megawatts via the establishment of a 1200 km. HVCD line between Iran and India, to be laid across Pakistani territory. The project which is to be completed in four phases is expected to be

MORE POWER PLANTS GOING PRIVATE

As part of the on-going privatization process under Article 44 of the Constitution (see Chapter One), Iran has under implementation the privatization of seven operating private plants and five incomplete (under construction) plants. With the successful flotation of the shares of these plants, it is expected that 17,000 megawatts of electricity generation will be provided via the private sector. It is foreseen that in the longer term, nearly 40% of Iran's power plants will be ceded to the private sector.

IRAN EXPORTS POWER PLANT TECHNOLOGY

Capitalizing on its success in the manufacture of electricity plants via indigenous technology, Iran has now emerged as large scale exporter of this technology. Projects under implementation include a Hydroelectric power in Georgia; a \$106 million deal in Sri Lanka by a private Iranian company to provide electricity to one thousand Sri Lankan villagers; a power plant and dam in Tajikistan; a dam in Afghanistan; a power plant in Syria and a \$200 million hydroelectric dam in Nicaragua.

completed in 2014.

One of the key issues faced by Iran, is the need to develop alternative sources of energy. Due to population growth and increased domestic consumption, Iran faces the possibility of becoming an oil importer instead of an exporter if present consumption trends continue. As a result, not only has Iran successfully continued to develop its natural gas resources, now accounting for 55.1% of primary energy demand (PED), overtaking oil, which now stands at 43.3%, but is also expanding its use of hydro power which stands at 0.9%. As of November 2010, Iran was generating 7,415 megawatts of hydroelectric power, a 62.53% increase over the same period in the preceding year.

As Iran diversifies its energy resources, in 2010, 500MW of power, generated by the Bushehr nuclear power plant, will be entered into the national grid, to be followed by a further 500MW of electricity as the plant ramps up. While Iran's Nuclear energy program has been a source of controversy, in light of Iran's need to diversify away from fossil fuels, and the high amount of energy that can be generated from a single plant, Iran's successful foray into this alternative source of energy has been a milestone in Iran's technological progress.

Concomitant with the growing diversification away from oil, Iran is also capitalizing upon another competitive advantage – wind. Iran which is considered one of the windiest countries in the world is a member of the Global Wind Energy Council. Studies have shown that Iran has the capacity to generate over 40,000 megawatts of electricity through wind powered power plants. In 2004, Iran generated 25 megawatts of wind generated electricity; in 2005 32 megawatts; in 2006 45 megawatts; in 2008, 85 megawatts in 2009 90 megawatts, a growth rate of nearly 40% per annum and bringing Iran into the ranks of the top thirty countries producing wind energy. As wind energy has a low marginal cost of less than one cent per kilowatt hour, it is expected that major investments will continue in this sector. To assess this potential, Iran has established fifty three new synoptic stations nationwide and by consideration of wind speed, the type and capacity of turbines which were suitable were identified. Studies determining wind duration during a one year period have also been completed.

Industry and Hydrocarbons

- Industry
- Marine Industries
- Aerospace
- Automotive Industry
- Oil, Petrochemicals and Gas
- Oil Sector
- Gas Sector
- Refining
- Marine Industries
- Aerospace
- Automotive Industry



INTRODUCTION

In the course of 20th century, Iran's economy has transformed from a relatively simple agrarian economy into a complex and industrialized one of the threshold of breaking into the ranks of the top twenty contry in the world in terms of industrial output. As a result, Iran has developed a host of economic institutions to support its economic development process in order to allow capital, labor, and markets to grow in terms of size, scope, and depth. A great part of this transformation has arisen from imports of knowledge, technology, capital and intermediate goods. Industry and oil have long had interplay between these developments as Iran's vast hydrocarbon resources have played a major role in facilitating the import and development of technological know-how. As a result, the combination of the development of Iran's hydrocarbon resources and the development of Iran's industrial infrastructure have contributed greatly to Iran's growing strengths in terms of human capital, infrastructure, and industrial prowess. At the same time, the newly emerging markets of Iran's neighbors are providing new market opportunities for Iranian goods.

Today Iran has the largest operational stock of industrial robots in West Asia and Iran's progress in automobile and aerospace have led to notable achievements

One of the key lynchpins of Iran's development strategy has been the focus on industrialization while, concomitantly, increasing the value added and development of the downstream sectors of its hydrocarbon industry. As a result of these efforts, Iran has made numerous strides as evidenced by considerable progress in scientific

research and technological know-how. Iran is now self-sufficient in the manufacture of many of its industrial products ranging from home and electrical appliances to pharmaceuticals. Today Iran has the largest operational stock of industrial robots in West Asia and Iran's progress in automobiles and aerospace have led to notable achievements. In the hydrocarbon sector, Iran is now not only a global player in the petrochemical and gas sectors, but is now an exporter of oil related technical and engineering services to third countries. As a result, Iran has made marked strides in notons its industrial sector but also its hydrocarbons sector in global rankings as evidenced by:

- Iran is ranked 21st globally in Industrial output.
- Iran is ranked 38th globally in manufacturing output.

- In 2008 Iran broke its oil production record with a record export of 6.1 million barrels of oil in one day.
- With double digit growth rates in its gas production, Iran is now poised to become one of the largest gas exporters in the world.
- Following a thirty fivefold increase in production since 1979, Iran is now the second largest producer of petrochemicals in the Middle East, and is slated to become the largest producer in the region by the year 2025.
- By the year 2012, Iran is expected to become the leading refiner of oil products and by-products in the whole Middle East region.

INDUSTRY

Iran has under taken major steps to develop its industrial base by upgrading the country's industrial structure and implementing new technology and machinery. As part of an industrial development strategy published in 2003, the government has focused on: "self-sufficiency through supporting consumers; import substitution through securing basic needs and protecting domestic producers; and enhancing the social welfare of the nation and strengthening the international position of the economy through export of goods and services to meet the needs of the other nations and [to] increase ... the per capita income of the country."

The strategy for the development of industry, involves meeting domestic market demands as well as expanding exports by implening policiey such as awarding "exemplary exporters" on a yearly basis, providing finacial facilities and export credits, expediting exporters' participation in international exhibitions and the marketing Iranian products that are competitive internationally.

As a result of this strategy, Iran's non-oil exports topped \$18.5 billion during the period of March 21, 2009 to March 21, 2010. In the period between March 21, 2010 (the start of the Iranian year) to October 2010, Iran's industrial exports increased by a further 20% and over the preceding four year period these exports have quadrupled. According to the statistics of the Ministry of Industry and Mines, Iran exported 28.9 million tons of non-oil goods during this period worth \$12.231 billion resulting in a 34.9% increase in

Priorities in industrial investment are given to projects which provide the missing links in manufacturing, such as intermediate goods and the processing of raw materials which are needed for the manufacturing process

volume and a 31.3% increase in value over the preceding period of the same year.

Industries in Iran are divided between large scale and small scale industries. By definition, small scale industries are those which employ less than ten workers which in turn are divided between urban and rural industries. Rural industries operate principally as small family owned workshops with over 81% of them being involved in the textile industry, namely hand woven carpets. The share of value added of rural workshops is negligible on the Iranian economy as their goods are usually limited to local rural areas and their activities are usually a means of garnering extra income for rural families. Small scale industries in urban areas however have an opposite effect on the Iranian economy. Small textile workshops account for 35% of the total value added for small scale industry, foodstuffs comprise of 10% of total output and thirty percent of value added, machine tools and metal works comprise of 8% of total products and account for 14% of total value added.

Priorities in industrial investment are given to projects which provide strategic links in manufacturing, such as intermediate goods and the processing of raw materials which are needed for the manufacturing process in order to lessen dependence on imported materials such as electrical and mechanical components and certain raw materials. As a result, recent investments



have focused on the development of vertical linkages, namely ‘forward linkages’ and ‘backward linkages’. Forward linkages are the linkages between the focal industry and downstream industries, whereas backward linkages are the linkages between the focal industry and its upstream industries. By way of example, the petrochemical industry requires inputs from other industries, such as oil. These constitute backwards linkages. Petrochemical products are then sold to a variety of manufacturers ranging from appliances to automobiles, who constitute forward linkages.

As a result of these linkages, Iran has been able to successfully enter a number of new high tech industries by successfully combining forward and backward linkages between Iran’s hydrocarbon resources and the development of Iran’s industrial infrastructure. These forward and backward linkages can be exemplified by developments such as the commissioning of Iran’s first ocean going container ships, which, as a result of this success, Iran’s maritime ship manufacturers have now been awarded the mandate to manufacture Iran’s requirements for LNG (Liquid Natural Gas) carriers. The launch of these carries are sulked to be concomitant to the launch of LNG exports from Iran. In the aerospace industry, the successful launches of a number of indigenous satellites into space via Iran’s space center are also to provide data required to enhance oil and gas exploration. The entry of Iran into the rankings of the top twenty international auto manufacturing countries has been buoyed by the widespread availability of petrochemical and other petroleum based by-products as well as Iran’s rapidly growing steel industry (see chapter 3). In turn, these developments have enabled the development of an indigenous supply chain network of local parts manufacturers who are increasingly gaining the ability to compete internationally.

These development can be exopt by an overview of the marked growth experienced in three key high-tech industries is as follows:



Marine Industries

In June 2010, Iran’s first oceangoing cargo liner, the Iran-Arak, was officially commissioned after receiving a quality certificate from Germanischer Lloyd technical supervisory organization. The 185 meter long, 30 meter wide ship has the ability to carry over 30,000 tons of cargo.

Capitalizing upon this success, Iran has banned the purchase of new ships from third countries and has instead mandated that they be purchased from local ship yards. In light of the fact that over the next two decades, Iran will require over 500 new ships, including 120 oil tankers, 40 liquefied natural gas (LNG) carriers and over 300 commercial vessels, the ship building industry is one of the sectors foreseen to expand greatly.

Iran’s experience with shipbuilding dates back to the 1970’s with the construction of the first and largest ship building yard in the Middle East under the name ‘Persian Gulf Shipbuilding Complex (PGSC), followed shortly thereafter by another Iranian Company, Iran Marine Industries Company. Both companies were still in their early stages of development when their activities were curtailed due to the 1979 revolution. Following the revolution, major investments took place in both companies, and, as a result, both have evolved into major manufacturers. Iran Marine Industries, which was subsequently renamed SADRA, has not only successfully manufactured numerous tugboats, barges and fishing vessels, but also became the first Iranian company to successfully manufacture oil production platforms and oil rigs. SADRA’s sister company, Iran Shipbuilding

Iran has been able to successfully enter a number of new high tech industries by successfully combining forward and backward linkages between Iran’s hydrocarbon resources and the development of Iran’s industrial infrastructure.



& Offshore Industries Complex Co (ISOICO) was responsible for the manufacture of the Iran-Arak and is now preparing for the manufacture of vessels up to about 2 x 300,000 DWT VLCC or 2 x 140,000 m³ LNG (Liquid Natural Gas) carriers per year in addition to the existing capacity.

One of the keys to success of Iran's ship building industry is the fact that a number of research and development institutes have emerged specializing in this sector, backed by two of Iran's leading universities, namely Sharif Institute of Technology and Amir Kabir Polytechnic. Both universal offer undergraduate and graduate programs in naval architecture and marine engineering.

Aerospace



One of Iran's major breakthroughs in the development of Iran's industrial sector has been the rapid development of its aerospace industry. In February 2008, Iran successfully launched its first indigenous telecommunications satellite 'Omid' (Hope) via its space launch vehicle 'Safir' (Ambassador) at Iran's first space center located in Semnan province. During the preceding year in 2007, Iran successfully test launched the Kavoshgar-1 ('Explorer') rocket into orbit as a pre-test to the launch of the satellite. Iran is now among a handful of countries in the world that has been able to successfully enter space. Following its launch into orbit, the Omid satellite encircled the earth fifteen times per day and transmitted data via two frequency bands to Iran's space station. After orbiting the earth for three months, it reentered the earth's atmosphere on April 25, 2009.

In light of Iran's success of becoming among the few countries to develop a successful space program, Iran's aerospace industry has also made notable strides in the aviation sector as well.



Pursuant to this, the first bio-capsule of living creatures was launched into space by Iran via the Kavoshgar-3 space rocket. The capsule, which carried a rat, a turtle and a number of worms, was able to send back empirical data and was been designed to study the habits of living creatures in space.

The Kavoshgar satellite is outfitted with structural sub-systems, biological compartments, nourishment gear, telemetry data systems, live shot and relay systems, flight computers, environmental monitoring systems and a recovery system. The Kavoshgar-3 has been designed to undertake a number of activities, including telemetry of performance during launch, live imagery and relay for mobile stations on earth, space mission control, segregation control, biological capsule on demand display, data collection operation and subsystem check.

In 2011, Iran is plans to launch two other satellites from its space station. The first, named 'Mesbah' (Lantern) is a LEO (Low Earth Orbiting) satellite and has a lifespan of three years and is equipped with a forward telecommunications receiver that can gather information from various parts of the planet and transmit them back to



earth. This will then be followed by the Rassad 1 (Observation) satellite slated for launch in March 2011, which will be used for weather forecasts and imagery.

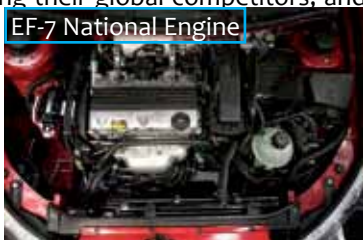
It is believed that these steps are in preparation for Iran's stated plan to send a manned shuttle into space by the year 2019.

In light of Iran's success of becoming among the few countries to develop a successful space program, Iran's aerospace industry has also made notable strides in the aviation sector as well. Following the launch of Iran's first locally manufactured plane, the Iran-140, a fifty two seat turboprop, Iran has followed these steps with a number of mass produced helicopters and two indigenous fighter planes, namely the Tazavr and Saegheh.

Iran's aerospace officials have now unveiled plans to build a 150 seat passenger plane which would be the largest plane built in Iran to date.

Automotive Industry

Iran is ranked globally as one of the leading countries in the world for auto production after its automotive industry registered a 9.5% increase in its production in 2009, and the country has surpassed older automotive manufacturing countries such as Italy in manufacturing output. According to the Organization International des Constructeurs d' Automobiles (OICA), Iran, with a production of 1,400,000 different types of passenger cars and commercial vehicles, Iranian manufacturers ranked twelfth among global carmakers. Iran's two top automakers, Iran Khodro and SAIPA were ranked 16th and 17th respectively in production among their global competitors, and are the largest automakers in the Middle East, Central Asian and North African regions.



Iran's two leading automakers have made amazing strides in the development of indigenous models and technologies. Iran Khodro, which was the first Iranian company to design and manufacture a wholly indigenous passenger car, has now put into mass production its first Iranian designed automobile engine. The engine, which

IRAN KHODRO RAMPS UP PRODUCTION IN VENEZUELA

According to Venezuelan officials, the production of the Iran Khodro Samand (Iran's first national car) is increasing rapidly as the car has been a sales success in Venezuela and regional countries. The vehicle, which is manufactured under license by a Venezuelan-Iranian joint venture company is now benefitting from the additional support of the government of Venezuela which has been taking measures such as facilitating cargo clearance and providing financial facilities in order to further support market demand. According to a senior ranking Venezuelan auto industry executive "the Samand is a tough rival for similar brands in quality and price in Venezuela and we expect its output to double in Venezuela by 2011". According to Iran Khodro officials, the capacity of the plant is being expanded to increase production from 15,000 to 26,000 units per annum.

Iran Khodro's ten year strategic plan includes the establishment of strategic alliances with global partners, boosting competitive advantages, continuous improvements in productivity, quality and technology and the pursuit of global competitive strategies.

SAIPA LAUNCHES THE TIBA IN KASHAN

In May 2010 Iranian President Mahmoud Ahmadinejad inaugurated the largest automobile manufacturing plant in the Middle East. The plant, which was commissioned by Iran's second largest automobile maker SAIPA is slated to produce 150,000 units of cars per annum. Concomitant with this commissioning, Iran's second national car will go into mass production. Named as the 'Tiba' (Deer) the vehicle has been entirely designed and built by Iranian automotive engineers. Priced between \$8,000 to 9,000, the vehicle is targeted at the entry level segment of the Iranian market. According to President Ahmadinejad "this is the first vehicle with Iranian characteristics and is designed and manufactured by Iranians" and further stating "Tiba is the symbol of our self confidence The Iranian people have shown that despite sanctions and pressures, we have resisted and moved forward."

Following on the heels of the Tiba, SAIPA's commercial vehicle subsidiary SAIPA Diesel is preparing to launch Iran's first national truck concomitant with the Iranian New Year on March 21, 2010. The truck, which is slated to have a 400 horsepower engine is being developed for the Iranian and export markets.



is unique as being the first CNG based engine in the world was unveiled internationally at the 2008 Engine Expo in Stuttgart, Germany.

The company, which has assembly operations in Argentina, Venezuela, Syria, Azerbaijan, Belarus, Senegal and Egypt, is aiming to achieve an export target of 600,000 vehicles per annum by the year 2016. Production lines in Vietnam and China are now under implementation. With one hundred and sixty six sales and after-sales offices around the globe, the company has made inroads into the markets of over twenty countries, including, inter alia, Switzerland, Russia, Turkey, Turkmenistan, Afghanistan, Nigeria, the Caspian Sea littoral states, Pakistan and Bulgaria. The company's Belarus plant has been designated as the export hub for the entry of the company into the European market.

Iran's second largest manufacturer, SAIPA Corporation, unveiled the largest automobile manufacturing plant in the Middle East in the Iranian city of Kashan in May, 2010. With a manufacturing capacity of 150,000 units per annum, the three hundred and fifty million Dollar plant is slated to produce a slew of locally designed products, in particular, the SAIPA Tiba its first 'national car'.

SAIPA is unique as being recognized as one of the best performing companies in Iran. In 2009, the company increased its exports by 256% and was able to achieve an average profit margin of 8% on its sales, much higher than the global



According to the Organization International des Constructeurs d'Automobiles (OICA), Iran, with a production of 1,400,000 different types of passenger cars and commercial vehicles, ranked twelfth among global carmakers.

industry standard. As a whole, the company's productivity has been measured as being, on average, 33% above the Iranian industry average. As a result, the company, was ranked as the best performing company on the Tehran Stock Exchange, and, in line with the government of Iran's privatization drive, a flotation of 18% of the shares of the company by the Iranian government netted over six billion Dollars, standing as one of the largest and most successful flotation's ever on the Tehran Stock Exchange and the largest for an Iranian auto manufacturer. By comparison, the share of SAIPA's rival Iran Khodro, sold in an earlier flotation, only netted \$430 million.

The Iranian automotive industry remains one of the best sectors for investment, especially as the country continues to invest heavily in new technologies. With demographics (as covered in Chapter One) that indicate consistent demand for decades to come, and the fact that Iran remains a vast untapped market as evidenced by the fact that for every fifty three people, only one car exists. Automotive companies in Iran consistently have one of the best returns on investment on the stock exchange and gas rich Iran is investing heavily in alternative fuel technology, with the development of the first bi-fuel CNG based engine covered above being a first step in this regards. At the present time, in less than five years, Iran has emerged as one of the fastest growing countries in the use of CNG based vehicles, with over 15% of CNG based cars being located in Iran.

OIL, PETROCHEMICALS AND GAS

Given Iran's vast hydrocarbon resources, development of these resources has been of high priority in the government's efforts to develop a modern, industrialized economy, especially within the context of developing forward and backward linkages between other key sectors of the economy, in particular industrialization. Capital investment in exploration, production,

IRAN AT THE HELM OF OPEC

In January 2011, with the election of Masoud Mirkazemi, the Oil Minister of Iran, an Iranian will undertake the helm of the Organization of the Petrochemical Exporting Countries (OPEC) for

the first time in thirty six years. OPEC, which was founded in 1965 at the impetus of Iran and Venezuela, remains a key influence on oil markets with its 12 members and together, its members produce 40% of the world's oil and hold 60% of the world's proven oil reserves. According to Nobuo Tanaka, head of the International Energy Agency (IEA), global dependency on OPEC for crude oil will rise in the coming decades as output by non-OPEC member's fall.



NIOC RANKED WORLD'S SECOND OIL GIANT

According to the latest rankings of the world's fifty largest oil companies, Petroleum Intelligence Weekly has ranked the NIOC (National Iranian Oil Company) as the world's second largest oil company. The survey, a benchmark survey now in its twentieth year, is the leading source of comparative performance assessments of all oil companies.

IRANIAN FIRM WINS \$225 MILLION INTERNATIONAL OIL TENDER

The Iranian engineering company IOEC (Iranian Offshore Engineering and Construction Company) has won the largest oil tender in India. The tender, for India's D-1 offshore field development project, is located about 200km. west of the Indian city of Mumbai in the deep continental shelf at a depth of 85 to 90 meters. The project encompasses the installation of three smart well platforms along with three rigid and flexible pipelines and sub-sea cables. Following on the heels of this development, Saudi Arabia's ARAMCO has pre-qualified IOEC, becoming the first Iranian company to successfully do so and become eligible to partake in Saudi oil projects. With over 400 employees, IOEC is one of the largest integrated offshore and sub-sea pipe laying companies in the Middle East and designs, procures, constructs, installs and services a complete range of offshore surface and partial subsurface infrastructure for the offshore oil and gas industries. In 2009 alone, Iran exported \$3.175 billion worth of technical and engineering services to a broad range of countries, including, Turkmenistan, Sri Lanka, UAE, Iraq, Kazakhstan and Lebanon who ranked as the top six importers of Iranian technical and engineering services.



and in particular, development of added value downstream value added products such as petrochemicals and refining are current priorities in this sector.

The Oil Sector

Oil production has played an increasingly dominant role in the Iranian economy since the first well started production in the city of Masjid Suleiman in 1908. With 136 billion barrels of proven oil reserves, equivalent to ten percent of the world's proven petroleum reserves and with roughly forty production fields (twenty seven

onshore and thirteen offshore), Iran has been ranked by OPEC as having the second largest oil reserves in the world after Saudi Arabia. However, new discoveries are being continuously made, and in the years 2005-2008 alone, over 4.5 billion barrels of additional discoveries have been made at a number of new sites such as the Sarvak Layer of Bandar Karkhe. In the year 2009 alone, a major new discovery of 8.8 billion barrels was made in the Sousangerd Fields

As a result, large scale investments have been required to bring such massive reserves on-stream. In the first three years of the fourth economic plan (2005-2008), a total of \$46.68

OIL EXCHANGE LAUNCHED IN KISH ISLAND



In February 2008, the first phase of Iran's oil exchange was commissioned. The exchange, deals in crude oil and oil by-products and petrochemicals. The exchange was launched in February, 2008 and was created as consortium between, inter alia, the Iran Mercantile Exchange and a number of other state and private institutions and is located in the Free Trade Zone Island of Kish. By 2009, the Exchange had emerged as a key regional spot market for petrochemicals products and with the launch of the third phase of the exchange, the exchange

now has the requisite electronic infrastructure and regulatory framework in place to handle futures contracts for crude oil and petrochemicals. Trading takes place through licensed private brokers registered with the Securities and Exchange Commission of Iran. Any company, domestic or foreign, can list their products on the exchange for as long as they meet the listing criteria of the Exchange.

billion worth of investments were made in the oil sector. As a result, on August 20, 2008, Iran broke its oil export record by exporting 6.166 barrels of crude oil via six oil tankers in one day. With the coming on-stream of a number of projects, such as the Azadegan Oil field, it is expected that Iran's average oil production will increase from a current average of 4.3 million barrels per day to 5.150 million barrels per day by the end of the fifth five year development plan (2010-2015).

Of particular note is Iran's Azadegan oil field. With the extraction of over 5,400 million barrels in the first four months of the Iranian fiscal year (Commencing March 21, 2010) and with over 33.2 billion barrels in reserves, Azadegan has been recognized as one of the largest oil discoveries in the world in the last three decades. Between the years 2007-2008, the first phase of the project was completed, with the commissioning of six wells, 100km. of pipeline and installation of two oil and gas separators.

A key lynchpin of Iran's strategy for the development of its oil resources will be the development of Iran's northern Caspian Sea resources. The Caspian Sea, the world's largest body of enclosed water, is believed to hold as much as 44 billion barrels of oil reserves with

half of such reserves belonging to Iran. Iran has already discovered over forty six fields and in February 2010, Iran started drilling its first exploratory well in the Caspian Sea with its locally manufactured Amir Kabir semi-submersible oil rig at a depth of 5,085 feet under the seabed.

In addition to the development of its own resources, and in light of Iran's unique geo-economic position in the region, oil swap deals from countries such as Iran's northern neighbors Azerbaijan and Turkmenistan are rapidly approaching 100,000 barrels per day and are expected to reach one million barrels per day. The Central Asian and Caucasus regions are believed to hold the equivalent of twenty percent of global oil requirements and approximately fifty percent of the total production of the Organization of Petroleum Exporting Countries (OPEC). As a result, oil transited from these countries via Iran is expected to multiply exponentially as Iran is effectively emerging as the largest and most viable conduit of the oil exports from its land locked northern neighbors to its oil export facilities in the warm water ports of the Persian Gulf.

KISH BECOMING GAS HUB

Kish Island is home to Iran's third largest gas field with reserves of over 66 trillion cubic feet of gas. Until only a few years ago, the coral and elliptical island was mainly a tourism resort. However, with the commencement of full scale exploration activities in 2004, major gas reserves were discovered at a depth of 4000 meters. As drilling activities have now commenced, in the first phase, 13 wells will be drilled, with the first phase of gas expected to come on stream in 2011, with a daily output of 20 million cubic meters of gas, 15,000 barrels of gas condensates, 970 million cubic feet of light sweet gas and solid sulfur.

Gas Sector

Iran is home to the second largest natural gas reserves in the world, equivalent to about seventeen percent of the world's known gas reserves. Massive development and investment activities are forecasted to reach 210 bcm (billion cubic meters) up from an estimated 125 bcm in 2010 with an ultimate objective of achieving a target of 617.5 billion cubic meters by 2020. Concomitantly, exports of gas are expected to grow in parallel, with 7.5 bcm of exports in 2009, 17bcm in 2010, 23bcm in 2011 and 32 bcm in 2012 and 41bcm in 2013 generating revenues of \$2.647 billion, \$5.435 billion, \$5.854 billion and \$10.238 billion respectively for a total of \$28 billion of income over a five year period.



As production ramps up, Iran has undertaken a large scale pipeline development strategy in order to penetrate regional and international markets. As of 2010, some 2000km. of pipelines



are in various phases of completion as are the construction of eleven high pressure gas compressor stations. In the first four months of 2010, Iran witnessed a 54% growth in its gas exports. A key lynchpin of this strategy has been the planned completion of the three key pipelines, namely:

- The 6th National Pipeline which will pave the way for direct exports of natural gas to Europe from Iran's South Pars field. The 492 km. transmission pipeline has the capacity to carry 110 million cubic meters of gas per day and will feed the southern Iranian provinces of Khuzestan and Bushehr and raises the prospect of providing gas exports to regional countries such as Kuwait.
- The 7th National Pipeline encompassing 902 kilometers slated for completion in



By capitalizing on its unique geo-economic positioning, Iran is rapidly emerging as a regional hub for the supply of gas

March 2010. Upon completion, natural gas transference capacity will be increased to 110m cubic meters.

- The 8th National Pipeline encompassing 1,055 kilometers. 545 kilometers of this pipeline was completed in 2009 and the remaining 465 km. of the pipeline will be completed in 2010.

Complementing these pipelines will be a number of regional and international pipelines. By capitalizing on its unique geo-economic

positioning, Iran is rapidly emerging as a regional hub for the supply of gas. Key projects include:

Iran-Pakistan: In March 2010, Iran and Pakistan signed a groundbreaking deal for a natural gas pipeline connecting the two nations. With the completion of the second phase of the construction of the pipeline in July 2010, construction is expected to be completed by the year 2014 and Iran is expected to supply 750 million cubic feet a day of gas for twenty five years. Iranian gas is expected to support approximately

GAS NEGOTIATIONS WITH IRAQ UNDERWAY – TRANSIT TO SYRIA GRANTED

Iranian and Iraqi officials are progressing in negotiations for the transfer of Iranian natural gas to fuel Iraq's power sector. At the present time, a joint working group has been formed and it is expected that the first gas supplies could start by 2012. The supplies are envisioned to take place via two pipelines that cross the borders of the two countries at Dehloran and Khoramshahr.

Concomitant with these negotiations, Iraq has provided its consent for the transit of Iranian gas to Syria and its surrounding Mediterranean neighbors. It is expected that the transit of such gas will commence in 2013 following completion of a pipeline capable of carrying 60 million cubic centimeters of gas per day.

GAS CONDENSATE EXPORTS INCREASE BY 50%

In the single one month period of May to June 2010, more than \$361 million of gas condensates have been exported from Iran's Pars Port Complex. According to the managing director of the complex, some 559, 288 tons of gas condensates were exported from Iran's South Pars Gas fields, registering a 48% increase in weight and fifty percent growth in terms of value in comparison to the same period in the preceding year.

THE GAS EXPORTING COUNTRIES FORUM

The Gas Exporting Countries Forum was founded in Tehran, Iran in 2001 at the initiative of Iran, Russia and Qatar (known as the 'big three' of the international gas markets). The three countries, which hold sixty percent of the world's natural gas reserves, determined that if they were able to consolidate and coordinate their activities they would be able to create dialog and coordination between producers, consumers, governments and energy relate industries. Following the seventh Ministerial Meeting which was held in Moscow in December 2008, the GECF adopted a charter and fixed membership structure, with a total membership of fifteen countries, resulting in an organization with a membership that controls over 70% of the world's gas reserves, 38% of the pipeline trade and 85% if liquefied natural gas production (LNG) production.

While pundits have termed this organization as a type of 'Gas OPEC', in reality the forum has served a means to allow gas exporting countries to coordinate and exchange views with the ultimate objective of promoting a stable and transparent energy market.

IRAN RANKS SECOND IN WORLD FOR CNG POWERED CARS

The number of natural gas powered vehicles in Iran is over two million, ranking Iran with the second largest fleet of natural gas powered vehicles in the world. In order to conserve its oil resources, Iran has been developing incentives for Iranian drivers to switch to bi-fuel vehicles. Due to Iran's unlimited natural gas resources, combined with the more competitive price of CNG, gasoline consumption in Iran has fallen by forty million liters per day and stands at sixty million liters per day.

5,000 megawatts of power generation. It is envisioned that if Indian security concerns on the Pakistani side could be allayed, the pipeline will be extended to India, bringing into fruition a long planned 'Peace Pipeline' between the two nations, with the Iran-Pakistan pipeline being a conduit for Iranian gas supplies to India.



Iran-India: A gas pipeline with a capacity of 31 billion cubic meters and at a cost of \$4 billion is under negotiation between Iran and India. The project, which is being spearheaded by the Indian company South Asia Gas Enterprise Private Ltd. (SAGE), will be an estimated 1,100 km. long and is expected to link Iran's seventh network pipeline in two sections of Asalouyeh-Bandar Abbas (422 km.) and Bandar Abbas –Iranshahr (480 km.) to the Iranian city of Chahbahar, from which point the pipeline will become submersible along the bed of the Oman Sea connecting to the Indian state of Gujarat. The pipeline has the added benefit of allowing a linkage of Turkmenistan's gas to the pipeline, garnering access for India to gas from Turkmenistan as well.



Iran-Turkey: With the launch of the 6th National Pipeline explored above, gas exports to Turkey are expected to increase from 30 million cubic meters per day to 45 million cubic meters per day, which is then eventually expected to be subsequently increased to 60 million cubic meters per day, allowing the surplus gas not bought by Turkey to be exported to Europe. In July 2010, a second contract for the construction of a pipeline was signed between Iran's National Iranian Gas Export Company and Turkey's ASB to build a 660km. pipeline crossing Turkey from Iran. The pipeline is expected to be completed over a three year period with the objective to export between 50 to 60 million meters of gas per day with the



objective of exporting gas to Europe.

Iran-Switzerland: In March 2008, a watershed agreement was signed between the National Iranian Gas Company and Elektrizitas-Gessellschaft Laufenberg. The twenty five year contract, worth over \$25 billion, represents the first major inroad of the supply of Iranian gas to the European



Micheline Calmy-Rey at the signing ceremony

market. Some pundits have stated that the deal represents a watershed in the geo-politics of energy as was apparent from the statements of Swiss Foreign Minister Micheline Calmy-Rey at the signing ceremony stating that Switzerland has a 'strategic interest' to secure gas supplies from new sources and diversify suppliers. In the first phase Iran will export 1.5 billion cubic meters of gas which will then be increased to an annual 4 billion cubic meters by 2012.

Iran-Syria: In August 2010, the governments of Iraq and Iran came to a landmark agreement in order to allow an Iranian gas pipeline pass through Iraq in order to supply Syria with gas. The pipeline, which is to be constructed over a three year period, will be capable of transporting 60 million cubic meters of gas per day.

Iran-Armenia: Completed in 2007, the Iran-Armenia gas pipeline has increased deliveries from 3 million cu.m of gas per day to nearly 10 million cu.m. Capitalizing on this success, in June 2009, a 380km. oil pipeline was agreed upon to be constructed between the two countries. The project is to be executed with the objective of assisting Armenia to increase its energy security and become a transit route of Iranian oil products to Europe. The pipeline is expected to connect the Iranian city of Tabriz to the city of Ararat in Armenia at a cost of \$250 million.



Iran-Azerbaijan: Negotiations between Iran and Azerbaijan have resulted in an comprehensive agreement to swap gas. At

present, the current gas pipeline allows for 2.5 million cubic meters per day which is to be shortly expanded to 5 million cubic meters per day in the second phase. Azerbaijan has commenced the requisite upgrades to its gas pipeline to achieve the five million target. Concomitantly, in February 2010, Azerbaijan's state oil company, SOCAR, announced plans to commence the construction of a new gas pipeline to Iran with the objective of carrying 18 million cubic meters of natural gas to Iran per day.

Iran-Turkmenistan: In addition to the existing Korpheje-Kurt Kui pipeline, a second gas pipeline was launched in January 2010 in the presence of

the Presidents of both nations. The 31km. pipeline extending from Dovletebad in Turkmenistan to the Iranian city of Sarakhs has a capacity of 15 million cm of gas daily resulting in an increase of gas supplies via Iran from the previous average of 8bcm per year to over 14 bcm per year with a longer term objective of achieving 20 bcm per year.

In November 2010, the second phase of this pipeline was inaugurated supplying gas to 16 northern provinces of Iran and creating a new corridor for the swap and transit of gas to Eastern Europe.

PETROCHEMICAL EXPORTING COUNTRIES FORUM ?

In 2010 Iran proposed to the world's major petrochemical exporters to establish a forum for petrochemical exporting countries. This proposal comes on the heels of Iran's success in launching the Gas Exporting Countries Forum in 2008. Negotiations have been commenced with leading producer countries such as Saudi Arabia, Russia, Qatar and Turkey.



FOREIGN INVESTMENT IN THE PETROCHEMICAL SECTOR TOPS \$4.5 BILLION

Over a three year period of 2005-2008, foreign investment in the Iranian petrochemical sector topped \$4.5 billion. Of particular note has been the privatization of the industry via foreign ownership in a number of complexes such as Aria Sasol and Farsa Shimi. Other investments, such as a \$451 million investment in the establishment of a propane dehydrogenation plant and a polypropylene plant by Indonesia's Petrokimia in the Pars Special Economic Energy Zone are under way with commissioning expected to take place in 2012. One of the most successful privatizations and sales of units to foreign investors has been the sale of the Razi Petrochemical Complex to a consortium of four Turkish companies in a tender worth over \$1billion. This transactions stands out as one of the first sales of a company active in the down-stream activities of the oil sector to foreign investors. Following its sale, the complex, which is one of the largest manufacturers of ammonia, urea, fertilizer, sulfur and sulfuric acid in Iran, is now readying the commissioning of a 200 million Euro plant to manufacture one million tons of urea per year.

The Petrochemical Sector

The petrochemical industry has become an important aspect of diversification away from oil in Iran's economy. Under Iran's "Vision 2025" long term strategic national plan, Iran aims to become the leading producer of petrochemicals in the region. In 1979, petrochemical production stood at 1.604 million tons. Today Iran has emerged as the second largest producer of petrochemicals in the Middle East, producing over 16 million tons of petrochemical products in the first five months of the Iranian year (March 21 – August 21, 2010), of which some 7.14 million tons worth over \$2.4 billion were exported. It is expected that by the end of 2010, this figure will reach \$8.5 billion with production in excess of 35 million tons, a thirty fivefold increase. As a result, approximately forty percent of non-oil exports derived from the petrochemical industry.



Between 1979 to 2009, over thirty four petrochemical products have been commissioned, with a nominal output capacity of 41.872 million tons. These projects included the expansion of Shiraz and the Razi petrochemical plants, and the construction of Bandar Imam, Isfahan, Arak, Urumieh, Khorasan, Khargh, Olefin VI (Amir Kabir), Bou Ali Sina and Shahid Tondgouyan complexes. Concomitantly, during this period, a number of complexes came on-stream with foreign investment and /or the private sector. These include Olefin IX, Karoun, Mehr (heavy polyethylene project in Mahshahr), Laleh (light polyethylene project in Mahshahr) and

Hengameh (PVC production in Hamedan) and as well as the Arvand, Amirkabir, Jam, Pardis, Zagross, Morvarid, Ilam, Tabriz, Fajr, Zanjan and Golestan petrochemical projects.

In order to achieve its objectives under Iran's national Vision 2025 Plan, a further sixty one petrochemical projects are due to come on stream during the Fifth National Development Plan, raising Iran's petrochemical output capacity to over 100 million tons per year by the year 2016. Of particular note is that with the expertise that Iran has garnered in the petrochemical sector, the local content of Iranian petrochemical plants tops 70%. In August 2010, Iran made a major breakthrough in the petrochemical industry with the launch of its first indigenous catalyst. For the years 2010/2011 alone, Iran plans to outlay \$25 billion for this sector alone.

In the first quarter of 2010, Iran's National Petrochemical Company (NPC) commissioned six petrochemical complexes in Asalouyeh on the southern coast of Iran, including the commissioning of the world's largest ethylene plant in Iran's southern port city of Asalouyeh with a capacity of 1,320 million metric tons of ethylene per year. The unit also has the capacity to produce 306,000 tons of propylene, 600,000 tons of a variety of light and heavy polyethylene, 300,000 tons of polypropylene and 443,000 tons of ethylene glycol annually. At the same time, several new jetties at the Pars petrochemical port in Asalouyeh have been completed, providing the capacity to export 35 million tpa of liquid and solid products, bolstering the position of the port as a major regional hub for exporting petrochemical products.

The countries of the Far East are the largest markets for Iranian petrochemicals with 41.5% of exports going to these countries, 23.9% to the Middle East, 10.7% to India and 9% to the South and Southeast Asia. In October 2010, Iranian petrochemicals were able to enter the African continent with the first shipment of a 25,000 ton consignment of Iranian petrochemicals to Egypt and negotiations are now underway for entry into the South American market including key ALBA member states Venezuela, Ecuador, Bolivia and Brazil.

Refining

In 2010 Iran made the transition from a major gasoline importer to an exporter. In the past, despite Iran's vast hydrocarbon resources, the urbanization of Iran, combined with the fact that 90% of Iran's transportation is by road, led to a gradual gap between demand and supply of gasoline production in Iran. With the launch of a \$ 46 billion investment drive, Iran has launched the construction of seven new refineries and is expected to be fully self sufficient in gasoline production by the year 2012.



Based on the implementation of this expansion drive, Iran is poised to take the top spot in the Persian Gulf for oil refining.

Based on the implementation of this expansion drive, Iran is poised to take the top spot in the Persian Gulf for oil refining. As of 2010, the top spot was held by Saudi Arabia with a refining capacity of 2.1 million barrels per day, however, by the year 2012, Iran's capacity is expected to reach 3.3 million barrels per day, with 60 million liters of gasoline designated for export markets. By 2012, the Hormuz refinery –refining 300,000 barrels of super heavy crude; the expansion of the Bandar Abass refinery, increasing capacity from 232,000 bpd to 320,000 bpd are expected to come on-stream. Concomitantly, under Iran's privatization drive, the shares of the Isfahan, Tabriz, Lavan and Bandar Abass refineries are being prepared for floatation in the Iranian stock exchange.

Mining and Agriculture

- Mining
- Steel
- Iron Ore
- Cement
- Aluminum
- Copper
- The Agricultural Sector
- Wheat
- Meat, Dairy and Poultry
- Rice
- Pistachios
- Tea
- Caviar
- Saffron
- Horticulture



INTRODUCTION

As seen in the preceding chapter, a key reason for Iran's success in developing its economy has been the ability to tie in its forward and backward linkages together. Forward linkages are the linkages between the focal industry and downstream industries, whereas backward linkages are between the focal industry and its upstream industries. As demonstrated in Chapter 3 by Iran's success in developing backward and forward linkages between its hydrocarbon sector and industrial sector, this chapter will not only cover Iran's rapid strides in the mining and minerals sector, but also how backward and forward linkages have served to create added value industries such as Iran's rapidly growing steel industry, which requires inputs from Iran's mining sector (i.e. iron ore – backward linkages), the availability of which has propelled Iran among the top twenty global steel manufacturers. The direct correlation becomes most evident when combined with the resultant forward linkages such as the ability to source the necessary steel for

Iran is tied with Canada in 14th place
for the largest global agricultural output,
and is nearly self sufficient in every key
agricultural crop.

a broad array of industries such as transportation and machinery, the rapid growth of which has been covered in Chapter 3.

The second sector under review in this chapter is Iran's agricultural sector. After nearly achieving agricultural self-sufficiency in the 1960s, Iran reached the point where by 1979, sixty five percent of its agricultural requirements had to be imported. Notwithstanding a doubling of Iran's population since the 1979 revolution, today, Iran is tied with Canada in 14th place for the largest global agricultural output, and is nearly self sufficient in every key agricultural crop.

A detailed analysis of these rapidly growing sectors are as covered below.

MINING

Iran is among the top ten countries in world in terms of diversity of minerals with over sixty eight types of minerals, thirty seven billion tons of proven reserves and over fifty seven billion tons of reserves. Major minerals deposits include coal, iron, ore, copper, lead, zinc, chromium, barite, salt, gypsum, molybdenum, strontium, silica, uranium and gold. Iran also produces, orpiment and regular arsenic concentrates, silver, asbestos, borax, hydraulic cement, clays,

Iran is among the top ten countries in world in terms of diversity of minerals

diatomite, feldspar, fluorspar, turquoise, glass stand, lime, magnesite, perlite, natural ocher, iron oxide mineral pigments, pumice, caustic soda, ornamental stones (including granite, marble, travertine, dolomite, limestone) celestite natural sulfates and talc. The country also produces, ferromanganese, ferromolybdenum, nepheline syenite, phosphate rock, selenium, shell, vermiculite and zeolite, and has the capacity to mine onyx.

Notwithstanding these discoveries, it is estimated that approximately eighty percent of Iran's mineral resources remain untapped.

In the past, Iran's Ministry of Industries and Mines administered all mining and smelting industries, and even all geological exploration activity were performed by government owned entities. As a result, the Iranian government controlled many of the larger mining processing companies , especially in key industries such as aluminum, coal, copper, iron and steel.

In 1998, Iran enacted a Mining Code which

MINE EXTRACTION CAPACITY TO INCREASE

Iran is laying the groundwork and infrastructure to increase the capacity of its mine extraction capacity to five hundred million tons per year. Among the steps taken to attain these objectives, are the implementation of over one hundred and ten projects aimed at developing the requisite infrastructure required to attain such massive increase in output. The projects, which have been allocated a budget of \$2.7 billion, are to be implemented during the Fifth Development Plan between 2010-2015 are aimed primarily at equipping mines with the latest technologies in order to increase productivity and further developing infrastructure, especially greater access to electricity. Concomitantly, it is foreseen that projects dedicated to increasing health and safety will be implemented alongside these projects.

With the implementation of these projects, it is believed that in addition to attaining an extraction output of half a billion tons of extraction, the production capacity for steel will increase to 35 million tons; aluminum 910,000 tons; copper 460,000 tons; iron ore 57 million tons and coal 30 million tons. In particular as steel and cement production and consumption are key indicators of economic development and progress, Iran's major achievements are of note, especially as their interrelationship between the forward and backward linkages required for Iran's industrial development and expansion of infrastructure such as, inter alia, dam building, housing, roads and construction.

IRAN IS THE THIRD LARGEST PRODUCER OF DECORATIVE STONES IN THE WORLD

With an annual production of 100 million square meters , Iran is currently ranked third in the world for decorative stone production. With rich resources of marble, granite, onyx and marmarite, Iran has confirmed reserves of 1.2 billion tons, 42% of which pertains to marble, 43% to granite, 12% to travertan and approximately 3% to marble. Over 1,335 decorative stone mines and 6,000 units for production and processing of decorative stones are active in Iran. The amount of stones cut nationwide is over eighty million square meters.



Iran is currently ranked as the ninth largest exporter of decorative stones in the world. However, Iran is now targeting an export goal of 155 million square meters of decorative stone exports, above the current average of 80 million square meters by the end of the Fifth development Plan by the year 2015.

IRAN'S LARGEST STEEL ROLLER FACTORY INAUGURATED

In my 2009, the largest steel rolling factory in the Middle East was inaugurated. With the commissioning of this factory, it is only the tenth factory in the world with this capability. Wide rolled steel (with a width of over 4.5 meters) is used for ships, piping and reservoirs among others. Constructed in an area of 160 hectares with an annual capacity of 1.05 million tons of steel rollers, the commissioning of this plant has led Iran to become self-sufficient in this product at a saving of over three hundred million Dollars of imports per annum.



IRAN RANKED SECOND LARGEST PRODUCER OF DRI (DRY REDUCED IRON) IN THE WORLD

With production exceeding nearly 4.3 million tons per annum, Iran has been ranked as the second largest producer of DRI in the world after India. Iran currently accounts for 13% of global DRI production and 41% of total Middle East production.



THE PERSIAN GULF MINING AND METALS ZONE

One of the main impetus's for the entry of Iran into the top ten steel producing countries will be the simultaneous launch of several major steel projects at the Persian Gulf Mining and Metals Zone. The Zone, located at Ammarieh port in Hormozgan province, is located 12km. from Bandar Abass Port. The commissioning of these projects will increase Iran's steelmaking capacity by 3.2 million tons. It is planned that the Zone will emerge as a hub for aluminum and steel production with a long term plan of increasing output of steel produced at the Zone by ten million tons of steel and 500,000 tons of aluminum. The Zone is to be developed under a public-private partnership arrangement in which the public sector provides the requisite infrastructural support (offsite infrastructure, equity investment, soft loans, bond issues, etc.).

Concomitant with these activities, Iran's Chahbahar Free Zone (see Chapter 3) is preparing the launch of a mineral export terminal with the capacity to export over four million tons of, inter alia, decorative stones (marble, granite etc), chromates, soil, iron, zinc, lead and manganese.

was derived from Articles 44 and 45 of the Iranian Constitution, which, following a reinterpretation of these two articles in 2004, paved the way for private sector domestic and international participation in the mining sector.

As a result, major divestments by the Iranian government in the mining sector have taken place which have resulted in growth across the board in this sector. As a result, by 2008, the share of the Iranian mining sector stood at five percent of GDP, providing nearly 30% of the country's employment and mining companies comprise of over 45% of the listed shares in the stock exchange. As a result between the years 2005 to 2009, production of minerals increased by 87% and the number of mines increased to 5,280 from 3,200 during the same period.

In 2008, mining exploration projects increased six fold in comparison to the preceding three years, and for the period of March 2009 to March 2010 (the Iranian fiscal year) Iran experienced a fifteen percent growth in mineral exports topping over \$ 8.13 billion accounting for nearly 32% of the country's non-oil exports.

During the Fourth Development Plan between March 2005 to March 2010 investment in the mining sector by the government exceeded over \$7 billion, a fivefold increase over the Third Development Plan. With the launch of the Fifth Development Plan (2010-2015) it is foreseen that mining extraction will be increased to 500 million tons per annum, up from a current average of 260 million tons per annum. It is foreseen that with this increase, and the resulting forward and backward linkages, the annual production capacity of steel, cement, aluminum and copper cathodes will increase to 42, 110, 0.91 and 0.45 million tons respectively.

An overview of these four key industries are as follows:

Steel

The Iranian steel industry is one of the fastest growing in the world and managed to buck the recession in the global steel market by registering 9.1% in growth of crude steel output to 10.87 million tons in the year 2009. In the same period, Iran exported 834,000 tons of steel products, an increase of 57%. As a result, according to the

The Iranian steel industry is one of the fastest growing in the world



latest rankings of the International Iron and Steel Institute, Iran's ranking among global steel makers jumped from 23rd in the world to 16th, surpassing Canada and the UK. It is forecasted that by the year 2014, Iran will export over four million tons of steel, generating \$4.2 billion in income.

By the year 2011, eight new steel plants are expected to come on-stream, adding at least eight million tons per annum of steel to Iran's annual production capacity. Between the years 2011 to 2014, it is estimated that this industry will further grow by 25% driven by Iran's rapid industrialization with an ultimate production target of 42 million tons per annum by March 2015, propelling Iran to among the top ten steel producing countries in the world.

One of the driving forces behind this growth is believed to be the privatization of the steel industry in Iran. The Iranian government has already divested forty percent of its interest in Khorasan Steel Company; thirty point five percent in the Khouzestan Steel Company; twenty five percent in the Mobarakeh Steel Company and by the end of 2010 the Iranian government has planned the full privatization of Isfahan Steel company.

Concomitantly, with the new interpretations of Articles 44 and 45 of the Constitution as covered above, the private sector has also been actively investing directly in this sector, with private investment and production growth outpacing the public sector. According to figures released by the Iran Steel Producers Association, for the period of 2008-2009, steel production by the private sector increased by twenty two percent, as compared by a fourteen percent rise by the public sector. In May 2010, the private sector steel maker, Yazd Steel Group commissioned a new rolling mill with a capacity of 500,000 tons of 'I' and 'U' beams. The company already operates bar mill with a capacity of 300,000 tons and a wire rod rolling mill.



Iron Ore

In light of Iran's stated goal of achieving a production target of 42 million tons of steel by the year 2015, the role of backward and forward linkages again comes into play, as according to Iran's Minister of Mines and Industries, Ali Akbar Mehrabian, has stated that for Iran to achieve such a production "for this production level, we need 66 million tons of iron ore. This is while at present approximately 33 million tons of iron ore is being exploited and we need to increase this level during the next five years to reach steel output targets".

Iran, which is already ranked as the eighth largest producer of iron ore, has the largest crude ore reserves in the Middle East. In light of Iran's stated objectives, in the period between May 2009 to May 2010, extraction of iron ore increased by 22%, an indicator that this sector is on track to meet its production targets.

Cement

In light of Iran's demographic boom as explored in Chapter One, and notwithstanding the global recession, the construction sector in Iran is continuing to expand and is a major factor in propelling Iran to be ranked ninth in world for cement production. While this sector expanded by 11% in 2008 and it is expected that this sector will continue to grow by 4.6% on average between 2010 to 2013, with the market reaching a value of \$31.09 billion by 2013.

As a result of domestic demand, during the period of March 2010 to September 2010, over



30.8 million tons of cement was produced, registering an 18% rise in comparison for the same period during the preceding year. Concomitantly, 29.3 million tons of clinker (dark grey nodular material) were produced during the same period, registering a 23% rise.

In 1978, cement production stood at only eight million tons. Today, cement production stands at 66 million tons, registering an eight fold growth rate. With a further ten cement plants under construction and due to be commissioned by 2010, production is expected to increase a further 15% to 76 million tons. Today, not only is Iran fully self sufficient in cement production, but is now a major exporter. Between the years 2008 and 2009, Iran's cement exports grew by 933%, increasing from \$58 million in exports in 2008 to over \$600 million in 2009. Cement is now not only one of Iran's major non-oil export commodities, but as mentioned earlier, Iran is now entered the ranks of the top ten cement exporting countries in the world, with exports to over forty countries. Key export markets comprise of Iraq, Saudi Arabia, Azerbaijan, Turkmenistan and Qatar. In addition to exports, Iran is also a major exporter of cement plant technology, and Iranian companies are currently constructing cement plants for clients in nine countries.

Under Iran's Vision 2025 Plan, cement production has been targeted to reach 110 million tons. It bears note, that in accordance with Iran's back and forward linkage approach to industrial development, Iran will increase limestone production to 166 million tons in order for its cement industry to be able to meet its targets.

Aluminum

With the rapid industrialization underway in Iran, in particular in high tech industries such as its space program, in accordance with Iran's program for the development of Iran's forward and backward linkages, aluminum production is undergoing major expansion. In 2009, aluminum production increased by 15% and in January 2010, the largest and most advanced aluminum plant in Iran was commissioned. With the ramp up of



production of this plant, Iran's average aluminum production will rise from a current average of over 310,000 tons to 457,000 tons, an increase of output capacity of 47%. The plant, named Homozal and located in Hormuzegan province, is located near Iran's other major aluminum manufacturing plant in Hormuzegan province, Al-Mahdi which has a capacity of 110,000 tons. The launch of Hormuzal will make Hormozan Province the hub of aluminum production in Iran.

Copper

By the year 2014, Iran is aiming to break into the ranks of the top ten copper producers in the world. At the present time, Iran produces 220,000 tons of copper cathodes annually, encompassing 1.2 percent of global production, ranking it 17th globally exports amount to over \$1.2 billion of copper cathodes per annum. With the launch of excavation of seven newly discovered mines, over 500 million tons of new copper is expected to be mined. In comparison between the period of 2003 to 2005 extraction and production grew by 72 and 28 percent respectively during the period of 2006-2008.

By the year 2014, Iran is aiming to break into the ranks of the top ten copper producers in the world.

PERSIAN GOLD EXPANDS ACTIVITIES



Persian Gold, the Irish based AIM Listed Iranian gold and copper exploration company has applied for a discovery

certificate at the Chah Zard gold and silver project in central Iran in order to mine 160,000 ounces of gold and a million ounces of silver. It is also in the process of finalizing an for a discovery certificate at Dalli copper and gold project located approximately 200km from Tehran. According to company Chairman, John Teeling "Iran is a vast country with significant quantities of gold, copper and other base metals."



THE AGRICULTURAL SECTOR

At the time of the Iranian revolution in 1979, Iran's population was thirty six million and sixty five percent of Iran's food was imported. In the thirty one years since this period, Iran's population has doubled to seventy two million, however, agricultural output has increased from twenty million tons to more than one hundred million tons. As a result, Iran has become self sufficient in a variety key agricultural staples, such as wheat and barley, and Iran has made a turnaround from a net importer to a net exporter. Today, agriculture accounts for approximately 13% of Iran's GDP, 20% percent of employment; 23 % of non-oil exports, 82% of domestic foodstuff and 90% of the raw materials used in the food processing industries. More importantly, according to the United Nations Food and Agricultural Organization (FAO), Iran is among the top seven producers of twenty two crops in the world. Today, Iran is ranked first in the world for pistachio and saffron production; second in the world for apricots; third in the world for almonds, cherries, cucumbers and watermelons; fourth in the production of apples, walnuts and raisins and fifth in the world for silk cocoons and figs.

Iran is unique in that its broad and diverse geography allows Iran to experience all four climatic seasons at the same time. As a result, Iran is able to cultivate a broad and diverse variety of crops ranging from cereals (wheat, barley, rice and maize), fruits (dates, figs, pomegranates, melons and grapes), vegetables, cotton, sugar beets and sugar cane, pistachios, nuts, olives, spices, saffron, raisin, tea, tobacco, berries and medicinal herbs. More than two thousand plant species are grown in Iran, with the land covered by Iran's flora is four times compared to that of Europe.



One of the main problems that the agricultural sector faces is water distribution. Notwithstanding the fact that over one third of Iran's total surface area is suited for farmland, lack of adequate water distribution in many areas, resulting in the fact that less than one third of cultivated land is irrigated ; the rest is devoted to dry farming. As a result, one of the major programs under implementation to rectify this situation is the implementation of pressurized irrigation. During the First Five year Plan (1990-1995) 66,500 hectares of land went under pressurized irrigation; during the second Five Year Plan (1995-2000) 203,000 hectares went under pressurized irrigation ; during the Third Plan (2000-2005) 215,000 hectares went under irrigation and 381,000 hectares of land went under pressurized irrigation respectively.

As a result of the turnaround in Iran's agricultural sector and the major strides made, today Iran's food security index stands at ninety six percent. In light of bumper crops, Iran's agricultural imports declined by 40% between September 2009 and March 2010 as compared to the same period during the preceding year. The agricultural sector is an area whereby the government continues to participate directly in order to alleviate import dependence. Agricultural growth is supported with government incentives to farmers by way of subsidized crop inputs, expanded short term credit and tax exemptions for farmers complying with government quota's, low interest loans and in some instances guaranteed buying prices. Such assistance has contributed to significant output growth across a broad range of crops, in particular, wheat and rice , with harvest yields expected to increase by %45.22 and %76.97 respectively by 2013.

Other areas of government support also include funding and finance for agro-industrial projects in food processing, packaging and irrigation , supply of agricultural machinery to promote mechanized farming and including transfer of technology clauses for foreign contracts. Of particular note has been the increased number of agricultural courses made available at Iran's leading universities with over 17,000 graduates expected to enter the workforce. As a result, companies such as agricultural processing industries are growing pro-rata to this growth. There are over 87,000 active units in food industries and in the year 2009, 9,026 new units were founded creating 288,000 new job opportunities , comprising of 16.1% of all new jobs created in Iran.

Parallel to this growth, Iran has been able to rapidly increase exports and during the period of March 2009 to March 2010, topping \$4.2 billion.

With Iran's self sufficiency in most food categories , the main challenges in this sector are likely to be related to the nation's ability to attract private investment to stimulate productivity gains and domestic value added so as to streamline the sector.

An overview of some of the sectors of the agricultural sector is as follows:

Wheat

According to the United Nations Food and Agricultural Organization (FAO), from the period of March 2010 to September 2010, Iran has harvested a record 14.5 million tons of wheat, registering growth of 11%. Of this amount, 670,000 tons has been exported, and export permits for the export of a further two million tons of wheat have been issued for exports to Egypt, Oman and the United Arab Emirates. During this period, land



Iran is among the top seven producers of twenty two crops in the world.

under cultivation increased by 200,000 hectares and reached 6.8 million hectares. Of particular note has been the fact that for the fiscal year 2010-2011, Iran will no longer be required to import wheat.

In line with the privatization of the agricultural sector, in fiscal 2010-2011, for the first time seventy percent of Iran's surplus wheat will be sold to the private sector. In the past, the government has kept a tight lock on the sale and distribution of this strategic commodity, however in 2010, Iran's Ministry of Commerce has signed deals with 350 private companies wishing to buy Iranian wheat.

Concomitant with the increase in wheat production, has been the increase of silo capacity from 6.98 million tons to 10.5 million tons by the end of 2011.

Meat, Dairy and Poultry

The FAO has ranked Iran eighth in Asia and fifteenth in the world for production of red meat; first in Asia and seventh in the world



for production of chicken and fifth in Asia and thirteenth in the world in terms of egg production. The main objectives of the Iranian government in the livestock and poultry market is to create added value, increase quantitative and qualitative expansion of production, procuring sustainable food security improvement of protein based nutrition indices worldwide and to facilitate exports with comparative advantages and promotion of greater private sector participation in this sector.

Iran has already become fully self-sufficient in white meat, eggs and raw milk, the excess of which is being designated for export. At the beginning of the Fourth Five Year Plan, in 2005, per capita consumption of animal protein consumption was 23 grams while this figure had

IRAN OPENS AGRICULTURAL NANOTECHNOLOGY CENTER - NANO-ORGANIC FERTILIZER PRODUCED

Iran's Agricultural Bio-Technology Institute has established a nanotechnology research center in order to conduct wider studies on the applications of nano-technology on agriculture. According to the Iranian Nanotechnology Initiative Council, the center will carry out a broad range of studies on the application of nanotechnology on agriculture, including packaging, pest control and the effects of nonmaterial's on agricultural products and the environment.

On the heels of this step, Iranian scientist have successfully produced the first nano-organic, iron chelated fertilizer in the world. Nano fertilizers have unique features such as, inter alia, ultra high absorption and 350% rises in photosynthesis.

increased to 28 grams in 2010. It is predicted that per capita consumption of animal protein will increase to 35 grams by the year 2015.

According to the FAO, Iran has successfully become fully self-sufficient in milk production with the production of nearly ten million tons of milk by March 2010, and that by the end of 2015, Iran's milk production will top 13 million tons. In 2010, Iran was able to export milk for the first time.

Increased private sector participation can be evidenced by the fact that the number of permits issued for exploitation of dairy units in 2009-2010 stood at 963, while the figure for the same period in 2004-2005 was 460. Total livestock products in 2006 stood at 10 million tons while in 2009-2010 these figures stood at 12.8 million tons with a target of 18 million tons by 2014-2015.

Rice

One of the key commodities attracting special attention is the production of rice, a key staple



in Iranian diets. Of particular note have been continuous efforts for reducing production costs and increasing cost effectiveness. Steps taken include, mechanization and training, including the provision of low interest loans to rice farmers to purchase the equipment needed to mechanize their activities. Rice production for the year 2010-2011 is forecasted to be 3.5 million tons.



Pistachios

In 2010, Iran's pistachio exports are expected to reach new highs. In 2009, foreign exchange revenues from pistachio exports topped \$1.2 billion, with this figure expected to exceed \$1.5 billion by the end of 2010. Iran, which is the world's leading pistachio producer, with the areas under cultivation having increased from 50,000 hectares in 1979 to over 450,000 hectares today.



Tea

Currently, Iran produces over 40,000 tons of tea, well short of the 110,000 tons of tea consumed by Iranian annually. However, in order to bring local supply and demand closer together, the Iranian government is undertaking a number of key steps, namely, the launch of specialized tea commodity exchange, credits for facilitating rain irrigation and low interest loans to farmers. As a result, in the year 2009, tea production increased by 12%, with Iranian tea being exported to countries as diverse as France, India and Kenya.



Caviar

Caviar, which had faced an effective de facto international trade ban arising due to reduced sturgeon stocks, is now available on a limited basis. Over fishing, smuggling and pollution have considerably reduced fishing stocks, with the

production of Caspian caviar falling from 200 tons in the 1990's to less than 100 tons today. The crises, which began with the collapse of the former Soviet Union, led to an effective loss of control over fishing and patrolling against poaching. Iranian scientists estimate that sturgeon could become extinct within the next fourteen years if these trends continue. Due to this situation, in July 2010, the five states that border the Caspian Sea, namely Iran, Azerbaijan, Kazakhstan, Russia and Turkmenistan agreed upon new quotas with Iran's sturgeon quota being allocated 45.01 percent of the total quota, equivalent to nearly 40 tons.

Saffron

Iran is the world's top saffron producer producing 185 tons per annum, equivalent to 95% of global production, of which it exports 125 tons to forty three countries across the globe. The luxury spice – which is traded at prices exceeding \$2500 a kilo, has been cultivated in Iran since the 5th century BC, when it was exported through the Roma Empire. The high costs arises from the exhaustive process of extracting the stamens from the flower and the amount of flowers necessary to produce small portions of the spice.



Saffron, which comprises a major portion of Iran's agricultural exports, has garnered considerable attention and major investments for the further development of this crop are under implementation. Based on the introduction of organic methods, increased productivity and optimal use of mechanized farming, it is expected that production of saffron will increase from a current average of 3.5kg. per hectare to 7kg. per hectare by the end of the Sixth Development Plan (2015-2020).

Horticulture

One of the fastest growing areas in the agricultural sector are flowers. In 2009, Iran produced over 2.5 billion of various stocks of flowers and Iran is currently ranked 17th and 107th in terms of flower production and flower



exports respectively. In the year 2008-2009, Iran exported over \$20 million of flowers, followed by an increase of 25% for the period of 2009-2010.

In order to maintain this momentum, a number of key infrastructure projects have been implemented. Three flower expert terminals have been launched in the key cities of Tehran, Mahallat and Dezful. A fourth terminal is now under construction in Smeh-Sara in Gilan, northern

Iran. The project will encompass delivery halls for flowers and plants, a quarantine chamber, cold storage facilities, an exhibition hall, laboratory, store room and administrative offices.

IRANIAN CHOCOLATE ENTERS MALAYSIA

The Iranian chocolate and confectionary company Farmand has successfully launched its products in Malaysia. The announcement was made after a signing ceremony in July 2009 between the Malaysian company Chocobiz and Farmand General Trading in the city of Shah Alam, Selangor, Malaysia. Under the terms of the agreement, the Malaysian partner will not only distribute Farmand chocolate in Malaysia but also in Singapore, Brunei, Indonesia and Vietnam. According to Chocobiz, "Farmand chocolates have what it takes to compete in the highly competitive market".

TWO TRAINING CENTERS FOR TANZANIAN FARMERS

Iran is opening two training centers in Tanzania in order to provide expertise to Tanzanian farmers for processing their agricultural produce. The centers, to be based in Dars es Salaam and Zanzibar will help rural communities manage their agro production. According to Iran's Ambassador in Tanzania, "many vegetables and fruits are wasted and destroyed due to the lack of agro-processing facilities in Tanzania. Hence the need to start such projects in the country is urgent.

HONEY OUTPUT TOPS 45,000 TONS

In 2009, Iran produced over 45,000 tons of honey, registering a growth of 12% over the preceding year, 2,500 tons of which have been exported to European and Persian Gulf states. Iran's honey production averages 559 grams per person while per capita honey consumption stands at 524 grams, which is higher than the global average of 280 grams.

THREE DAIRY FACTORIES CONSTRUCTED BY IRANIAN COMPANIES IN VENEZUELA



Iranian companies have designed and constructed three new dairy production factories in Venezuela. The three plants, inaugurated in the presence of Venezuela's president, are able to produce eighteen tons of milk daily, which is then processed into cheese, yoghurt and cream. According to the Venezuelan press, "Iran's advanced technology is the key to success of the project the products have now have loyal customers due to their high quality and fairly low prices". The commissioning of the three plants come on the heels of another thirteen dairy production factories designed and constructed by Iranian companies processing 360 tons of milk daily.



Finance and Investment

- Finance and Investment
- Capital Markets
- The Banking Sector
- Foreign Investment



FINANCE AND INVESTMENT

In Chapter 3, it was shown that Iran's rapid gains in industrialization and high technology have propelled it to be ranked 21st globally in industrial production, while also making major strides in its hydrocarbon sector. In Chapter 4, it was shown how new technologies and macroeconomic policies targeting private sector investment in the agriculture and mining sector had enabled Iran not only to make the transition from a net food importer to a current rank of 14th globally in agricultural output but to also make rapid strides in the mining sector. As a result, in 2009-2010, Iran's non-oil exports grew by 35% in terms of volume and 10% in terms of value and, based on purchasing power, Iran's Gross National Product (GNP) reached \$800 billion and average per capita income reached \$12,500.

There has been a steady increase in the market share of private banks which have become leaders in the provision of financing while, in 2009, the Tehran Stock Exchange grew by 58% with the volume of transactions increasing by 31%, registering the second highest growth rate in the world.

This significant growth can be attributed in part to the rise of Iran's capital markets and restructuring of its monetary policies. Capital is one of the most important factors in the growth and development of a nation's economy, with some studies indicating that technical progress and capital formation are strongly interrelated¹. According to economists Michael Boskin and Lawrence J. Lau the economic payoff to technological innovation is enhanced by high rates of capital formation².

As a result, not only has Iran successfully revamped laws and regulations pertaining to its capital markets and banking sector, spurring massive capital flows to this sector, but has backed these steps by expansionary fiscal and monetary policies, resulting in real GDP growth in excess of an average of almost 5% per year. In particular, Iran has approved new by-laws for greater foreign investment in the Tehran Stock Exchange and taken key steps for easing conditions for capital movement and other moves in tandem with attracting foreign investment.

One key result of such steps is evidenced in

1. Philip Kotler, Somkid Jatusripitak, Suvit Maesincee, *"The Marketing of Nations"*, (New York: The Free Press 1997) p.262

2. Michael J. Boskin and Lawrence J. Lau, "Capital, Technology, and Economic Growth", in Nathan Rosenberg, Ralph Landau, and David C. Mowery, eds., *Technology and the Wealth of Nations* (Stanford, CA: pp.17-55

in the banking sector where there has been a steady increase in the market share of private banks which have emerged as leaders in the provision of financing while, in 2009, the Tehran Stock Exchange grew by 58% with the volume of transactions increasing by 31%, registering the second highest growth rate in the world.

These steps have in turn generated major growth in foreign investment. According to the Economist, in 2009 foreign direct investment in Iran registered a growth of 60%, the highest rate of growth registered by any country during this period.

Overviews of these developments are as below:

Capital Markets

Following a banner year in 2009, in 2010, the main index for the Tehran Stock Exchange (TSE) reached its highest level in its forty three year history, in the process becoming ranked by the World Federation of Exchanges (WFE) as the world's second best performing equity index, with an average rate of return for investors of 57%. Founded in 1967, the TSE currently lists 337 companies with a total value of \$81 billion. On average, 1.2 billion shares are traded daily with over 9,900 trades being completed on average per day.

Many experts attribute the boom in the TSE directly to Iran's privatization drive, competitively priced valuations, and moves to cut red tape and create incentives for private investors. In April 2010, the Iranian Privatization Organization published a list of ninety companies that have been shortlisted for privatization by 2014, with approximately fifty of the companies being designated as being high priority. The Iranian government is aiming to raise \$12.5 billion from the flotation of the shares of these companies, including plans to sell off all state owned refineries and petrochemical units, promising potential investors a solid stream of initial public offerings.

According to the Economist, in 2009 Foreign Direct Investment topped \$900 million, registering a growth of 60%, the highest rate of growth registered by any country during this period.

The exchange has also branched into a number of new activities, including, the listing of mutual funds, Over the Counter (OTC) markets and derivatives trading. Currently, there are twenty eight registered mutual funds which range in values from \$1 million to \$50 million, while the TSE has introduced six futures contracts via two private sector banks, with expiry dates of two, four and six months. By March 2011, it is expected that the numbers of companies covered by futures contracts will expand to ten companies. At the present time, thirty one of the eighty brokerages active in the TSE are licensed to trade futures contracts. They will only deal in the derivatives on an online basis. At the present time, Sukuk, or otherwise known as Islamic bonds may be the next instruments available to Iranian investors.

One of the most significant developments in the TSE has been the easing of restrictions for foreign investment. In April 2010, the Iranian government ratified legislation allowing foreign investment in the stock exchange, mutual funds

TRAINING COURSE FOR FOREIGN INVESTORS

The Securities and Exchange Organization of Iran has been providing training course for foreign capital experts in order to acquaint them with the workings and rules and regulations of the TSE in order to familiarize



them with the workings of the exchange so as to facilitate overseas transactions by foreign investors. The first group of trainees, from the Capital Market Authority (CMA) of the Sultanate of Oman, drew attention to the formation of a number of mutual and investment funds, and expressed their interest in launching similar activities in the Omani Exchange. One of the trainees, Ahmad Al-Sibani stated that "the huge growth of the Iranian capital market in recent years motivated us to travel to Tehran in an effort to become more acquainted with the Iranian stock exchange.

and OTC markets. Under the new by-law, foreign individuals and entities are able to participate in the securities exchanges and OTC market's trading following the issuance of an investment license. According to the by-law, the Securities and Exchange Commission will be obliged to issue a trading license to a foreign investor in a period of seven working days from the date of the application. Each foreign investor will then be allowed to acquire up to ten percent of a listed issuer's equity, as a non-strategic investor. Any company investing more than ten percent will be designated as a 'strategic investor'. Non-strategic investors will face no restrictions in for selling their shares and will be treated in accordance with existing market regulations. However, for strategic foreign investors, the repatriation period of capital will be two years from the date of the purchase of the shares and requests to sell shares will be considered under regulations applicable to block trading regulations. Such investments will also be tax exempt and the Iranian Central Bank

THE IRAN BANK

Iran Insurance Company is preparing to launch 'Iran Bank' in a bid to promote and create synergies between Iran's insurance industry and the banking sector. According to Javad Sahamian Moghadam, the Managing Director of Iran Insurance Company, Iran Bank will be established with an initial capital of \$400 million Dollars, and in addition to banking services, the institution will also provide full fledged insurance services, including life insurance.

EQTESAD NOVIN: FIRST PRIVATE BANK AWARDED BANK OF THE YEAR AWARDS FOR THREE YEARS RUNNING

In December 2009, for the third year running, Bank Eqtesad Novin has been awarded recognition as the Iranian "Bank of the Year". The prize which is awarded by the prestigious 'Banker' magazine, affiliated to the Financial Times, has been ranking banks worldwide since 1926. The prize was awarded as part of an annual worldwide questionnaire of 740 banks in 148 countries and analysis of the operations of these banks. The 'Banker Prize' is considered as the most accredited international award in banking.

BANK MELLI IRAN - THE LARGEST BANK IN THE ISLAMIC WORLD

According to the magazine the 'Asian Banker', Iranian banks account for approximately forty percent of the total assets of the world's top 100 Islamic banks, with Bank Melli Iran, having assets of \$45.5 billion, being ranked on top of the list, followed closely by Saudi Arabia's Al Rajhi Bank.

According to the magazine, "Iranian banks are still the predominant Islamic banking players, holding seven of the top ten rankings and twelve of the top 100".

Founded in 1928, Bank Melli was the first Iranian commercial bank, and in 1931 the bank effectively served as the central monetary authority in Iran after having been granted the right to issue bank notes, and thereafter the bank assumed responsibility for additional central bank functions, including government banking operations, regulation of currency circulation, credit regulation and supervision of Iran's banking system.



In 1960, pursuant to the enactment of the State Banking and Monetary Law and the establishment of the Central Bank of Iran, Bank Melli relinquished its central banking functions, allowing it to focus on commercial banking.

As a result, over the years, the prominent role the bank has played in Iran's economic performance underlines the fact that as a pioneer of commercial banking in Iran, the bank has been able to promote growth and development, and has emerged as a powerful arm of the government to assist economic development as evidenced by the fact that in comparison to other banks, Bank Melli is not only the largest provider of financing for large scale governmental economic projects, but also holds the largest share of private sector deposits and credit facilities, and with 43,000 personnel and over 3,300 branches, is the largest bank in Iran.

is mandated to provide the requisite foreign currency for repatriation of capital and profits.

The TSE currently lists 337 companies with a total value of \$81 billion. On average, 1.2 billion shares are traded daily with over 9,900 trades being completed on average per day.

The Banking Sector

With over \$100 billion in hard currency reserves and record levels of gold deposits, Iran has been ranked 14th among 138 countries in terms of foreign exchange reserves. According to Central Bank Governor Mahmoud Bahmani, “given this level of hard currency and gold reserves, Iran is now ranked as the 17th largest economic power house based on gross domestic product (GDP)”.

The banking sector in Iran has undergone several major changes over the years. Following the Islamic Revolution in Iran, the Central Bank was mandated to conform the banking system to Islamic Principles. In 1983, an Islamic Banking Law was ratified; under which Iranian banks must engage in interest free transactions (interest is considered as usury under Islamic law. These commercial transactions involve the exchange of goods and services in return for a share of

the assumed profit. Iran utilizes mechanisms known as “provisional profit rates” as rates paid to depositors or received from borrowers should reflect the profits or losses of a business.

Following these developments, in 1998, groundbreaking legislation was ratified allowing the establishment of private banks. The first two private banks to be provided banking licenses as a result of this legislation, Eqhtesad Novin Bank and Parsian Bank, have emerged as regional power houses, with Eqhtesad Novin being recognized as the Iranian Bank of the year for three years running ((2007,2008,2009) (See side box) by the prestigious ‘Banker Magazine’. The third bank to be awarded a banking license, Bank Pasargard, has emerged as one of the largest banks publicly traded banks in the country, having over 1.5 million shareholders. At the present time, there now exist sixteen private and privatized banks in Iran, with a further forty applications under review by the Central Bank of Iran.

In order to further encourage investment in this sector, the Central Bank of Iran has reduced the minimal capital requirement required for launching a bank as well as undertaking a number of other steps to bolster this sector, including guidelines for improving customer services and reducing the dependency of banks on generating revenue from lending. A special credit rating agency has also been launched in order to allow banks to be able to carry out credit checks on customers and provide credit ratings of businesses. Most importantly, the Central Bank, in coordination with nine other ministries, have been working to expand Iran’s electronic banking infrastructure in order to facilitate banking transactions and minimize bureaucracy.

The Central Bank of Iran has also enacted a comprehensive anti-money laundering law, resulting in recognition by the Paris based Financial Action Task Force (FATF) watchdog to laud Iran’s efforts to curb money laundering activities.

IRANIAN RIAL IN REGIONAL CURRENCY BASKET

According to Mahmoud Reza Khavari, the Director of the High Council of State Bank Managers, the Iranian Rial is now being widely



used in regional and international transactions. Rial currency Iranian credit cards can now be used in ATM’s in regional counties such as the United Arab Emirates.

Additionally a number of new agreements in this regards are under implementation. These developments come as several regional states have started to rethink their currency peg to the US Dollar. According to Nasser Saiedi, the chief economist at the Dubai International Financial Center (DIFC) “now is not the time to do so, but as soon as we are in recovery the UAE and the Persian Gulf States should review the strong Dollar peg policy, which has led to perverse monetary policy.





Concomitant to the opening of competition from the private sector, Iran's state owned banks have been undergoing privatization as well. In 2009, the shares of three of Iran's largest state banks were offered flotation in the stock exchange, with two of these banks, Tejarat and Saderat setting records. The first initial public offering (IPO) of six percent of the shares of Bank Tejarat in May 2009, were sold in less than seven minutes, setting, at that time, an Iranian record. The bank which has 2000 branches in Iran and overseas, is slated to be completely privatized by the year 2011. Bank Tejarat, which has core competencies and a strong background in trade finance, project finance and corporate business garnered recognition in 2010 by the Global Finance Institute as one of the best emerging banks in the Middle East. Following on the heels of the IPO of Bank Tejarat less than a month later, Bank Tejarat's IPO record was broken following the flotation of the shares of Bank Saderat, with six percent of the shares of the bank being sold in less than six minutes, shattering Bank Tejarat's record by one full minute.

In light of these developments, Iran has been laying the groundwork to open up its banking sector to non-Iranian banks. In the past, Article 44 of the Iranian Constitution had been interpreted as placing all banking activities in the exclusive domain of the government (see Chapter One), as did the Law on Usury Free Banking (see above).

As a result, only a handful of foreign bank branches and representative offices were able to undertake administrative and coordination activities but were not permitted to open customer accounts in the country, receive deposits or provide other banking facilities. The only exceptions were a number of limited activities allowed in Iran's Free Trade Zones. Under a new bill submitted by Iran's Economy

and Finance Ministry to Parliament and ratified by Parliament in May 2010, non-Iranian entities will be able to invest and set up banks as long as at least 51% of the shares are in the hands of an Iranian entity. As a result, by October 2010 eight applications by non-Iranian banks had been submitted for permits to launch banks in Iran.

As Iran opens up its banking sector to foreign investment, Iranian banks have been expanding overseas. The private sector Iranian bank has been launching a branch in the Netherlands and has also bought a 50% share in a bank in Tajikistan, while two private sector Iranian banks, Parisian and Karafarin have been granted permission by the Iraqi government to establish branches in Iraq. Another private sector bank, Eqtesad Novin, has purchased 53.2% of the shares of the newly established Islamic Regional Investment Bank in Iraq, while a further 20% has been acquired by Iran's Bank Keshavarzi and the remaining shares are held by an Iraqi investment consortium.

IRAN TO LAUNCH BANK FOR EXPATRIATE INVESTORS



A new bank dedicated to attract the capital of expatriate Iranian investors is under formation. Under the plan, the bank will start as an investment fund with

a start-up capital of eight million Euro's, before eventually growing into a fully fledged bank. A working group has already been formed at the Central Bank and the charter of the bank is under preparation. Iranian living abroad will be eligible to purchase the shares of the bank.

Foreign Investment

In 2009, Iran was ranked sixth in the world for inward foreign investment according to the Inward FDI (Foreign Direct Investment) Performance Index of United Nations Conference on Trade and Development (UNCTAD). The report, published in 2010 which ranks 141 countries and their economic performance, stated that Iran attracted over three billion Dollars in foreign direct investment in 2009, twice the amount of 2008.

Between 1993 to 2007, Iran attracted \$24.3 billion in foreign investment. In 2007, foreign investment hit a record \$10.2 billion, up from \$4.2 billion in 2005 and a paltry \$ 2 million in 1994. Despite the global plunge in FDI caused by the global recession in 2008-2009, net FDI inflows into Iran amounted to \$901 million 2008 and then topping \$3 billion in 2009.

According to available figures, Asian investors headed by Chinese companies topped the list of foreign investors in Iran, funding forty of the eighty projects that garnered foreign investment in 2009.

The largest investments made were in the following in the industrial sector, followed by the hydro, electricity and gas sectors and real estate.

Asian investors were followed in order by multinational corporations, European companies, Latin American investors and African investors respectively.

Most foreign investments are made based on joint venture partnerships, with Iranian companies seeking joint venture partners who can contribute key core competencies, such as filling technological gaps and providing entry into international distribution networks.

With bi-lateral investment treaties with sixty seven countries (see Chapter 6), Iran has been actively working to cut red tape, easing ownership rules and, as seen earlier in the chapter, facilitated entry of non-Iranian companies to Iran's capital markets. Iran's Commercial Code does not differentiate between Iranian and non-Iranian companies and Iran's investment law (Foreign Investment Promotion and Protection Act (FIPPA) provides a broad range of incentives including, inter alia:

- Allowing foreign investment in all sectors opened to Iranian private companies.

400 MILLION REAL ESTATE FUND UNDER FORMATION

A Real Estate Fund with a capital of \$400 million in a joint cooperation with the Islamic Development Bank (IDB) is under formation. Half of the capital is being invested by the IDB, with the other half coming from Iran. The IDB, which after the World Bank is the second largest development bank in the world, has been actively working successfully in Iran during the past years, as evidenced by over three billion Dollars of financial facilities granted to Iran in over 160 different fields and focusing primarily on the private sector.

The fund comes on the heels of the launch of the first overseas equity fund in 2006 dedicated to the Iranian market. Turquoise Iran Equity Investments with offices in London and Tehran seeks "superior long term capital growth by investing in the consumer and commodity potential of Iran which is one of the most undervalued emerging markets in the world". With over 150 million Euros's , the company has recently expanded its staff in Tehran to sixteen, and is now actively seeking opportunities in private equity as well.

- A review of the definition of "Foreign Investor" to include Iranian expatriates provided that their investment capital originates from abroad.
- Allowing repatriation of local sales related profits in addition to export-related profits in hard currency.
- Fair compensation in case of nationalization. If an act of the government disrupts the business activity, the government will be under obligation to make payments for any loan installments that are due on behalf of the project company.
- International arbitration in legal disputes.
- A maximum 45-day ceiling for the processing of individual foreign investment applications.

It bears mention that project financing schemes such as buy back agreements and Build Operate and Transfer (BOT) projects are specifically covered under the foreign investment law.

A complete overview of the foreign investment process and related laws and regulations is covered in Chapter 6.

The graphic features a red background with silhouettes of two business professionals walking. A white line with colorful circular markers (blue, cyan, green, purple, grey, pink, red, yellow) trends upwards from the bottom left towards the right. The text is positioned in the center-right area.

Business Navigator

- An Overview of Key Institutions
- Iran Chamber of Commerce, Industries and Mines (ICCIM)
- Management and Planning Organization
Budget and Development Planning
- Ministry of Economic Affairs and Finance
- Taxation
- Customs Organization
- Ministry of Commerce
- Export Guarantee Fund
- Trade Promotion Organization of Iran
- Industrial Property Office at the Organization
for Registration of Deeds and Estates

An Overview of Key Institutions

In order to assist business persons to build economic relations and to garner a better understanding of key economic institutions and decision making in Iran, a ‘business navigator’ has been compiled identifying key economic decision making entities and their roles in the Iranian economy.

An overview of these key institutions is as follows:

IRAN CHAMBER OF COMMERCE, INDUSTRIES AND MINES (ICCIM)

The Iran Chamber of Commerce, Industries and Mines (ICCIM) was established in 1884 and is dedicated to the facilitation of economic growth and trade in Iran. A non-profit institution, it serves as a voice for industry, mines and agriculture, in particular the private sector.

In addition to the services it offers to these key sectors, it is undertaking a growing role in the drafting and implementation of laws and regulations pertaining to economic issues as well as providing advisory opinions to the government. Recent strides have included the

presence of representatives from the Chamber in the implementation of relevant state laws and regulations including the provision of advisory opinions to the government on commercial and economic issues. Recently, the Chamber has drafted legislation whereby it has identified key economic impediments in the economy and to promote measures to remove them. This step comes on the heels of Paragraph D of Article 9 of the amended act of the Fourth Development Plan and is just one of the measures taken by the Chamber to be at the forefront of economic decision making. Other major steps also include the appointment of a representative of the Chamber of Commerce to the General Assembly of the Central Bank of Iran.

Among the services rendered by the ICCIM is the provision of mediation and arbitration services for the business community. The Arbitration Center of the ICCIM, which is the first legal and official arbitration institution in Iran and its proceedings are governed by the ‘Arbitration Rules of the ACIC’ a copy of said rules being attached as Annex 1. Its international arbitration rules, the ‘Law on International Commercial Arbitration’ are based on the UNCITRAL model Law, and were enacted in 1997.

ICCIM PRESIDENT APPOINTED AS THE HEAD OF ECO CHAMBER OF COMMERCE

In the closing ceremony of the 11th General Assembly of Economic Cooperation Organization Chamber which was held on 19th January 2011 at the Iran Chamber of Commerce, Industries and Mines (ICCIM) in Tehran, Iran, Dr. Mohammad Nahavandian, the President of the Iran Chamber has been elected as the head of ECO Chamber of Commerce for a three year term. Dr. Mohammad Reza Karbasi, the Secretary of the Iranian Committee of the ECO Chamber was elected as the Secretary of the ECO Chamber of Commerce.

ECO members comprise of three Eurasian and seven Asian nations, namely, Iran, Azerbaijan, Pakistan, Turkey, Afghanistan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. As an inter-governmental organization, it serves as means to enhance and facilitate trade between its members.

IRAN FEATURED IN THE GLOBAL COMPETITIVENESS REPORT FOR THE FIRST TIME

As a result of the joint efforts of Iran’s Chamber of Commerce and the Global Economic Forum, for the first time, Iran has been featured in the Annual Global Competiveness Report of the Global Economic Forum. Having achieved a global rank of 69th, the report “assesses the ability of countries to provide high levels of prosperity to their citizens” by measuring over ninety variables that provide an evaluation of the set of institutions, policies, and factors that lead to economic prosperity at current and medium term levels. Out of the 138 countries that were evaluated, Iran was ranked among the top third of the countries surveyed as evidenced by its ranking as 45th in ‘macroeconomic environment’; 54th in health and primary education; 66th in innovation and 20th in market size (enabling it to exploit economy of scale).

The ICCIM has bi-lateral relations with forty international chambers and twenty eight joint chambers. Of particular note, is the ICCIM's role in the Islamic Chamber of Commerce. The Islamic Chamber is an affiliate of the Organization of the Islamic Conference and represents the private sector of fifty seven member countries. The objective of the Islamic Chamber is to strengthen closer collaboration in the fields of trade, commerce, information technology, insurance/reinsurance, shipping, banking, promotion of investment opportunities and joint ventures.

Of particular note is the founding of the "Islamic Chamber Research and Information Center" in 2003 which is responsible to carry out research in a broad array of economic areas including, the identification of opportunities for Islamic countries ranging from inter alia, investment, information technology and e-commerce to SME's (small and medium size enterprise); training programs ; setting up an economic data bank ; promoting the relationship between the center and institutes of higher learning; publications and to study and analyze rules of membership in the WTO in order to develop a unified strategy among OIC and other developing countries. The Center, which is based in Iran, is chaired by the President of the ICCIM.

MANAGEMENT AND PLANNING ORGANIZATION - BUDGET AND DEVELOPMENT PLANNING

From 1949 to 2005, the Iranian government carried out the drafting and execution of economic planning, structural adjustment policies and economic reforms via the Plan and Budget Organization of Iran. In 2005, in order to better facilitate decision making and to incorporate greater authority over the national budget, as well as to incorporate greater supervision over administrative affairs, the Plan and Budget Organization was merged with the State Organization for Administrative and Employment Affairs.

The stated goal of this move was to create a strengthened national body, working under the direct supervision of the Office of the President, in order to set national economic priorities, carry out decision making and execute national economic policies.

The new entity arising from this merger

was named as the Management and Planning Organization (MPO) and has been delegated with the responsibility for drafting each year the annual national budget of Iran as well as Five Year Development Plans. Key activities of this organization are as follows:

- **Drafting the Annual Budget**

Article 52 of the Iranian Constitution mandates that the annual budget is to be drawn up by the Iranian Government and then submitted to the Majlis (Parliament) for review and ratification. Article 52 states:

The annual budget of the country will be drawn up by the government in the manner specified by law and submitted to the Islamic Consultative Assembly for discussion and approval. Any change in the figures contained in the budget will be in accordance with the procedure prescribed by law.

Once the budget is ratified , in accordance with Article 123 of the Constitution, it is sent back to the President for implementation. Article 123 states:

"The President is obliged to sign legislation approved by the Assembly or the result of a referendum, after the legal procedures have been completed and it has been communicated to him. After signing, he must forward it to the responsible authorities for implementation."

The role of the MPO in this process is substantial, as it not only drafts the proposed budget , but after approval by the Parliament, it is responsible to update inflation estimates, review expenditures and monitor the progress of development projects and the allocation of budgets to state owned enterprises¹.



1. Ali Akbar Arabmazar "Economic Decision Making in Iran" (Tehran: Economic Research Institute, 2006). pp.20-25

The Budget Preparation Cycle is as follows:

FORMAL BUDGET PREPARATION CYCLE	
Date/Iranian months	Major Activities
Tir (June / July) (-8)	MPO prepares the general of the next year budget
Shahrivar(August / September) (-5)	First draft of the budget circular is prepared by MPO and is approved by cabinet indicated in the communicated to executive agencies by the President
Mehr (September / October) (-5)	Executive agencies propose their own budget in line with the policies and ceilings indicated in the budget circular to MPO
Aban (October / November) (-4)	The proposed budget of the each executive agency is reviewed by relative (corresponding) deputies and offices at MPO and is sent to budget committees at MPO for review and confirmation. The confirmed figures (of the budget) are then presented to cabinet. The proposed budget bill is reviewed and finalized in the cabinet
Aban (October / November) (-4)	The proposed budget bill is reviewed and finalized in the cabinet
Azar (November / December) (-3)	The proposed budget bill is presented to majles by the President
Day (December / January) (-2)	The proposed budget bill is reviewed by relative (corresponding) committee of Majles and the results are reported to the floor of Majles within 40 days
Bahman (January / February) (-1)	The proposed budget is reviewed in Majles and the results are submitted to Guardian Council within 15 days
Bahman (January / February) (-1)	After Guardian Council confirmation on the budget figures, Majles gives it's final approval on the budget bill
Esfand (February / March)	The approved budget law is communicated the president by Majles for implementation
Farvardin (March 21)	Fiscal year begins

Five Year Development Plans

Since before the 1979 revolution, economic planning was carried out via five year development plans. This precedent continued after the revolution as Article 44 of the post revolutionary Iranian Constitution makes “systematic and sound planning” a national priority. It also accepts regional planning for balanced national development, and contains several articles concerning justice and local participation. Article 3 of the Constitution makes it a duty of the state to provide for the participation of “all the people in determining their political, economic, social and cultural destiny”.

Based on the above, Iran is now preparing the implementation of the Sixth Five Year Plan slated for implementation from 2010 to 2015. Since 2005, Five Year Plans have been prepared by the MPO, in consultation with each government ministry and comes under extensive review by the Cabinet, the Majlis and the Guardian Council before subsequently becoming law. Implementation of the applicable plan is delegated to the executive sector, with each executive body being mandated to submit an annual performance report accompanied by their request for their budget allocation. The President is also mandated to submit progress reports on an annual basis to the Majlis reporting the performance of the government in the implementation of the five year plan by August of each year.

Each Five Year Plan incorporates detailed roadmaps and objectives for each sector of the economy with key targets to be achieved in the short term, mid-term and at the end of each plan. Each plan incorporates annual expenditure targets, budget allocations and quantities outcome and output targets. As these targets are indicative in nature, the MPO revises them each year during the budget process.

An overview of the key post-revolutionary Five Year Plans are as follows:

The First Five Year Plan – 1989-1994

Following the cessation of hostilities between Iran and Iraq after Iraq's invasion of Iran, the First Five Year Social, Cultural and Economic Development Plan (hereinafter the First Plan) was implemented from March 1989 to March 1994. The primary objective of the First Plan was

to overcome the legacy of the economic burdens brought about by the Iraqi invasion of Iran. Key results of the First Plan included, inter alia, reconstruction of war torn regions and major new investment in Iran's infrastructure; an increase of 7.3% in Gross Domestic Product (GDP); growth in agriculture at an annual rate of 5.9%, industry at a rate of 9.1%, water, gas and electricity at 18.9% and transport at 11.9%; a doubling of financial resources allocated for research in energy, education and telecommunications from 0.18% to 0.34% of GDP.

The Second Five Year Plan – 1995-2000

Priorities of the Second Plan included the completion of infrastructure and development projects initiated under the First Plan, including the allocation of some \$59 billion to development projects, some 11.4 times more than budgets allocated under the First Plan. Furthermore, the allocation of over \$76.4 billion towards social, administrative and other expenditures represented an increase of 580% over the First Plan. One key aspect of the Second Plan was that ongoing and newly commissioned projects initiated during the First Plan began to come to fruition during the Second Plan. As a result, with commissioning and coming on-stream of a multitude oil, refining, petrochemicals, communications systems, railroads, sea and air networks and heavy industries, they began to contribute to the national income. As result by 1996, real GDP picked up by 7.5% and value added, particularly in the metals, petrochemicals and industrial sectors surged by 6%. Furthermore, after running a huge trade deficit of \$18 billion in 1991, in 1995 Iran ran a trade surplus with total imports amounted \$12.8 billion while exports exceeded \$18 billion.

The Third Five Year Plan 2000-2005

The Third Five Year Plan was different from its predecessors as it undertook a socio-economic approach to economic decision making. As a result, the Third Plan drew heavily between the correlation between a predictable and equitable institutional framework and increased possibilities for trade, investment and growth. As a result, broad based administrative and legal reform took place in conjunction with the implementation of the Third Plan, resulting in major overhauls of Iran's tax code and foreign investment laws. In light of these reforms, from the year 2000 to 2005,

Iran witnessed large increases in infrastructure capacity and notwithstanding impediments such as weak international oil market and other global constraints, by 2002, GDP grew by 5.9%, 4.5% in 2003 and 4.4% in 2004.

One of the major successes of this era was the ratification of a new foreign investment law in January 2003, which served to streamline investment procedures and providing investors with numerous guarantees, including guaranteed profit repatriation. These steps were combined with the opening up of competition and privatization in various key sectors of the economy. By way of example, in the telecommunications sector, not only was the second nationwide mobile license auctioned to a consortium of local and international companies, but also the internet and satellite communications sectors being opened up to the private sector.

The Fourth Five Year Plan 2005-2010

The results of the Fourth Five Year Plan are still being tabulated. However, key results of this plan can be evidenced by the fact that, notwithstanding the global recession, economic growth averaged over 4.8% and the rate of investment growth averaged 7%. Of particular note have been the successes garnered in the field of telecommunications. The Fourth Five Year Development Plan set the following targets to be achieved by 2010 namely: thirty six million fixed lines; fifty percent penetration for mobile phones; and over thirty million internet users. At the present time, estimates of the number of internet users have surpassed thirty million users and Iran has over forty million mobile phone users.

The Fifth Five Year Plan: 2010-2015

The Fifth Five Year Plan is slated to be one of the most significant five year plans to be implemented by any Iranian Government to date. While the plan is has targeted an annual economic growth rate of 8%, the plan shall be implemented concomitantly with the "Iranian Targeted Subsidy Plan" which was ratified by Iran's Parliament on January 5, 2010. The Targeted Subsidy Plan is believed by many pundits to be one of the significant undertakings in Iranian economic history as it foresees the removal of almost all subsidies on food and energy freeing up over \$100 billion monetary resources that can be re-

directed into the development of the economy.

In order to implement the Targeted Subsidy Plan, a governmental entity has been formed under the name “Targeted Subsidies Organization ‘with the objective of distributing the savings generated from the phase out of subsidies (estimated by some to be equivalent to nearly 30% of the governmental budget). It is expected that nearly half of the savings will be distributed among the poorest strata of Iranian society as a buffer against the impact of the phase out, with the majority of the remainder being expended on garnering greater efficiencies in Iran’s energy infrastructure, especially in the production of greater added value petroleum based products; greater efficiencies in utilities, in particular greater use of energy saving and green technologies; the expansion of public transportation in order to lessen dependence on personal transportation such as private cars; greater efficiencies in industry and increased productivity in agriculture by way of which it is expected that these efficiencies will be translated into lower costs for consumers.

There are numerous synergies between the Targeted Plan and the Fifth Plan. By way of example, the Targeted Subsidy Plan focuses on directing the savings garnered from towards the greater development of Iran’s hydrocarbon sector while the Fifth Plan envisages an annual investment of \$20 billion a year up until 2015 to develop oil and gas capacity, with an emphasis on increasing Iran’s refining output, as Iran, notwithstanding its massive hydrocarbon reserves, is still experiencing shortfalls in its refining capacity.

Ministry of Economic Affairs and Finance

The Ministry of Economic Affairs and Finance of Iran is responsible for a majority of key economic and investment decision making in Iran. It not only acts as the public treasury, but is also mandated with economic and financial policy making, taxation, foreign direct investment, banking and commercial insurance institutes and privatization.

An overview of some of these key tasks are as follows:

Foreign Investment

Foreign nationals have no restrictions in forming and registering companies in Iran, as long as they conform to all relevant local laws. Iran’s Commercial Code does not differ at all between Iranian and foreign stock holders of Iranian companies. In other words, there is no restriction regarding the nationality of those who want to establish companies in Iran, nor is there a need to register their company with the relevant foreign investment authorities. However, most foreign investors prefer to garner the benefits afforded by Iran’s Foreign Investment Promotion and Protection Act (FIPPA). Enacted in 2002, FIPPA superseded the Law for the Attraction and Protection of Foreign Investment (LAPFI) which had been in force since 1955.

The organization responsible for foreign investment in Iran is the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI). Established in 1975, this Organization, which is a department of the Ministry of Finance and Economic Affairs, is headed by Vice Minister for Investments and International Affairs of the Ministry of Economic Affairs and Finance. In addition to foreign investment, OIETAI is also responsible for other activities, including, inter alia, international financing activities with export credit agencies and multi-lateral institutions such as the World Bank and the Islamic Development Bank and bilateral and multi-lateral economic agreements such as bi-lateral investment treaties.

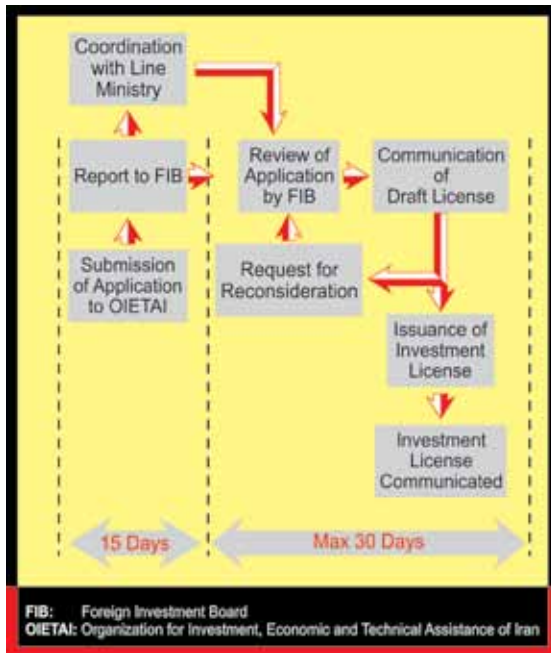
The general directorate for foreign investments within OIETAI is mandated with the responsibility for receiving investment applications and the issuance of investment licenses. In addition to processing and issuing investment licenses, the Organization also has a “Foreign Investment Service Center” which is responsible to handle the queries of prospective foreign investors. The Center has been structured as a ‘one-stop’ center, in order to prevent investors from having to resort to different administrative offices. Additionally, the Center reviews applications in order to make sure that they comply with all required formalities before official submission for processing.

The process for the issuance of investment licenses by OIETAI is as follows:

COUNTRY	DATE OF SIGNATURE	DATE OF ENTRY INTO FORCE
1- Armenia	6 May 1995	26 February 1997
2- Belarus	14 July "	23 June 2000
3- Tajikistan	18 July "	3 November 2004
4- Georgia	27 September "	22 June 2005
5- Pakistan	8 November "	27 June 1998
6- Kazakhstan	16 January 1996	3 April 1999
7- Turkmenistan	23 January "	29 April 2004
8- Yemen	29 February "	16 October 2000
9- Ukraine	21 May "	5 July 2003
10- Kyrgyzstan	31 July "	27 June 2005
11- Bosnia & Herzegovina	27 July "	25 August 2002
12- Azerbaijan	28 October "	20 June 2002
13- Turkey	21 December "	13 April 2005
14- South Africa	3 November 1997	5 March 2002
15- Lebanon	28 October "	14 May 2000
16- Syria	5 February 1998	16 November 2005
17- Switzerland	8 March "	1 November 2001
18- Poland	2 October "	26 October 2001
19- South Korea	31 October "	31 March 2006
20- Bulgaria	13 November "	24 August 2003
21- Italy	10 March 1999	27 July 2005
22- Qatar	20 May "	5 November 2001
23- Sudan	7 September "	19 October 2001
24- Croatia	17 May 2000	2 August 2003
25- Uzbekistan	11 June "	11 July 2004
26- Macedonia	12 July "	19 August 2005
27- China, People's Republic	22 July "	1 July 2005
28 -Morocco	21 January 2001	31 March 2003
29- Austria	15 February "	11 July 2004
30- Tunisia	23 April "	27 February 2003
31- Bangladesh	29 April "	5 December 2002
32- Oman	2 December "	8 April 2003
33- Romania	26 January 2002	12 January 2005
34- Malaysia	22 July 2002	4 August 2006
35- Germany	17 August "	23 June 2005
36- North Korea	30 September "	24 April 2005
37- Bahrain	19 October "	12 October 2004
38- Spain	29 October "	27 April 2004
39- Finland	4 November "	25 June 2004
40- France	12 May 2003	12 November 2004
41- Algeria	19 October "	5 December 2005
42- Serbia & Montenegro	5 December "	7 July 2006
43- Venezuela	11 March 2005	7 June 2006
44- Sweden	5 September "	2 March 2008
45- Afghanistan	28 May 2006	2 February 2008
46-Indonesia		28 March 2009

FIPPA was enacted in order to broaden and strengthen the legal protection afforded to foreign investors in Iran. Key changes between the two laws are as follows:

- Fields open to foreign investment were broadened in order to allow investment in key infrastructure.



- Broadening the type of capital recognized as foreign investment, expanding beyond foreign direct investment, to also include project financing; buy-back arrangements; Build Operate and Transfer (BOT) arrangements and civil partnerships.
- Broader recognition of capital, which in addition to cash can also include in-kind contributions ranging from intellectual property to raw materials.
- Full protection against “non-commercial” risks, including repatriation of capital, capital gains, and compensation in case of business disruption.
- Equal protection for Iranian and non-Iranian investors.
- Most favored nation treatment for investors of countries that Iran has Bi-lateral investment treaties with. At the present time, Iran has forty one such agreements. The list is in the attached side box.

Taxation

The Ministry of Finance and Economic Affairs is also responsible for taxation affairs in Iran. The first comprehensive taxation act in Iran was enacted in 1966. Since then, the act has undergone a number of amendments with the last such amendment taking place in 2002. Key features of the tax laws which are of interest for foreign entities in Iran are as follows:

- There is a flat corporate tax of 25% of profits made by legal entities.
- Tax exemptions are available for industrial and manufacturing activities. For newly established industrial and manufacturing entities, 80% of income is exempted from taxation and 100% of profits are exempted from taxation if the entity is located in an underdeveloped area.
- Income from the export of goods (announced at the beginning of each five year development plan) are exempt from taxation.

CUSTOMS ORGANIZATION

The Customs Organization of Iran is also a branch of the Ministry of Finance and Economic Affairs. As an active member of the World Customs Organization, it utilizes the Brussels Harmonized Systems and is also a signatory to many of its conventions.

The Organization has implemented the ASYCUDA WORLD electronic customs system, in cooperation with UNCTAD and the UNDP, and as of March 21, 2010, all imported items must have barcodes that meet national and international standards. Iran’s Custom’s administration has 144 offices in ten regions across Iran.

The methodology utilized by the Customs Organization for evaluation of goods is by ‘self-declaration’, in which the importer of a good submits a declaration to the to the customs office including tariff clarification, calculation of duties and taxes due and other pertinent documentation. The Customs Organization then reviews the information provided and based on the submission determines whether to accept the declaration or refer the good for further inspection.

Exports are required to be reported by way of an ‘export declaration’. There are no export duties levied on exports, though permits from

various ministries must accompany the export declaration. Inspection of goods either take place at the in-land offices of the customs organization or at the exporters premises, were they are then sealed for transportation to the port of exit. Of key note has been the fact that Iran's tariff structure has been modified and rates reduced to single flat rate of 4% for all goods (except those which are already exempted from taxation).

In addition to goods which are designated for exports, other key exemptions include those pertaining to agricultural husbandry, industrial, mining and packing activities. In particular all agricultural equipment and machineries (and their spare parts) are exempted from customs taxes if they are not already manufactured domestically as well raw materials including certain chemicals, parts and equipment pertaining to industry and mining are eligible for certain exemptions provided they are designated in the Harmonized System of Coding.

MINISTRY OF COMMERCE

Iran's Ministry of Commerce is mandated the regulation and implementation of policies that pertain to domestic and international trade. These include a broad array of activities ranging from drafting and implementing the regulatory framework for commerce to export promotion to domestic and international trade fairs and exhibitions. Of note is the fact that the Ministry of Commerce is also leading Iran's accession process to the WTO and has not only drafted and submitted Iran's trade regime to this organization, but has also set up a special office dedicated to the accession process. Key institutions affiliated with this Ministry comprise of:

EXPORT GUARANTEE FUND

The Export Guarantee Fund has the mandate of expanding and promoting exports by protecting exporter against non-commercial risks which fall outside of the coverage provided by insurance companies, as well as to provide guarantees for used in the exportation of goods and services.

TRADE PROMOTION ORGANIZATION OF IRAN

The Trade Promotion Organization of Iran is charged with the task of promoting non-oil exports in Iran. As a result, it has three core functions comprising of trade policy, trade

EXPORT GUARANTEE FUND OF IRAN RANKS FIRST AMONG REGIONAL COUNTERPARTS

In the period between March 21, 2009 to January 2010, the Export Guarantee Fund of Iran (EGFI) issued insurance policies and guarantees exceeding \$2.341 billion, a forty fold increase over the portfolio of the EGFI as compared to 2005 when only \$72 million of coverage was extended by the EGFI. A member of the Prague Club, the portfolio of the EGFI has now passed the threshold level required to qualify for membership in the Berne Union (the International Union of Credit and Investment Insurers) and has been accepted for membership as a member of the Executive Council of the Amman Union, the Union of Arab and Islamic Credit Insurers

promotion, and trade facilitation with the objective of expanding exports and markets. In pursuit of those objectives and in view of the leading role of TPOs in preparing new policies and providing supporting facilities needed to develop a comprehensive infrastructure for the foreign trade, the Export Promotion Center of Iran (EPCI) with nearly four decades of hands-on experience in promoting the Non-Oil Export was restructured in 2004 and took up its new mandate as "Iran Trade Promotion Organization".

INDUSTRIAL PROPERTY OFFICE AT THE ORGANIZATION FOR REGISTRATION OF DEEDS AND ESTATES

The Industrial Property Office at the Organization for Registration of Deeds and Estates of the Judiciary of Iran is responsible for industrial property issues in Iran.

Since 1931, Iran was at the forefront of the region, being one of the first countries to enact a Law of Registration and patents. Though having had many amendments during its seventy seven year history, the law was deemed as being outdated, especially in light of the multitude of gains in science and development, as covered in Chapters One and Two of this publication.

As a result, in January 2008, the Iranian Parliament (Majlis) passed new intellectual property legislation, on a probationary period of five years, which, while being compatible international laws governing international property in other countries, has also been drafted in such manner by which it will create

the requisite incentives to channel the private sector to the innovation sector and also support the development of science and technology in Iran. Of particular note is the fact that the new law has been drafted in such a manner by which it has compatibility and is harmonized with many of the issues that have been covered in the World Trade Organization Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The new law regards inventions as products or processes and, in either case, provides exclusive legal protection for twenty years. Of particular note is the fact that if there is a conflict between the provisions of Iran's new law, and those of international conventions which the government is a signatory, the latter would take precedent, ensuring harmonization between Iranian law and internationally accepted practices.

As a further assurance to foreign companies wishing to utilize their intellectual property in Iran, Iran's Parliament also ratified a bill in May 2001 for accession to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (known also as the New York

Convention). The accession to this convention provides for the recognition and enforcement of international arbitration awards made in other countries. Arbitration awards made in other countries are also enforceable on other member countries.

Iran is a signatory to the International Convention for Protection of Industrial Property (known as the Paris Convention) and in December 2003, became a party to the Madrid Protocol for the international registration of trademarks. In October 2007, Iran also became a signatory to the WIPO Patent Cooperation Treaty (PCT), enabling inventors to register their patents in PCT member states by a 'one-stop' filing of an application with the related national authority.

SETTING UP A BUSINESS ENTITY

A) Legal Forms of Company Formation

Foreign companies wishing to have a presence in Iran may register companies under a number of different formats. There are seven different types of business associations provided for in Iran's

REQUIREMENTS OF PUBLIC AND PRIVATE JOINT STOCK COMPANIES IN IRAN

Capital: Public company: minimum Rls5 million. Founding shareholders must subscribe at least 20% of the company's capital and pay in at least 35% of the initial subscription. The par value of each share shall not exceed Rls. 10,000, and par value of all shares must be equal. Capital provided in the form of know-how is subject to evaluation by independent experts. At least 5% of a company's net profits must be set aside each year as a reserve fund until the fund reached 10% of the company's capital.

Because the Iranian tax system often relates profits to capital, most companies make a point of increasing their capitalization in line with their net worth so that profit as a percentage of issued capital remains in line with accepted norms.

Private company: minimum Rls.1 million. Founding members must subscribe 100% of the capital and pay in at least 35% of the cash capital and 100% of the non-cash capital.

Founders, shareholders, directors: Minimum founders or shareholders, three; minimum directors, five for a public company, two for private.

Labor: No requirement that labor be represented on the board or in the management.

Disclosure: Companies must submit a balance sheet audited by certified public accountants to the Ministry of Economy & Finance within the first four months of the Iranian calendar year (which starts March 21) or the company's own fiscal year.

Types of shares: Shares may be bearer or registered, common or preferred.

Control: Two thirds of present voting rights is a majority at founder's meeting and at extraordinary meetings; 51% at ordinary general meetings. Shareholders holding 20% or more may call a shareholders' meeting or go to court.

Commercial Code. These consist of:

Joint Stock Company: The most common and relevant forms of business association in Iran are the private joint stock company (Sherkat-e-Sahami Khass) and the public joint stock company (Sherkat-e-Sahami Aam). The joint stock company is defined by law as a company whose capital is divided into shares and the liability of whose shareholders is limited to the par value of their shares. The main difference between a private joint stock company and a public joint company is the fact that a public joint stock

company may offer its shares and debt securities to the public while a private company may not. Of the two, the private joint stock company is the more popular form of doing business in Iran and perhaps the most suitable as foreign investments are concerned. Joint stock companies must be formed with a minimum of three shareholders for a private company and five shareholders for a public company.

The shareholders of a joint company participate in the ownership, profit, losses and liquidation of a company in direct proportion to their share holding. The liability of each shareholder is limited to the par value of his/her shares and in the absence of fraud there is no recourse to shareholder. As such, a joint stock company under Iranian law holds a separate juridical personality and can sue or be sued in its own name. The minimum share capital at the time of formation is Rls. 1 million for private company and Rls. 5 million for public company's. Payment can be made either in cash or in kind for a public joint stock company and a minimum of 20% of the share capital should be made available to the general public. Management of a joint stock company is through a board of directors elected by shareholders. Should a board member reside abroad, delegation of power to resident board members is permitted, however the articles of association of the company must authorize such a delegation of power. Shareholders possess the usual rights held by their counterparts in other countries such as the right to attend shareholder meetings, receive financial reports, elect/replace board members and vote on a major company decisions.

Limited Liability Company: A limited liability company (sherkat ba massouliat mahdoud) is defined as a company formed by two or more persons for the purpose of trading. Liability is based upon the direct contributions of the partners to the partnership and not by share subscription. The formation of a limited liability partnership is deemed to have taken place when the capital in cash has been fully contributed and when non-cash contributions have been assessed and delivered. The name of the company must always include the phrase "limited liability" otherwise under the law the company will be considered as a general partnership.

General Partnership: A general partnership

OVERVIEW OF PATENTS AND TRADEMARKS

Patents: Types and duration. Patents of invention: 5, 10, 15 or maximum 20 years from the application date; patents of importation (which are based on a prior foreign patent): unexpired term of foreign patent.

Application procedure. Patents registered abroad may be recorded (generally via a resident attorney) at the Patent Office, Tehran, without further legalization required (certified copy of foreign patent must be enclosed). Examination as to formal correctness and unity of invention; for local patents not based on prior foreign patent or application, examination extends to existence of analogous prior Iranian patents. Upon acceptance, patent is granted and published in the Official Gazette.

Trademarks: Duration. 10 years, renewable for like periods.

Legal effect. First application entitled to registration and exclusive use of mark. Prior user may contest use within three years.

Procedure. File with Registration Office 10 prints of the mark. Application should include name, address, occupation and nationality of applicant; name and address of attorney; trade name and nature of business.

Copyright: There is no regulation in Iran covering copyright per se. However, Articles 23 through 31 of the Law for the Protection of the Rights of Authors, Composers and Artists may be invoked in favor of an author if it has been determined that his/her work has been published without his/her permission. Under the said Law, owners of intellectual works are also entitled for protection.

(sherkat - e- tazamoni) is one formed between two or more persons with joint and several responsibility. Such a company must be under a common name of at least one of the partners and the term “General Partnership” must appear in the name of the company. The formation of a general partnership is deemed to have taken place when all the capital in cash has been paid and non-capital contributions have been assessed and delivered. Under the framework of a general partnership, a partner may not transfer shares without the consent of the other partners. Each partner is directly liable for the company’s debts even if the amount of the debt is higher than that of the partner’s capital contribution. A General Partnership can be converted to a Joint Stock company with the unanimous consent of the partners.

Joint Stock Partnership: A joint stock partnership (sherkat - e- mokhtalet sahami) is formed under a common framework comprising of a number of share holding partners and one or several with unlimited liability. Under this framework, the general partner is one whose capital is not represented by share and is fully liable for company debts whereas the limited partners are only liable for the extent of the amount of capital they have contributed to the partnership. Management participation is divided between a Board of Directors composed of at least three partners whereas the management of the partnership is exclusively retained by the partners with unlimited liability.

Limited Partnership: A limited partnership (sherkat-e-mokhtalet-e-ghair-e- sahami) is formed when the purpose of the company is for trading, under a common title, without the issuance of any shares and with one or more of the partners being a general partner and the other partner(s) being with limited liability. The term “limited partnership” along with the name of one of the partners must appear in the firm’s title. Under such a framework, general partners are liable for the any debts or liabilities that may be incurred in excess of the firm’s assets whereas the limited partners are only liable to the extent of their contributions to the partnership. Management in a limited partnership is retained exclusively in the hands of the partners with unlimited liability whereas a limited partner has no rights or obligations in the management of the firm.

Proportional Liability Partnership: A proportional liability partnership (sherkat-e-nesbi) is one formed for the purpose of trading, under a common name of two or more persons, with liability proportionately divided by the amount of contributions to the firm. In a proportional liability company, the term ‘proportional liability partnership’ must appear together with the name of at least one of the partners. If the company’s assets are deemed to be insufficient to meet the company’s liabilities, each partner becomes liable in proportion to the amount of the share subscription.

Manufacturing / Consumer Co-operatives: Cooperatives (Taavoni) are generally formed within the framework governing joint stock companies, with the primary difference being that no member is entitled to more than one vote. A Manufacturing Cooperative (sherkat-e-taavoni -tolidi) is formed by craftsmen for the production and sale of goods that they produce in common. A Consumers Cooperative (sherkat -e-taavoni-masraf) is produced with the aim of the purchase and re-sale of goods (either manufactured by the members or purchased elsewhere). Profits and losses are distributed among members in proportion to the purchases made by them.

In all of the above frameworks, commercial companies become legal entities from the day their title is recorded in the Bureau of Company Registration.

B) Branch Offices

A non-Iranian company may carry out its sales and service activities via a branch office in Iran. Under Iranian Law, a branch does not hold the status of a separate legal entity, though it will have its own office and assets in Iran. Rather, according to Articles 3 and 4 of the Iranian Registration of Companies Act, a foreign company that wishes to carry out economic activities in Iran must already have been recognized in its home country as a legal entity and then duly registered in Iran. A branch manager which is appointed by the parent company’s board of directors, is to run the branch’s activities in Iran.

A branch office is subject to taxation on any profits earned in Iran and in cases where the company is a contractor, the branch is responsible for income tax on the work performed in Iran. The procedure for setting up a branch

are generally the same as that of a joint stock company. It should be noted however that the Articles of Association of the Parent Company as well as a Board of Directors resolution specifically authorizing the opening of the branch office in Iran must be submitted in addition to other required documentation for registration in Iran.

Corporate Taxation and Double

Companies and all legal entities of Iranian nationality are subject to income tax on income earned whether in Iran or through activities abroad. Foreign companies and individuals are subject to taxation based on income earned through work performed in Iran. Dual taxation treaties have been signed with a number of countries including with Germany in 1968 and France in 1973 and are still in force. Additionally, under reciprocity agreements entered into with certain countries, airlines and shipping companies of those nations are exempt from taxation on income earned in Iran through passenger and cargo services.

Tax exemptions are specifically foreseen in Articles 132 and 146 in the Law of Direct Taxation. Exemptions are applicable to income earned from manufacturing and mining activities for periods of up to four to eight years starting from the date of commencement of operations and 20% of the reported profit of all manufacturing, mining, assembly plant and related engineering work is exempt from income tax. It should also be of note that 100% of income earned via the export of finished industrial goods and 50% of income gained from the export of other items or goods are also exempt from taxation.

In light of Iran's industrialization and development policies, technical assistance contracts are subject to lower than usual tax rates provided that at least part of the work is carried out in Iran and the contract is with a governmental (or affiliated) organization.

Employment of Foreign Nationals

Iran's Labor Code covers the majority of rules and regulations concerning the employment of foreign nationals in Iran. According to Article 120 of the Code, to be allowed to work in Iran, a foreign national must first obtain a work permit from the Ministry of Labor and Social Affairs prior to commencement of employment. Exceptions

to this law pertain to:

- i) Personnel of diplomatic and consular missions.
- ii) Members of the UN and its affiliated organizations (with the prior coordination of Iran's Ministry of Foreign Affairs).
- iii) Professional staff of the foreign news media (with the approval of the Iranian Ministry of Culture and Islamic Guidance - if Iranian correspondents receive reciprocal treatment).

It is strongly suggested that companies exploring the prospect of setting up operations in Iran notify the Ministry of Labor and Social Affairs of their intent to place expatriate personnel and obtain the requisite approval prior to the time the said employees apply for work permits. Under Article 961 of Iran's Civil Code, foreign nationals are expressly protected from discrimination, granting them the same civil rights as their Iranian counterparts, except those rights which are exclusively the domain of Iranian citizens (i.e. voting in national elections etc.)

The policy governing the issuance of work permits is based primarily upon the prevailing needs of the country at the time of application. It is unusual for companies carrying out specialized work in Iran to have any form of difficulty in obtaining permits for their personnel.

Under Article 126 of Iran's Labor Code, in cases where there is a situation requiring the instant employment of a foreign national, temporary work permits can be issued with little formality. To be eligible for such treatment, the applicant must submit the request to its related Governmental Ministry which in turn, the latter forwards the request to the Ministry of Labor and Social Affairs (outlining the reason for the expediency). Upon the consent of the Ministry of Labor, a temporary work permit will be issued for a maximum of three months which is re-newable.

An Overview of Trade in Iran

- Introduction
- Shift in the Composition of Trade and Trading Partners
- An Overview of Trading Patterns with International Trading Blocs and Organizations
- The ASEAN
- The Economic Cooperation Organization (ECO)
- Persian Gulf Cooperation Council
- The European Union
- Shanghai Cooperation Organization
- Key Bi-lateral Trade Partners

AN OVERVIEW OF TRADE IN IRAN

Introduction

Trade in Iran has undergone major changes in the past decades. As a transition economy, Iran has made marked shifts away from dependence on oil based and public sector driven growth replaced instead with a diversified industrial base and private sector initiatives. At the present time companies encompassing over forty different industries are listed on the Tehran Stock Exchange.

Rank in 2008	Rank in 2009	Country	Export value (million \$)	Import Value (million \$)	Trade Balance (million \$)	Balance changes same period last year
1	1	Iraq	4.440	43	4.397	100
2	2	Afghanistan	1.337	11	1.326	295
3	168	India	1.816	1.296	520	1.048
4	3	Syrian Arab Republic	526	29	496	137
5	9	Indonesia	610	217	393	290

In 1974, the United States, the Netherlands, Germany, the United Kingdom, Italy, and France accounted for 70% of Iran's imports and exports. Today, as can be seen by the chart below, there has been a marked shift away from Iran's traditional trading partners, and the countries with which Iran is experiencing the fastest rate of growth in trade are primarily regional and far eastern countries.

As can be seen, the Asian sub-continent has displaced Europe as the primary partner of trade with Iran.

Row	Continent	Year 2009				Year 2010				% Changes	
		Weight (1000 Ton)	Value (Million \$)	Part of each continent		Weight (1000 Ton)	Value (Million \$)	Part of each continent			
				Weight	Value			Weight	Value	Weight	Value
1	Asia	55.994	21.992	93.53	83.53	43.750	18.066	92.10	82.53	27.99	21.73
2	Europe	2.781	3.490	4.65	13.25	2.988	3.176	6.29	14.51	-6.93	9.88
3	Africa	766	465	1.28	1.77	635	330	1.34	1.51	20.73	40.97
4	America	190	269	0.32	1.02	78	270	0.16	1.23	143.86	-0.35
5	Oceania	136	111	0.23	0.42	51	49	0.11	0.22	168.14	127.23

Rank		Country	Year 2009				Year 2008				Changes	
2008	2009		Weight (1000 ton)	Value (million \$)	Part		Weight (1000 ton)	Value (million\$)	Part		Weight	Value
					Weight	Value			Weight	Value		
10	15	UK	944	732	2.08	1.14	2.893	1.654	5.57	2.99	-67.37	-55.73
8	10	India	975	1.296	2.15	2.01	1.961	1.793	3.78	3.24	050.28	-27.71
7	8	Italy	242	1.745	0.53	2.71	248	1.898	0.48	3.43	-2.19	-8.07
12	13	Netherlands	1.220	1.031	2.69	1.60	1.363	1.093	2.62	1.97	-10.46	-5.55
3	3	Germany	2.055	4.585	4.54	7.12	2.854	4.688	5.50	8.48	-27.99	-2.21
15	16	Austria	689	728	1.52	1.13	1.036	736	2.00	1.33	-33.47	-1.18

Concomitant with the above, the following countries, which in the past had been key trading partners, have been experiencing declines in trade with Iran.

While it is simple for pundits to attribute the change in Iran's trading patterns to political and other factors, a closer look at Iran's rapidly growing economy indicates a number of key developments which would better reflect the on-going transition.

In the past, state entities were responsible for over 60% of Iran's GDP. By the year 2010, this figure had fallen to less than 45%. Concomitantly, Iran's GDP has increased from \$361.2 billion in 2009 to \$416.1 billion in 2010 and is predicted to reach \$449.1 billion in 2011.

Iran has made the development of non-oil exports a key priority of its economic planning. In 2005, non-oil exports generated only \$7 billion in income whereas by the end of 2010 this figure had reached over \$28.4 billion.

In 2010, over 3,300 types of goods were exported to more than 160 countries, reflecting a growth rate of 30% in the export of non-oil goods over the same period in 2009. In particular,

exports of goods and services from Iran, ranging from minerals to technical and engineering services grew by 150% and 75% respectively. These figures are in sharp contrast to global growth rates forecasted for the same period by the International Monetary Fund and World Bank of 8.2% for developed countries and 10.5% for developing nations.

As has been highlighted throughout this publication, the combination of a strong domestic industrial base, educated work force and geo-economic positioning has enabled Iran to gain direct access not only to a regional market of over three hundred million, but as far reaching as the African and South American continents.

It is expected that with the implementation of new export development policies, Iran's non-oil exports will continue their rate of growth. New government initiatives in favor of exporters include, inter alia, expanded export insurance coverage, low interest loans and incentives in favor of exporters. In particular, key steps have included an increase in the capital of the Export Development Bank of Iran and the transformation of the government's FOREX Reserve Account into a National Development Fund. with One of the key objectives of this step has been being to

expand non-oil exports and create of the requisite infrastructure thereto. By way of example, it is expected that by 2011, exporters will gain access to \$11.1 billion of financial resources required for refinancing the import of raw materials.

As a result of the above, Iran's trading patterns and the composition of key trading partners has been undergoing a continuous change as Iran gains access to new markets.

IRAN RANKED 7TH GLOBALLY IN TECHNO-ENGINEERING EXPORTS

Based on the statistics of the World Trade Organization ('WTO') Iran is ranked 7th globally in Techno-Engineering Exports. In 2002, Iran exported less than \$300 million of such services, whereas in 2010, this figure topped \$3.2 billion. To further promote this sector, the Iranian government has forseen incentive measures, including, inter alia, credit facilities at rates on par with the London Interbank Offered Rate ('LIBOR') in both the Iranian Rial and hard currency. 36% of Iran's techno-engineering exports are provided in Central Asia, 28% in the Middle East and 16% in Latin America. Road construction, power generation, and construction comprise of the bulk of the services offered, with 33%, 27% and 23% respectively.

Shift in the Composition of Trade and Trading Partners

In 1972, the export of capital goods from Iran stood at 0.8%, raw materials at 50% and consumer goods at 40%. In 2010, liquefied propane, methanol and automobiles were among the core items of Iran's non-oil exports, with industrial exports in Iran experiencing a 19.21% increase. In the first ten months of the year 2010 alone, Iran exported \$2.81 billion of chemical products and over \$1.782 billion of plastic and rubber products, while in the same period textile exports increased by 11%.

This change in the structure of Iran's trading relations can be attributed to a number of factors, as evidenced by the coming on-stream of a number of large scale automobile, steel, petrochemical steel and agricultural processing

plants, not to mention the existence of over 15,000 (+) small to mid-size factories covering a multitude of manufactured goods ranging from electronics to sweets, many Iranian companies have begun to emerge into key regional players. Of particular note has been Iran's growing exports of technical and engineering services. In 2010, the export of these services grew by 30% topping nearly \$3billion. Iranian companies have implemented projects as diverse as pipelines and power generation plants. 40% of the provision of these engineering services were provided to Iran's neighbors in Central Asia and the Caucasus, 30% to the country of Iraq and nearly twenty percent to the African Continent.

In sum, Iran's efforts to open new markets for its goods and services, and, in effect, develop "south-south" integration with developing economies as broad and varied as China, India, South Africa and Venezuela.

IRANIAN TRACTORS IN LATIN AMERICA

Over seven thousand Iranian tractors are currently under use in Latin America. The tractors, manufactured by an Iranian – Venezuelan joint venture company, have 18% local Venezuelan content and the remainder comprise of Iranian parts and components. The joint venture has now expanded its product line to include farm implements and such as plows. The \$34 million joint venture was founded in 2005, with 69% of the shares held by the Iranian partner and the remainder by the Venezuelan.

In light of the above, the results of this shift in Iran's trading relations can be seen as follows:

An Overview of Trading Patterns with International Trading Blocs and Organizations

Iran's relations are continuously improving with trading blocs and organizations as follows:

- **The ASEAN**

In 2010, Iran witnessed a 183% increase in trade with the ASEAN countries, with non-oil exports from Iran topping \$1billion. Trade with the ASEAN nations, a geo-political and economic organization comprising of Indonesia, Malaysia,

the Philippines, Singapore, Thailand, Brunei, Burma (Myanmar), Cambodia, Vietnam and Laos is expected to further experience growth in light of the forthcoming implementation of a number of trade pacts, exchange of trade representatives and the holding of specialized exhibitions.

- **The Economic Cooperation Organization (ECO)**

Iran is one of the founding members of the ECO, an intergovernmental regional organization comprising of Iran, Pakistan, Turkey, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. Between 2009 to 2010, Iran's non-oil exports to the member nations of the ECO increased by 25% for a value of \$3.6 billion. Exports to Afghanistan, Pakistan and Turkey increased by 58%, 45% and 11% respectively.

- **Persian Gulf Cooperation Council**

In the first two months of the Iranian year 1389 (March 21-May 21 2010), Iran's non-oil exports to the member countries of the Persian Gulf Cooperation Council (PGCC) increased by 56% with the export of \$579 worth of goods by Iran during this period. The figure for the preceding period of the previous year stood at \$379 million. Iran's non-oil exports to these countries account for 15% of the total of all of Iran's non-oil exports.

- **The European Union**

Iran's non-oil exports to the European Union rose by 10% in the period ending March 20, 2010. Non-oil exports by Iran topped \$2 billion, up from \$1.8 billion during the preceding period. However, imports from the European Union dropped from \$16 billion to \$14 billion during the same period, reflecting a decrease of 13%.

- **Shanghai Cooperation Organization**

The Shanghai Cooperation Organization ('SCO') is an intergovernmental organization established by the countries of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan for multilateral security and economic cooperation. Founded in 2001, its six full members account for 60% of the land mass of Eurasia and its population is a quarter of the human race. With the inclusion of observer states (including

POPULARITY OF IRANIAN GOODS IN IRAQ

According to Mohammad Abbas, a trader in Baghdad, "almost all Iraqi traders have shifted their attention to Iran". According to Iraqi traders, Iraqis prefer Iranian goods because they are cheaper than their imported counterparts. While Iranian goods are competitively priced and enjoy high quality, many also attribute Iran's success in the Iranian market to a proper understanding of the Iraqi market. By way of example, Iran has been recently exporting low-voltage household goods bearing in mind the scarcity of electricity in Iraq. Another Iraqi trader comments that "the electrical goods they ship now can be operated by small power generators which are also Iranian and have almost invaded the market." An Iranian built small power generator can be bought in Iraq for \$100 while the same unit imported from South Asia could be priced as high as \$300. Even Iranian air conditioners and coolers are sold at prices within reach of Iraq's civil servants, the country's middle class.



Iran) its population encompasses half the human race. In 2008, Iran's exports to the SCO stood at \$2.07 billion. In 2009, this figure increased to \$2.57 billion reflecting a 24% increase.

Key Bi-lateral Trade Partners

The entry of Iranian goods into new markets, combined with the shift away from the need to source capital goods from industrialized countries in favor of intermediate goods required for Iran's own growing industrial base, has led to a transition in Iran's key trading partners. This can be best exemplified as follows:

China: In 2010, China surpassed Germany as the largest trade partner with Iran. In 2010, total

bilateral trade between China and Iran surpassed \$21,2 billion, with Chinese companies supplying Iran with 13% of Iran’s imports (\$7.9 billion).

Germany: Notwithstanding the fact that it has now been surpassed by China, the value of trade between Iran and Germany has increased from approximately Euro 4.3 billion in 2009 to nearly 4.7 billion in 2010, reflecting a 9% rise. In turn, Germany imported some 916 million Euro’s of goods from Iran in 2010, a 376 million Euro increase over the preceding year.

Iraq: In 2010, Iran exported over \$4.1 billion of non-oil goods to Iraq. At the present time, Iraq is Iran’s largest export market for non-oil goods, and it is expected that exports will exceed \$7.5 billion by the end of 2011.

Korea: In 2010, trade exchanges between Iran and South Korea increased by 52.9% reaching over \$8 billion. Iran’s exports to South Korea were valued at \$4.4 billion reflecting a 57.3% increase over the same period, whereas South Korea’s exports to Iran stood at \$2.9 billion, a growth rate of 46.7%.

Afghanistan: Annual trade exchanges with Afghanistan topped \$1billion in 2010. It is expected with the allocation of \$300 million in banking facilities allotted by Iranian banks for Iranian traders, this figure will continue to increase.

Row	Continent	Year 2009				Year 2010				% Changes	
		Weight (1000 Ton)	Value (Million \$)	Part of each continent		Weight (1000 Ton)	Value (Million \$)	Part of each continent		Weight	Value
				Weight	Value			Weight	Value		
1	Asia	55.994	21.992	93.53	83.53	43.750	18.066	92.10	82.53	27.99	21.73
2	Europe	2.781	3.490	4.65	13.25	2.988	3.176	6.29	14.51	-6.93	9.88
3	Africa	766	465	1.28	1.77	635	330	1.34	1.51	20.73	40.97
4	America	190	269	0.32	1.02	78	270	0.16	1.23	143.86	-0.35
5	Oceania	136	111	0.23	0.42	51	49	0.11	0.22	168.14	127.23

Trading countries with the most negative trade balance in the year 2010

Rate in 2009	Rate in 2010	Country	Export value (million \$)	Import value (million \$)	Commercial balance (million \$)	Balance changes same period last year
1	1	UAE	3.313	21.195	-17.882	-4.629
2	2	Germany	345	4.585	-4.240	99
3	4	Switzerland	23	3.772	-3.749	-1.637
4	3	Korea republic	577	3.620	-3.043	-117
5	9	Turkey	1.063	3.993	-2.929	-1.498

Export rate divided by the 5 main destination countries, years 2009-2010

Rate in 2009	Rate in 2010	Destination Country	Year 2009		Year 2010		% Changes	
			Weight (1000 ton)	Value (million \$)	Weight (1000 ton)	Value (million \$)	Weight	Value
1	2	China	24.758	4.575	16.397	3.126	50.99	46.36
1	2	Iraq	8.624	4.440	8.418	4.560	2.44	-263
3	3	UAE	5.092	3.313	5.267	2.934	-3.31	12.92
4	4	India	4.591	1.816	3.339	1.264	48.28	43.61
5	5	Afghanistan	1.801	1.337	1.119	1.047	61.01	27.74
Other countries			14.641	10.846	12.961	8.960	12.96	21.05
Total			59.868	26.327	47.501	21.891	26.03	20.26

Exports by the major countries of each continent

Continent	Destination Country	Weight (1000 ton)	Value (million \$)	Part of each continent	
				Weight	Value
Asia	China	24.758	4.575	44.22	20.80
Europe	Belgium	481	439	17.29	12.58
Africa	Egypt	137	60	17.93	12.84
Oceania	Australia	134	108	98.41	97.25

Imports rate separated by the 10 main items, years 2009-2010

Rank in 2009	Rank in 2010	Tariff	Description	Weight (1000 ton)	Value (million \$)	Part of each good		Weight (1000 ton)	Value (million \$)	Part of each good		% changes	
						Weight	Value			Weight	Value	Weight	Value
1	2	72061000	Iron and steel ingots of non-mingle	4.992	2.935	11.02	4.56	4.384	2.092	8.44	3.78	13.88	40.26
5	2	72083900	Hot rolled flat products of iron or steel, non-mingle	1.643	1.028	3.63	1.60	1.631	872	3.14	1.58	0.68	17.93
0	2	10051020	Animal corn	3.592	977	7.93	1.52	0	0	0.00	0.00	100.00	100.00

10	4	9887.338	separate parts for car producing	69	952	0.15	1.48	48	622	0.9	1.13	45.89	53.07
4	5	10064000	Rice	1.083	911	2.39	1.42	1.290	1.074	4.48	1.94	-16.05	-15.14
11	6	23040000	Soybeans meal	1.918	853	4.24	1.33	1.253	559	2.41	1.01	52.12	52.45
7	7	84119900	Gas turbines components and parts	24	783	0.07	1.22	45	830	0.09	1.50	024.68	-5.68
14	8	02024090	Pieces of frozen bovine meats without bone	180	775	0.40	1.20	102	408	0.20	0.74	76.95	89.76
13	9	20049090	Drug retail	4	731	0.01	1.14	3	532	0.01	0.96	25.77	37.43
18	10	17011100	Sugar cubes from beetsugar	1.681	702	3.71	1.09	868	321	1.67	0.58	93.73	118.77
Other tariffs				30.090	52.717	66.44	83.46	42.398	47.976	81.47	86.78	-28.86	11.97
Total				45.287	64.364	100	100	51.921	55.287	100	100	-1278	16.42

Weight and value of the main exports goods, years 2008-2009

Number	Description	Year 2009				Year 2008			
		Weight (1000 ton)	Value (million \$)	Part		Weight (1000 ton)	Value (million \$)	Part	
				Weight	Value			Value	Weight
27	Fuels, oils, mineral waxes and distillation products from them	7.511	4.906	12.55	18.64	7.934	3.925	16.70	17.93
29	Organic chemical products	6.409	2.843	10.71	10.80	6.059	2.436	12.75	11.13
39	Plastic materials and objects made from them	2.247	2.836	3.75	10.77	2.041	2.301	4.30	10.51
8	Edible fruits	1.244	2.174	2.08	8.26	1.108	1.779	2.33	8.13
26	Metal ore, welding and ash	18.862	1.302	31.51	4.94	11.292	702	23.77	3.20
Total of four main exports goods		36.273	14.061	60.59	53.41	28.434	11.143	59.86	50.90
Total exportation		59.868	26.327	100	100	47.501	21.891	100	100

Weight and value of the main imports items, years 2009-2010

Number	Description	Year 2009				Year 2008			
		Weight (1000 ton)	Value (million \$)	Part		Weight (1000 ton)	Value (million \$)	Part	
				Weight	Value			Value	Weight
84	Machinery and mechanical devises	1.382	11.680	3.05	18.15	1.131	10.448	2.18	18.90
72	Cast iron, iron and steel	11.725	8.180	25.89	12.71	11.551	6.822	22.25	12.34
71	Stons and precious metals	2	5.970	0.00	9.28	1	817	0.00	1.48
27	Fuels, oils, mineral waxes and distillation products from them	5.952	3.943	13.14	6.13	10.228	5.731	19.70	10.37
85	Machinery and electrical equipments	478	3.173	1.06	4.93	413	2.894	0.80	5.23
Total of the five main imports items		19.539	32.948	43.14	51.19	23.324	26.712	44.92	48.32
Total of imports		45.487	64.364	100	100	51.921	55.287	100	100

Imports rates from countries with the highest decreased value, years 2009-2010

Rate		Name of the country	Year 2009				Year 2008				Changes	
2008	2009		Weight (1000 ton)	Value (million \$)	Part		Weight (1000 ton)	Value (million \$)	Part		Weight	Value
					Weight	Value			Weight	Value		
10	15	UK	944	732	2.08	1.14	2.893	1.654	5.57	2.99	-67.37	-55.73
8	10	India	975	1.296	2.15	2.01	1.961	1.793	3.78	3.24	050.28	-27.71
7	8	Italy	242	1.745	0.53	2.71	248	1.898	0.48	3.43	-2.19	-8.07
12	13	Netherlands	1.220	1.031	2.69	1.60	1.363	1.093	2.62	1.97	-10.46	-5.55
3	3	Germany	2.055	4.585	4.54	7.12	2.854	4.688	5.50	8.48	-27.99	-2.21
15	16	Austria	689	728	1.52	1.13	1.036	736	2.00	1.33	-33.47	-1.18



Appendices

- Rules on Arbitration Services
- Joint Chambers of Commerce
- Regional Chambers of Commerce Industry and Mines
- Embassies in Iran
- Basic Business Etiquette in Iran
- Selected Bibliography

RULES ON ARBITRATION SERVICES OF THE ARBITRATION CENTER OF THE IRAN CHAMBER OF COMMERCE, INDUSTRIES & MINES

For Settlement of Domestic and International Commercial Disputes

Arbitration Rules of the Arbitration Centre of Iran Chamber

CHAPTER 1 GENERALITIES

Article 1 – Definitions

The terms used in these Rules have the following meanings:

“Rules on Arbitration Services of the Arbitration Center of the Iran Chamber of Commerce for Settlement of Domestic and International Commercial Disputes,” hereinafter referred to as “Arbitration Rules”, are the present Rules and arbitration in all domestic and international commercial disputes referred to the Arbitration Centre of Iran Chamber of Commerce shall be conducted in accordance with the present Rules.

“Internal Regulations of the Arbitration Center concerning Arbitration Services” are those rules and regulation that are approved by the ‘Board of Representatives’ of Iran Chamber of Commerce pursuant to the authority granted to that Board in accordance with Article 6 of the Law on Statute of the Arbitration Centre of the Iran Chamber.

The terms “Claimant” or “Defendant” mean more than one Claimant or Defendant.

“Domestic Commercial Arbitration” means arbitration of disputes and claims relating to commercial relations and transactions between the parties, natural or legal persons, who at the time of conclusion of the arbitration agreement are nationals of Iran under the laws of Iran. And “International Commercial Arbitration” means when one of parties is not at the time of conclusion of the arbitration agreement, national of Iran under the laws of Iran.

“Arbitrator” means a Sole Arbitrator or a

panel of Arbitrators unless in view of the context of these Rules or the arbitration agreement, the term ‘Arbitrator’ refers to a member of the panel of arbitrators.

“Arbitration Court of the Arbitration Center” is a board which is established in accordance with the provisions of Chapter Five of the “Internal Regulations of the Arbitration Center concerning Organization of ACIC”, and its duties and functions are specified those regulation and in these Arbitration Rules.

“Terms of Reference” means a document that is drawn up in accordance with Article 39 of the present Rules.

“ Arbitration Center” means the Arbitration Center of Iran Chamber of Commerce and Industries and

Mines (ACIC) that is established in accordance with the Law on Statute of the Arbitration Centre of Iran Chamber, dated 14. 11. 1380 (3 February 2002) and pursuant to clause “H” of Article 5 of the Law of Iran Chamber of Commerce, Industries and Mines as amended in 25. 09. 1373 (16 December 1994). The Arbitration Centre shall be administered in accordance with its Statute and also its Internal Rules and regulation and shall apply them in the arbitrations which are referred to it.

“Arbitration Agreement” is an agreement between the parties by which settlement of all or part of disputes which have arisen or may arise in future from a defined legal relationship whether contractual or non-contractual, is referred to the Arbitration Centre. Arbitration Agreement may be in the form of an arbitration clause contained in a contract or a separate agreement.

Article 2 – The Arbitration Centre

The Arbitration Centre performs its duties and functions through coordination, organization, supervision and management of arbitration process and does not itself arbitrate the disputes.

Article 3- Scope of Application

All persons, natural or legal, that have a capacity to institute a suit may by mutual consent, refer their disputes to the Arbitration Centre, whether the dispute has been filed with the judicial authority or not. The said consent includes the consent arising out from Arbitration Agreement and also from submission by one party to the Centre with an offer of arbitration and acceptance of same by the other party.

Arbitration of all claims and disputes referred to the Centre shall be conducted in accordance with these Rules. In domestic arbitration the provisions of Chapter Seven of the Civil Procedure Act dated 2000 and in international arbitration the provisions of the Law on International Commercial Arbitration dated 1997 shall also apply, respectively.

Note- In small claims where the value of the relief sought is less than IR Rials 500,000,000 or its equivalent in other currencies, the parties may agree on summary arbitration proceedings in which case the provisions of Articles 39, 40 and 53 of the present Rules shall not apply, and/or may agree to shorten the time limits under these Rules.

Article 4- Acceptance of the Arbitration Rules of the Arbitration Centre

The agreement to refer disputes to the Arbitration Centre entails an undertaking by the parties to be bound by these Rules and other Internal rules and Regulations of the Centre concerning Arbitration Services.

Article 5- Waiver of the Right to Object

If a party after becoming aware of non-compliance with these Rules or with non-mandatory provisions of the Arbitration Agreement remains silent and continues with the arbitration without making any objection in a timely manner, he will be deemed to have waived the right to object.

CHAPTER 2 ARBITRAL PROCEEDINGS

Article 6- Request for Arbitration

Claimant or the applicant for arbitration shall submit his request for arbitration to the Secretariat of the Arbitration Centre. The Secretariat shall acknowledge receipt of the request, including the date of receipt to the claimant and the defendant.

The Request for Arbitration shall include the following information:

Full specification of the parties, including their postal and electronic addresses, and evidence of representation if the claim is submitted by a representative or an attorney.

Explanation on the nature of the transaction or the contract or the facts giving rise to dispute and of the origin of the claim and the evidence thereof.

Specification of the relief sought and amount claimed, unless the relief sought is non-pecuniary. Explanation on the Arbitration Agreement.

To the extent possible, specifications on the number of arbitrators, the mode of their appointment in light of the Arbitration Agreement and when necessary, nomination of the co-arbitrator in the arbitration panel.

In case of international arbitration, explanations as to the place of arbitration, the language of arbitration, and applicable law and legal rules.

Note- Submission of an incomplete request for arbitration to the Secretariat of the Arbitration Centre, unless completed, does not create any obligation for the Centre to proceed.

C. In the event the request for arbitration relates to a transaction, contract or a legal relationship, concerning which the arbitration proceedings have been already initiated between the same parties in the Arbitration Centre, at the request of either party, the new request for arbitration will be included in the earlier proceedings, provided that in the earlier arbitration the Terms of Reference has not yet been signed or has not been approved by

the Centre and further that there are no legal impediments for consolidation.

In the event that the new request for arbitration has been submitted after the signature or approval of the Terms of Reference in the earlier arbitration, consolidation is subject to authorization by the Arbitrator in the earlier arbitration with due consideration the nature of the claims in the new arbitration, the stage of the earlier proceedings and other relevant circumstances.

Article 7- Defendant's Answer ; Counterclaim

The Secretariat of the Arbitration Centre shall serve a copy of the request for arbitration and its attached documents on the defendant with a view to receiving the defendant's answer. The defendant shall submit his answer to the Secretariat of Arbitration Centre, within 10 days in domestic arbitration and within 30 days in international arbitration, from the date of service of the request on the defendant. The answer shall contain the following information:

Full description of the defendant including his postal and electronic addresses, and evidence of representation if the answer is submitted by a representative or an attorney. Answer to the request and to the relief sought, including any objections or defenses and any evidence thereof. To the extent possible, specification on the number of arbitrators and their mode of appointment in view of the Arbitration Agreement and also nomination of a co-arbitrator in the arbitral tribunal. If the arbitration is international, specification of the place and language of arbitration and the applicable legal rules.

The Secretariat of the Arbitration Centre shall serve on the claimant a copy of defendant's answer to the request for arbitration and its attachments. A counterclaim(s) by the defendant, if any, shall be submitted to the Secretariat, together with his answer to the request for arbitration. The counterclaim shall contain the following information:

A statement of the counterclaim, its origin and supporting evidence; The relief sought under the counterclaim and its amount, unless the relief sought is non-pecuniary. The Secretariat shall serve the defendant's counterclaim on the claimant and the claimant shall submit his reply

to the Secretariat of the Arbitration Centre within 10 days in domestic arbitration and within 30 days in international arbitration, from the date of the service of the answer on the claimant.

Article 8

As soon as the exchange of the preliminary pleadings as mentioned above is closed, the file is complete and after appointment of Arbitrator in accordance with these Arbitration Rules and his declaration of acceptance, the Secretariat shall transmit the file to the Arbitrator. The arbitration proceedings shall commence from the date of notification of the matter to the parties and Arbitrator.

Note 1- When the Arbitrator has been already appointed by the parties and he has declared his acceptance, the Secretariat of the Arbitration Centre shall transmit the file to the Arbitrator without exchanging the preliminary pleadings. In this case the exchange of pleadings shall be made under the direction of the appointed Arbitrator.

Note 2- The Secretariat of the Arbitration Centre may extend the time limits foreseen in this Article at the request of claimant or defendant, provided that the applicant of time extension has nominated his co-arbitrator or has stated his views on the number of arbitrators and the manner of their choice, as the case may be.

Article 9- Effects of the Arbitration Agreement

In all cases where arbitration of a dispute is referred to the Arbitration Centre, the arbitration shall be conducted in accordance with the Arbitration Rules in force at the time of submission of the request for arbitration, unless the parties have agreed to submit to the Rules in force on the date of their Arbitration Agreement. In the event that the defendant refuses to answer the request for arbitration as provided by Article 7 of these Arbitration Rules, if the Arbitration Court of the Arbitration Centre decides on a prima facie basis that an Arbitration Agreement is concluded between the parties, the arbitration shall proceed. This decision on the prima facie existence of an Arbitration Agreement shall not preclude raising objections as to the existence or validity of the Arbitration Agreement before the Arbitrator.

In the event that the Arbitration Court of the Arbitration Centre is not satisfied with prima facie existence of the Arbitration Agreement, the Secretariat shall notify the parties that the arbitration proceedings cannot proceed. In such case, any party may request from the competent court to decide on existence or non-existence of an Arbitration Agreement.

If before the appointment of the Arbitrator, either party raises any objection as to the existence, validity or scope of the Arbitration Agreement, the Arbitration Court of the Centre shall decide on the matter, without prejudice to the possibility of raising the same objection before the Arbitrator when he is appointed. In the event the Arbitration Court sustains the objection, the Secretariat shall notify the parties that the arbitration proceedings cannot proceed and the file will be closed. In such event either party may refer to the competent court. If any of the parties do not participate in the arbitration hearings or any stages of the proceedings this will not be an obstacle for continuation of the arbitration proceedings, and the Arbitrator may continue the proceedings and issue award in accordance with the existing documents and evidences.

An objection as to the existence or validity of the underlying contract shall not cease the Arbitrator to have jurisdiction to decide on such objection, provided that the Arbitrator upholds the validity of Arbitration Agreement. Even though the main contract does not exist or is null and void, the Arbitrator shall have jurisdiction to determine on the issue and make a decision concerning the parties' claims and objections, and the arbitration agreement is independent under from the contract.

Article 10- Number of Arbitrators and their Appointment

The parties may agree in the Arbitration Agreement or in a separate agreement on the number of Arbitrator and the procedure of their selection. In the absence of such an agreement and if there is a difference between them on this matter, the following arrangements and procedure shall apply and the submission by the parties to the Arbitration Centre shall entail their acceptance of the following arrangements:

The Arbitration Centre shall, upon due consideration of the subject-matter of the claim, nominate an Arbitrator and introduce him to the parties so that if any party has any objection against the said arbitrator he may submit the same to the Secretariat of the Centre within fifteen (15) days after notification of the introduction of the Arbitrator. If any party raises any justified objection against the nominated Arbitrator and the objection is accepted by the Arbitration Centre, the Centre will introduce another person as Arbitrator; otherwise, the Arbitration Centre shall transmit the file to the nominated Arbitrator as soon as he declares his acceptance. In cases where the parties agreed to appoint a panel of Arbitrators the following procedure shall apply:

Either party shall nominate a co-arbitrator within the time limit fixed by the Centre. Thereafter the parties, or their co-arbitrators if the parties so agree, shall within 10 days jointly select the presiding arbitrator.

If the parties do not nominate their co-arbitrator or the presiding arbitrator within the relevant time limit, the Centre shall nominate, as the case may be, the defaulting party's co-arbitrator or the presiding arbitrator (or both) and introduce him to the parties so that if any party has any objection against the said arbitrator(s) he may submit the same to the Secretariat of the Centre within fifteen (15) days after notification of nomination of the co-arbitrator or the presiding arbitrator.

Note: Decision on the objection against a co-arbitrator or a presiding arbitrator raised at this stage rests with the Arbitration Centre and such decision shall be final. In the event the objection is accepted to be justified, the Arbitration Centre shall select another person(s) in accordance with the above procedure.

Article 11

In addition to the above cases, in the following instances the Arbitration Centre shall appoint the Arbitrator: If in accordance with the Arbitration Agreement the appointment of the Arbitrator, the members of the arbitration panel or the presiding arbitrator is assigned to a third person and that person does not make an appointment within the required time limit. If the third person of the parties' choice delegates the nomination of the Arbitrator, the members of the

arbitration panel or the presiding arbitrator to the Arbitration Centre. If the Arbitrator(s) or the presiding arbitrator reject the appointment, or refrain to declare their acceptance or they cannot be accessed.

Article 12

If in the Arbitration Agreement the parties have undertaken that in case a dispute arises, a specified person or persons will act as Arbitrator(s) and such person or persons do not declare his/their acceptance or reject his/their appointment or he/they cannot be accessed, or if, for whatsoever reason, he/they cannot or do not want to act as Arbitrator, the Arbitration Centre shall declare the arbitration as terminated and shall notify the parties of same, unless the parties agree on a different procedure for selection of a substitute Arbitrator or delegate his selection to the Arbitration Centre.

Article 13

Selection and appointment by the parties or the Arbitration Centre of the Arbitrator or the members of the arbitration panel shall always be made from amongst the list of arbitrators of the Arbitration Centre.

However, the parties may appoint the Arbitrator from outside the said list, provided that the person so selected has the necessary qualifications and the Board of Directors of the Arbitration Centre approves to include his name in the list of the arbitrators of the Centre.

Note- In appointing the Arbitrator, the Arbitration Centre shall observe the provisions agreed upon by the parties in the Arbitration Agreement, and shall appoint a qualified Arbitrator with due consideration of the subject-matter of the arbitration.

Article 14

In international arbitrations the sole arbitrator or the presiding arbitrator shall not be of the same nationality as that of the parties to the arbitration, unless the parties have agreed otherwise.

Article 15- Multi-party Arbitration

Where there are more than two parties to arbitration, the following procedure shall apply unless otherwise agreed by the parties:

For a single claimant, one arbitrator shall be appointed and in the event of multiplicity of the claimants, they shall jointly appoint one arbitrator. Likewise, a single or multiple defendants shall appoint their arbitrator. If multiple claimants or defendants do not agree on appointing a joint arbitrator within the relevant time limit, the Arbitration Centre shall appoint the co-arbitrators for the multiple parties (be it claimants or defendants).

In multi-party arbitrations the appointment of the presiding arbitrator rests with the co-arbitrators of the parties, and if they fail to agree thereon within 15 days as of the date fixed by the Arbitration Centre, the presiding arbitrator shall be appointed by the Arbitration Centre. In case of a controversy on whether a party or parties are claimant or defendant, a panel of three arbitrators shall be appointed by Arbitration Centre and with due regard to the subject-matter of the arbitration and the provisions of the Arbitration Agreement concerning the qualifications of the arbitrators. Other matters in multi-party arbitrations, including replacement or challenge of the Arbitrator shall be governed by the rules applicable in two-party arbitrations.

Article 16- Place of Arbitration

In domestic arbitrations the place of arbitration shall be in the headquarters of the Arbitration Centre,

unless the parties expressly agree on another place of arbitration.

In international arbitrations, the place of arbitration shall be agreed on by the parties and if they fail to agree, the Arbitration Centre shall designate the place, taking into account the circumstances of the case and the convenience for the access of the parties. In international arbitrations, unless otherwise agreed by the parties, the Arbitrator may meet at any place he considers appropriate for deliberation, hearing the parties, the witnesses, or the experts or for inspection of goods or documents and evidences. However, the award shall be rendered in the place of arbitration.

Article 17- Language of Arbitration

In domestic arbitration, the language of arbitration is Persian language and if the

evidence and documents relied upon are in another language, the party who submitted and invoked such documents shall provide the Persian translation of them, unless the Arbitrator requires that an official translation is necessary. In international arbitrations, the parties may agree on the language of arbitration and if they fail to agree thereon, the Arbitrator shall designate the language of arbitration, taking into account the language of the contract and the circumstances of the case.

Article 18- Service of the Documents and Notices, Time Limits

The parties shall submit to the Secretariat of the Arbitration Centre, all the pleadings and communications with each other and with the Arbitrator, including the exhibits enclosed, in the number of the parties and of the Arbitrator(s) plus one copy for the record of the Arbitration Centre. All communications, orders, requests, decisions and procedural rulings which the Arbitrator adopts or issues during the proceeding and also the arbitral award shall be served on the parties by and through the Arbitration Centre. Unless the parties have agreed on another method for the service of the process, in all arbitrations which are referred to the Arbitration Centre the service of the process and also of the arbitration award shall be made by and through the Secretariat of the Arbitration Centre.

The service of process, communications and notices shall be made to the addresses of the parties as declared in the Arbitration Agreement or to any other address which the parties have declared later on. If none of the above addresses is accessible or there is no possibility for service in such addresses, the service to the last place of business or residence of the party to the arbitration or to any other place which may have a record of service on file, shall be considered as valid. The service of process may be made by physical delivery against receipt, registered mail, facsimile, telex, telegram and email which include a record of dispatch and receipt by the addressee. In the following instances the service is deemed to be validly served and received:

Receipt by the addressee is established for the Arbitrator or for the Arbitration Centre; The addressee has taken action in accordance with the contents of the service; The addressee has replied in affirmative or negative; The service is

made to a place which has a record of service; The service is made at the arbitration session.

Article 19

The date of service is the date at which the addressee or his representative received the relevant communication or notice, or the date at which the relevant communications are served in accordance with sub-sections c), d), or e) above, or are ordinarily and customarily deemed as received and the record thereof is kept at the Secretariat of the Arbitration Centre.

Article 20

The time limits provided for in these Arbitration Rules are calculated excluding the day of the service and the day of action. If the last day of the time limit is an official holiday or a nonworking day in the place of service, then the first further working day will be the last day of the time limit. The holidays and non-working days which fall within the time limit shall be considered as part of the time limit. With respect to the persons residing abroad, a period of one month shall be added to the above time limits.

Article 21

If the circumstances so require, the Arbitrator may extend the time limits foreseen in these Rules so that each party may perform its duties and responsibilities during the proceedings.

CHAPTER 3 QUALIFICATIONS OF THE ARBITRATOR, CHALLENGE PROCEDURE

Article 22- Independence and Impartiality of the Arbitrator

The Arbitrator must be and remain independent and impartial, at the date of appointment, commencement of arbitration and during the proceedings until the issuance of the award. Also, the Arbitrator must not have any interest in the matter under arbitration.

The Arbitrator shall, simultaneously with acceptance of his appointment, sign and submit a declaration confirming his independence and impartiality to the Secretariat of the Arbitration Centre and shall disclose any fact or circumstances that may call into question his independence and impartiality in the eyes of the parties. If

the said declaration includes such information, the Secretariat shall communicate the matter to the parties and shall fix a time limit for their comment. After receiving the parties' comments, the Arbitration Court of the Centre shall consider the matter and make an appropriate decision.

After the arbitration commences the Arbitrator is also obliged to immediately disclose in writing any facts or circumstances which may arise during the arbitration proceedings and may call into question his independence and impartiality, to the Secretariat of the Centre and to the parties.

Article 23- Challenge of the Arbitrator

The Arbitrator may be challenged if the circumstances exist that give rise to a reasonable doubt on his impartiality and independence, or if he does not have the qualifications required by the parties. A party may challenge an arbitrator that he appointed or participated in his appointment only on the ground of circumstances of which he becomes aware after the appointment. In domestic arbitrations, the following persons cannot be appointed as Arbitrator even with agreement of the parties, and it will be a ground for rejection and challenge of the Arbitrator, if so appointed :

A person whose impartiality and independence for arbitration of the dispute is doubted ; A person who does not have legal capacity; A person who pursuant to a final judgment, is precluded to act as arbitrator; Judges and officers of the courts working in the judiciary; In domestic arbitrations, the following persons may not be appointed as Arbitrator, unless with the agreement of the parties:

Persons under 25 years of age; Persons having an interest in the matter under arbitration ; Persons that have a relation either by blood or marriage with one of the parties up to the second degree from third class; A Person who is custodian, surety, attorney or supervisor of one of the parties, or one of the parties is his supervisor Persons who themselves or their spouses are an heir to one of the parties; Persons who themselves or their spouses have presently or had in the past a criminal case with one of the parties or with his relative (by blood or marriage) up to the second degree from third class; Persons

who themselves or their spouses or one of their relatives (by blood or marriage) up to the second degree from third class have a civil case with one of the parties or his wife or one of his relatives (by blood or marriage) up to the second degree from third class; The government employees in the territorial jurisdiction of their assignment.

Article 24- The Procedure of Challenge, Replacement of Arbitrator due to Failure or Impossibility to act as Arbitrator

A. The parties may agree on the procedure for challenge of the Arbitrator. Otherwise, the party who intends to challenge the Arbitrator shall, within 15 days from the receipt of declaration of acceptance of the Arbitrator concerned, or if the ground for challenge occurs during the arbitration proceedings, within 15 days after becoming aware of any circumstances mentioned in Article 23 of the present Rules, submit a written brief of the reasons for the challenge together with the evidence and supporting documents, to the Secretariat of the Arbitration Centre, the challenged arbitrator concerned, the other arbitrators (if a panel of arbitrators is constituted) and the other party (ies) to the arbitration.

The Arbitrator shall decide on the challenge within 10 days after the receipt of the challenge and shall send his decision to the parties and the Centre. In the event the challenged Arbitrator does not accept the challenge, the challenging party may within 20 days of notification of the said decision refer the matter to the Arbitration Court of the centre subject matter of Chapter Five of the Internal Regulations concerning the Organization of the Centre) and request a decision from that Court.

The Arbitration Court of the Centre before making any decision on the challenge shall inform the challenged Arbitrator, the other party and other arbitrators through the Secretariat and shall fix a reasonable time for them to comment. The written comments of each of the parties and arbitrator (s) on the challenge shall be notified to the parties and the other arbitrators.

Article 25

If the Arbitrator refuses to make an award or fails to participate in the hearings twice consecutively, or fails to perform his functions,

and also if the Arbitrator for reasons such as travel, long absence, non-accessibility, preoccupation or illness and like reasons is not able to perform his functions, either party may inform the matter to the Secretariat of the Arbitration Centre, the Arbitrator concerned, the other arbitrators (if a panel of arbitrators is constituted) and the other parties and make a requests to replace him.

Note- If there is a controversy between the parties concerning the above issues; the Arbitration Court of the Centre shall make a decision on the matter.

Article 26

The decision of the Arbitration Court of the Centre on the challenge or replacement of Arbitrator is final and the Court is not bound to declare its reasons.

Article 27

The challenge of an arbitrator or a request for his replacement due to failure or inability to perform his functions, while pending a decision does not prevent the Arbitrator to continue the arbitration and make an award.

Article 28- Appointment of Substitute Arbitrator

If the mandate of the Arbitrator is terminated by virtue of any of the grounds mentioned in Article 23 or Article 25 above, or due to his resignation with the agreement of the parties or any other legal reasons, or due to his death or insanity; the substitute Arbitrator shall be appointed in accordance with the laws applicable to the arbitration and also in accordance with these Rules concerning appointment of Arbitrator.

Note- The substitute Arbitrator shall continue the arbitration proceedings in the light of the pleadings made by the parties and the hearings conducted so far, unless he decides based on reasonable grounds that the renewal of part or all of the previous proceedings is necessary.

CHAPTER 4 JURISDICTION OF ARBITRATOR

Article 29- Decision on Jurisdiction

The Arbitrator may decide, affirmatively

or negatively on his jurisdiction, and also on existence or validity of the Arbitration Agreement. The submission of disputes and claims to the Arbitration Centre shall entail the parties' agreement of this authority of the Arbitrator. The arbitration clause which is part of a contract shall be considered as an independent agreement and the decision of the Arbitrator on the invalidity or unenforceability of the main contract does not adversely affect the arbitration clause and does not entail *per se* the invalidity or nullity of the arbitration clause.

Article 30

Objection to jurisdiction of the Arbitrator shall be made concurrent with the submission of the first answer and statement of defense. The mere fact that a party has appointed or participated in the appointment of Arbitrator does not preclude him from objection to the jurisdiction of the Arbitrator. An objection as to excess of jurisdiction by the Arbitrator during the proceedings shall be raised soon after it is obvious and known. However, the Arbitrator may admit a belated objection, if he considers that there are justifiable reasons for the delay in making the objection.

Article 31

Unless otherwise agreed by the parties, the Arbitrator shall decide, as a preliminary matter and before dealing with the merits, on any objection to the jurisdiction or concerning the existence and/or validity of the Arbitration Agreement, unless in view of the subject-matter of the objection and the evidence thereof he decides to postpone the decision on the objection to determination of the merits.

Article 32

Decision on an objection concerning excess of jurisdiction by the Arbitrator the cause of which objection has occurred during the arbitration proceedings, may be made together with the award on the merits.

Article 33

If the Arbitrator rejects the objection and affirm his jurisdiction, any appeal or challenge to such decision shall not preclude continuation of the arbitration and making of an award.

Article 34

If the parties have agreed otherwise on the issues dealt with in this Chapter, the matter shall be conducted as they have agreed.

Article 35- Interim Measure

The Arbitrator may, at the request of a party order interim measure with respect to the subject matter of the dispute which requires an urgent decision. The interim measures order should be reasoned. If the order for interim measure is issued before starting the arbitration, the applicant must institute the main claim on the merits within 10 days after notification of the order; otherwise the interim order shall be vacated. Any claim or dispute of the parties concerning damages arising from enforcement of such order shall be referred to the arbitration by the Centre and The ground or grounds necessitating an immediate decision shall be specified in the interim measure order.

The Arbitrator may require the applicant of an interim measure to deposit a suitable security with the Arbitration Centre such as cash, securities or a bank guarantee for the purpose of remedying any damages arising from execution of the interim order. If the other party provides a security appropriate to the subject matter of the interim measure, the Arbitrator will vacate the interim order. The application to the courts in exceptional cases for the purpose of obtaining an interim measure order before or during the arbitration process, shall not be deemed to be a breach or a waiver of the Arbitration Agreement and does not preclude the arbitration from proceeding. The application by a party to the courts of justice for an interim measure order and the issuance of such order should be notified by the applicant party to the Secretariat of the Arbitration Centre without delay.

Note- The submission by the parties to the Arbitration Centre entails their acceptance of the power of Arbitrator to order interim measure and to require the deposit of suitable security and the parties are obliged to observe the content of the interim order.

CHAPTER 5 THE ARBITRATION PROCEEDINGS

Article 36- Submission of the File to the Arbitrator

Soon after appointment of the sole arbitrator

or constitution of the arbitration panel and receipt of their acceptance, the Secretariat of the Arbitration Centre shall transmit the file to him/ them, provided

that the costs of arbitration requested by the Secretariat at that stage have been paid.

Article 37- Conduct of Arbitration

The conduct of arbitration rests with the sole arbitrator and in case of constitution of the arbitration panel, with the presiding arbitrator. The Arbitration Centre and the Arbitrator shall treat the parties with due observance of the principles of equality, impartiality and fairness, and each party shall be given adequate opportunity to present his claim or defense and to submit his evidence, taking into account the time limit for of the arbitration.

Article 38- Appointment of Representative or an Attorney

Either party may appoint and introduce in writing a representative, an attorney, agent or an adviser.

Article 39- Terms of Reference and the Time Schedule

After receiving the file from the Arbitration Centre, the Arbitrator shall draw up within 15 days the Terms of Reference on the basis of the last submissions of the parties and if necessary in their presence. The Secretariat may extend this time limit at a reasoned request of the Arbitrator.

The Terms of Reference shall include the following particulars:

The full name and specifications of the parties; The address of domicile of the parties to which service of the process in the course of arbitration shall be made; A summary of the parties' claims and replies and the relief sought by each party, and to the extent possible at this stage, specification of the amount of the principal claim and the counterclaim; If it is possible, specification of the issues to be determined; The name, specifications and the address of the domicile of the Arbitrator; The place and the language of arbitration (in international arbitrations); The applicable laws and legal rules. Specification of the powers and authorities conferred upon the Arbitrator,

such as fixing the time limits of the arbitration and the extension thereof, the procedure for appointment of experts, hearing of the experts and witnesses, the power to act as *amiable compositeur* or to decide *ex aequo et bono*, and the procedure for ordering interim measures and for requiring appropriate security for the purpose of such orders; Specification of any other power or issue which is necessary for settlement of dispute by arbitration; The Terms of Reference shall be signed by the parties and the Arbitrator.

If any of the parties refuses to participate in the drawing up or to sign the Terms of Reference, or if he is not accessible, the Arbitrator shall sign the Terms of Reference and submit the same to the Arbitration Centre for approval. Upon signature of the Terms of Reference in accordance with this Article or its confirmation by Arbitration Centre, the arbitration shall proceed.

Article 40

In international arbitrations, the Arbitrator shall at the time of drawing up the Terms of Reference or as soon as possible thereafter, prepare in consultation with the parties a Time Schedule that he intends to follow for the conduct the arbitration and shall communicate the same to the parties and the Arbitration Centre. Any changes or modifications in the Time Schedule shall be notified to the parties and the Centre.

Article 41- Amendment of the Claim or the Defense

Unless otherwise agreed by the parties, neither party may introduce a new claim which falls outside the limits specified in the Terms of Reference. However, amendment or supplementing the claim after the Terms of Reference is authorized if in view of the nature of the new claim and other circumstances, the Arbitrator considers that it does not delay the proceedings or it does not prejudice the other party. In any case, in the event of amendment or supplementing the claim or the defense, the other party should be given an opportunity to respond.

Article 42- Applicable Law

The Arbitrator shall decide on the basis of law and the legal rules applicable. In international arbitrations the Arbitrator shall apply the law

chosen by the parties, and in the absence of such a choice he shall decide in accordance with such law that he finds applicable pursuant to the conflict of laws rules that he considers appropriate. The choice of law of a country made by any manner shall be construed as referring to the substantive law of that country and does not include the conflict of law rules of that law, unless the parties have agreed otherwise. The Arbitrator is obliged to decide in accordance with the provisions of the contract and shall take into account the relevant trade usage.

The Arbitrator may decide *ex aequo et bono* if the parties have expressly authorized him to do so.

Article 43- The Hearing

After transmission of the file to the Arbitrator, the exchange of pleadings shall be conducted under the authority of the Arbitrator. However, if the Arbitrator determines that considering the subject-matter of the case, there is no need for further exchange of pleadings, he may decide on the basis of the pleadings, documents and evidence already existing in the file. If in view of the subject-matter of the case, the Arbitrator finds it necessary to hear the parties or examine the originals of the documents and evidence, he may order a hearing and notify the same to the parties. Nevertheless, if a party requests a hearing in due course, the Arbitrator shall convene a hearing.

For the purpose of facilitating the hearing, the Arbitrator may specify the issue or the questions that will have to be answered at the hearing and send the same to the parties. If the Arbitrator determines that a hearing is necessary for inspection of the goods or other property or evidence, he shall notify the time and place of the hearing to the parties and other persons he considers necessary to be present. The Arbitrator may after consultation with the parties, conduct the hearings, inspection of goods, evidences or for deliberations at any place he finds appropriate, unless otherwise agreed by the parties.

The arbitration sessions for the hearing and consideration of the case shall be in camera, unless the parties have agreed otherwise in writing. In any case, the Arbitrator shall take necessary measures for protection of trade secrets and confidential information. The hearing

shall be convened with participation of the parties or their attorneys and representatives and each party may be assisted by his adviser. At any time during the proceeding, the Arbitrator may summon the parties to submit additional pleadings and evidence or invite them to provide explanations.

Article 44- Default of a Party

If the claimant with no justified excuse fails to submit his pleadings and documents within the relevant time limit and the Arbitrator cannot decide on the matter even by obtaining comments from the defendant, the Arbitrator shall issue an order for nullification of the request for arbitration, or shall make an award for nullification of the claim, as the case may be. If the defendant with no justified excuse fails to submit his statement of defense, and also if the claimant fails to submit his reply to the counterclaim, the Arbitrator shall continue the proceedings and shall make appropriate decision on the basis of documents existing in the file, without treating such failures itself as an admission of the claimant's allegations or of the defendant's counterclaims. If any party though duly summoned, fails to appear at the hearing or to produce within the time fixed the documents and evidence relied upon by him, the Arbitrator may continue the proceedings and make an appropriate decision on the basis of the existing documents and evidence. If neither party though duly summoned, appears in order to provide explanations, if the Arbitrator cannot make an award without such explanations, the Arbitrator shall issue an order for nullification of the request for arbitration.

Article 45- Witnesses

If any party introduces witnesses as proof of his claim or defense, he shall submit in writing before the hearing, the names and specifications of the witnesses, the subject-matter of their testimony, and its relevance to the arbitration. If the Arbitrator recognizes the subject of testimony of effects and relevance he shall conduct a witness hearing and shall notify the party concerned to appear his witnesses at the hearing. If the witnesses fail without a reasonable excuse, to appear, the witness testimony shall be discarded from the evidence.

Testimonies of the witnesses may be

submitted in the form of a written witness statement signed by the witness provided that the witness signature can be ascertained. Each party may under the control of the Arbitrator at the witnesses hearing poses relevant questions to his witness or to the witness introduced by the other party. The Arbitrator may also at his own determination pose questions to the witnesses. In domestic arbitrations, the qualifications of the witnesses and the grounds for their challenge are the same as specified in the Civil Procedure Act dated 2000, and in international arbitrations they are subject to the law applicable to the arbitration. Assessment of probative value of the witness testimonies or the written witness statement rests with the Arbitrator.

Article 46- Appointment of Expert

The Arbitrator may, when he deems necessary at his own initiative or at the request of either party, refer the issues for expert opinion by one or more experts and require that each party shall make available any relevant information and access to any relevant documents, goods or other property and places for expert examination and inspection.

The fees of expert and its expenses shall be paid by the applicant of the expert opinion and if he does not pay the costs of the expert within the time fixed, the expert opinion shall be discarded from among his evidence. When the order for an expert opinion is made on the Arbitrator's initiative and the Arbitrator cannot decide the case without an expert opinion, payment of the expert fees and expenses shall rest jointly on the parties.

If the parties refrain to pay such fees and expenses, and if the Arbitrator cannot decide without an expert opinion, he shall issue an order for nullification of the request for arbitration. If the Arbitrator considers it necessary, he may order a supplementary opinion by the expert. If a party requests or the Arbitrator considers it necessary, the expert shall appear at the hearing for clarification on his expert opinion and to respond to the questions.

The expert opinion shall be notified to the parties and they may submit within ten days their comments. To substantiate his allegations any party, may at his cost obtain and submit an expert opinion and introduce his own expert for

a hearing. Assessment of the probative value of party expert opinion rests with the Arbitrator. The fees and expenses of the expert shall be determined in accordance with applicable tariffs and shall be considered as part of arbitration costs in the award.

Article 47- Third Party Intervention

If a third party considers that he has independently an interest in the subject-matter of the arbitration or an interest that may be adversely affected by the decision in favor of any of the parties to the arbitration, he may intervene before the proceedings is closed, provided that he accepts the arbitration agreement, the appointed Arbitrator and the Arbitration Rules, and that his intervention is not objected to by neither party.

If a party objects to the intervention of a third party, the Arbitrator shall first decide on the matter and his decision is final.

CHAPTER 6 CLOSURE OF THE PROCEEDINGS AND ISSUANCE OF THE AWARD

Article 48- Closure of the Proceedings

When satisfied that the parties have had enough and reasonable opportunity to present their case, the Arbitrator shall declare the proceedings closed and shall render the award with due consideration of the provisions of Article 49 of these Rules. After closure of proceedings no further submission, document or evidence may be produced and admitted.

In the event the arbitration involves different claims (whether principal or derivative) the Arbitrator may bifurcate the case and declare closure of the proceedings on that claim(s) which is/are ripe for decision and issue an award on such claim(s), and continue the proceedings with respect to other claim or claims.

The Arbitrator shall at a maximum of 20 days after closure of the proceedings, submit the draft of the award before its signature to the Secretariat of the Arbitration Centre for the purpose of application of Article 53 of these Rules. In the event that the Arbitrator requires more time to prepare the draft award he may, by

advancing reasons for the delay, extend the time limit only once.

Article 49- Time Limit for the Award

In domestic arbitrations the time limit of the arbitration referred to the Arbitration Centre is three month from the date of acceptance of the Arbitrator and notice to the parties thereof, unless the parties have agreed otherwise. The extension of the said time limit, even repeatedly is possible with the agreement of the parties, provided that a new time limit is fixed. The parties may confer the right to extend the time limit of arbitration to the Arbitrator or delegate such light the Arbitration Centre.

In international arbitration the Arbitrator shall issue the award within 6 months form the date of finalization of the Terms of Reference in accordance with Article 39 of these Rules. If the circumstances of the case so require that time limit may be extended, the Arbitrator shall communicate the matter of extension to the parties and the Arbitration Centre.

Article 50- Award on Agreed Terms

If during the proceeding the parties settle their disputes by agreement, the Arbitrator shall at the request of the parties record the settlement agreement, including the terms of the settlement and method of resolving the dispute in the form of an award on agreed terms and terminate the proceedings. The award on agreed terms which is made in accordance with the above procedure is final and binding on the parties.

Article 51- Decision-making by a Panel of Arbitrators

When the proceedings are conducted by a panel of arbitrators, the members of the panel shall be informed of the date and place at which the proceedings are convened for the hearing, deliberations or for making an award. Any decision by the panel is valid with a majority vote, unless the parties have agreed otherwise. If there is no majority the award shall be made by presiding arbitrator alone.

Note- In the event that a member of the panel of arbitrators resigns or does not participates at the hearings for tow consecutive times or refrains

to make decision, the two other members shall examine the case and make an award and if there is no agreement of votes between the two members, the Arbitration Centre shall in accordance with these Rules appoint an arbitrator instead of the resigning, absent or withdrawing arbitrator, unless the parties have agreed otherwise.

Article 52- The Form and Content of the Award

The arbitration award shall be in writing and shall be signed by the Arbitrator. If there is more than one arbitrator, signature by a majority is sufficient, provided that the reasons for absent of the signature of any other member(s) are stated in the award. The dissenting or concurring opinion of any arbitrator shall be enclosed to the arbitration award, unless otherwise agreed by the parties. The arbitration award includes an introduction, a summary of the proceedings, the award and the operative part of the award. The ‘introduction’ includes the case number, the date and number of award and the place of proceedings, the specifications and address of the parties, the name of Arbitrator and the relief sought. The “summary of proceeding” includes a short statement of the parties’ positions and arguments, the hearing, and also measures taken for establishment of the facts and assessment of evidence; The “award” shall state a statement on the subject-matter of the claim or claims, the relief sought and also state all reasons upon which the award is based, unless the parties have agreed that the reasons for the award should not be mentioned or that the award is made on agreed terms under Article 50 above or it is made *ex aequo et bono*. The “operative part” of the award contains the specific finding of the Arbitrator concerning the relief sought and concerning the parties’ presentations and also an order concerning the actions and the obligations that the relevant parties must execute in compliance with operative part of the award. The award shall state the date and place of arbitration as indicated in Article 16 of these Rules

Article 53- Scrutiny of the Draft Award and Notification of the Arbitral Award

To ensure the due application of the legal procedures and also these Rules, the Arbitrator shall before signing the award submit the draft

of the award to the Secretariat of the Arbitration Centre. The Secretariat shall with due regard to the provisions of Chapter Five of the Internal Regulations on Arbitration Services dated 23.12.1384 (13March 2006) transmit the draft to the next session of the Court of Arbitration of the Centre. The Arbitration Court of the Centre may without interference with the freedom and authority of Arbitrator, draw his attention to matters of form or substance. The Arbitrator is free to accept or reject the points of substance, but shall observe the views of the Arbitration Court as to the form. The Arbitrator shall be authorized to sign and render the award, when it is approved by the Arbitration Court of ACIC as to its form.

The arbitration award when signed and rendered as above shall be registered with specific number and date of issuance in the registry book of the Secretariat of the Centre and all pages shall be stamped by the Arbitration Centre. The original copy of the award shall be kept in the file and certified copies, which have the authority of the original, will be notified to the parties, provided that all the arbitration costs have been fully paid.

Article 54- The Finality and Binding Effect of the Award

The arbitration award is final and after it is notified in accordance with applicable laws, it shall be binding. By their submission to arbitration by the Centre, the parties undertake to treat the award as final and binding and to comply with the contents of the award without delay. Enforcement of the arbitration award in domestic arbitrations shall be subject to the provisions of the Civil Procedure Act dated 2000 and other relevant laws concerning enforcement of the arbitration awards, and in international arbitrations to the provisions of the International Commercial Arbitration Law dated 1997, or of the New York Convention on Enforcement of Foreign Arbitral Awards Approved in 2001, as the case may be. If the losing party, being a member of the Chamber of Commerce, Industries and Mines fails without justification to comply with the award within 20 days of due notification thereof, the other party may apply to the disciplinary committee of the Chamber of Commerce of Iran for due consideration and decision.

Article 55- Termination of Arbitration

The arbitration proceedings conclude or terminate by an award or a decision of the Arbitrator in the following cases:

Withdrawal of the claim by the claimant, unless the defendant objects by providing justifiable reasons and the Arbitrator decides that he has a justified legal interest in continuation of the case; Impossibility or lack of necessity of continuation of the proceedings for any reasons; Agreement of the parties to terminate the arbitration; Death or insanity of either party in the case of a natural person; In domestic arbitrations, in the event of bankruptcy of either party in the case of a legal entity in accordance with Articles 401 and 402 of the Commercial Code, the arbitration will be suspended until an administrator is appointed. In international arbitrations, the issue is subject to the laws applicable to the matter.

Article 56- The Notification of the Award

The arbitration award, when duly signed shall be notified to the parties by the Secretariat of the Arbitration Centre, provided that the arbitration costs have been paid to the Arbitration Centre. If so requested, the Secretary General provides additional certified copies of the award only to the parties or their representatives. With notification of the award in accordance with the above arrangements, the parties waive any right to be notified by any other means

Article 57- Amendment and Interpretation of the Award

In domestic arbitrations each of the parties may, with due observance of Article 487 of the Civil Procedure act 2000 request for an amendment or interpretation of the award or for a supplementary award. The Arbitrator is obliged to make a decision within 20 days from the date of the said request. In international arbitrations each of the parties may within 30 days after the service of the award request for correction of any clerical, typographical, computation errors in the Award or request for an interpretation and clarification of the award, or issuance of a supplementary award with respect to a matter which are submitted but remains undecided.

The Arbitrator shall decide on request for correction or interpretation of the award within

30 days after the receipt of the request, and on a request for supplementary award within 60 days extendable if necessary, after receipt of such request, if he considers such request justified. If the Arbitrator on his own initiative considers that correction or clarification of the award is necessary, he shall issue a correction or interpretation award within 30 days. A request for correction or interpretation or for issuance of a supplementary award shall be submitted in the required copies and in accordance with these Rules to the Secretariat of the Arbitration Centre and the Secretariat shall notify one copy to the other party by giving a reasonable time for its comments. Articles 51, 52, 53, 54 and 56 of these Arbitration Rules are applicable to an amendment, interpretation of the award or to a supplementary award.

CHAPTER 7 THE ARBITRATION COSTS

Article 58- Arbitration Costs

Submission to the Arbitration Centre and use of its services for settlement of disputes in any case is subject to payment of costs of arbitration which shall be calculated and received in accordance with the rules on Arbitration costs and the relevant tariffs in force at the time of submission of the claim. After receiving the request for arbitration and concurrent with the exchange of preliminary pleadings in accordance with these Rules, the Secretary General shall determine the arbitration costs based on the amounts and the nature of the claim and in accordance with the tariffs attached to the Internal Rules on Costs for the Arbitration and shall notify the same to the parties, and at the same time invites the claimant to pay an advance payment within 15 days. The advance paid by the claimant shall be considered on account of his share of the final costs of arbitration. The Arbitration Centre may adjust the costs in the light of changes in the nature and the amount of the claim in the course of the proceedings. If apart from the claims, a counterclaim is submitted the Secretary General may fix the costs for the claim and the counterclaim separately. In this case each party shall pay the costs of his claim to the Secretariat of the Centre.

Article 59

Unless otherwise agreed by the parties,

payment of the arbitration costs (administrative costs and the arbitrators' fees) shall be paid by the parties to the Arbitration Centre in equal shares and prior to the issuance of the award. If any party fails to pay all or part of its share of the arbitration costs, the other party may substitute for the defaulting party in order to prevent a suspension of the proceedings.

Article 60

If the parties refuse to pay the costs within the relevant time limit, the Secretary General may after consultation with the Arbitrator, suspend the proceeding. In such event, the Secretary General shall afford a period of at least 15 days to the parties for payment of the costs. Non-payment of the costs within this period shall be deemed as withdrawal of the request for arbitration of the claim or the counterclaim for which the costs were requested but remained unpaid, without prejudice to the relevant party's right to reintroduce such claim or counterclaim as a new proceeding.

Article 61

The decision of the Centre in such cases is subject to appeal within 20 days to the Arbitration Court of the Centre.

Article 62- Decision on the Costs

The arbitration costs include the Arbitrator fees, the administrative costs of the Centre, the fees and expenses of the expert and other customary legal expenses which may be required for the arbitration proceedings. The Arbitrator shall fix in the award the arbitration costs and the proportion of them between the parties. If the parties have agreed on the apportionment of the costs, the Arbitrator is bound to observe it.

CHAPTER 8 MISCELLANEOUS RULES

Article 63

When necessary, the Arbitration Centre shall provide every assistance and cooperation so that the award is enforced smoothly.

Article 64

Unless otherwise stipulated in these Rules

, in all cases where powers or duties have been foreseen for the Arbitration Centre, the Secretary General is responsible to exercise such powers or perform such duties, unless in accordance with these Rules they fall within the jurisdiction of Arbitration Court of the Centre.

Article 65

In all cases where the Chamber of Commerce, Industries and Mines of Iran or the Chamber of Commerce of provinces is nominated to act as arbitrator, the arbitration shall be conducted by the Arbitration Centre of Iran Chamber in accordance with these Rules of Arbitration.

Article 66- Exemption from Liability

The responsibility of the Secretary General, staff of the Arbitration Centre and the Arbitrator in respect of application of these Rules and the Rules on Costs is the same as stipulated by relevant laws, and they have no liability beyond such laws.

Article 67- General Rule

With respect to all issues not expressly dealt with in these Rules, the Arbitration Centre, the Arbitration Court and the Arbitrator will conduct, as the case may require, in accordance with the spirit of the Law on the Statute of the Arbitration Centre dated 2002, the provisions of Chapter 7 of the Civil Procedure Act dated 2000, the International Commercial Arbitration Law dated 1997 the spirit of the present Arbitration Rules.

Article 68

These of Arbitration rules prepared in 68 Articles and 10 Notes were ratified by pursuant to Article 6 of the Law on the Statute of the Arbitration Centre of the Iran Chamber the Board of Directors of the Centre on 5. 06. 1386 (26 August 2007) and were approved, by the Board of Representatives of the Iran Chamber of Commerce, and Industries and Mine at its session

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BASIC BUSINESS ETIQUETTE IN IRAN

Names / Greeting : A handshake accompanied by a slight bow is customary between members of the same gender. It is not customary between members of the opposite gender to shake hands. It is polite to address your host by their academic rank or title. Remember to bring an adequate supply of business cards. Proper dress and proper decorum between genders are as important as observing any civil laws.

Appointments / Punctuality : Most business meetings are by appointment. Business sessions respect punctuality, but for social engagements minor delays are acceptable.

Conversation : Guests are the center of attention and are expected to be able to converse on many different topics.

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