

BY SUNITA SUE LENG

# IRAN

## IS OPEN FOR BUSINESS

Why **Asian companies** should **look** at Iran's **resource-rich** economy even as its **relationship** with **the West** stays **strained**

A safety supervisor monitors activities at South Pars Gas Complex Company, one of the world's largest natural gas refineries.



“Iran is not looking for confrontation.”

— Bijan Khajepour, chairman and co-founder of the Atieh Group

The headlines that Iran makes don't often feature in the financial pages of the media. Instead, they revolve more around the war of words between the US and Iran over issues like terrorism, nuclear energy and human rights violations.

The conflict-plagued country has long suffered under severe economic sanctions from the US, where the state is seen as a sponsor for terrorists. Most recently, it's been facing off the United Nations over its uranium enrichment activities and runs the risk of being slapped with another round of sanctions if it doesn't halt its nuclear programme.

However, Iran's nuclear programme has been blown out of proportion, says Bijan Khajepour, chairman and co-founder of the Atieh Group, a strategic consulting firm in Teheran. Khajepour was in Singapore during the September IMF-World Bank meetings to speak on Iran-Asia relations. “Iran is not looking for confrontation,” he tells *Asia Inc.* Its nuclear programme per se should not be a source of tension, he says. The Iranian government has consistently asserted that it only wants

to develop nuclear power for electricity generation. By 2010, it plans to generate 6,000MW of electricity from nuclear power plants.

However, disagreements between US and Iran over the nuclear issue are definitely a political risk, he cautions. Whichever way you look at it, it's clear that the mistrust between Iran and the US runs deep. “And, it's not going to go away very soon,” Khajepour acknowledges. As such, that will always be the core risk for companies investing in Iran. Despite acute political risk, Iran is a viable business destination, particularly for Asian companies, he says.

Buoyed by lofty oil prices over the last couple of years, Iran is flushed with petrodollars. Iran has just 1% of the world's population but 7% of its natural reserves. Much of it is in the ground. According to the *BP Statistical Review*, Iran had 157.5 billion barrels of proven oil reserves as at end 2005. That translates to 11.5% of the world's reserves and puts it in No. 2 position after Saudi Arabia. Already, Iran is the fourth largest exporter of crude oil in the world. Indeed, the price of oil in the global commodity markets is tied closely to developments in

## THE MIGHTY MEN OF IRAN'S ECONOMY



Governor of the Central Bank  
**Ebrahim Sheibany**



Minister of Economy and Finance  
**Davoud Danesh Jafari**



Minister of Petroleum  
**Mohammad Kazem Vaziri Hamaneh**

Khajepour says despite the acute political risk, Iran is a viable business destination, particularly for Asian companies.





SHIRLEY YE

Iran. But that's not all: Iran has plenty of gas as well. With 26.7 trillion cubic metres of proven natural gas reserves, it has 14.9% of the world's reserves and is second only to Russia.

However, unlike many other Middle-east economies, Iran is not just about oil and gas. In fact, that sector accounts for about a fifth to a quarter of its gross domestic product. On purchasing power parity calculations, Khajepour says Iran's GDP stands at \$500 billion, which puts it among the top 20 economies globally. With a population of 70 million, it is a sizeable domestic market. Aside from oil, agriculture is big, as is mining and metals. There is also a large domestic automotive industry, churning out vehicles for the domestic market.

However, since the Islamic Revolution of 1979, where the Shah of Iran was deposed, Iran has hurtled from being one of America's closest allies in the Middle-east to one of its foes. Meantime, after being invaded by neighbouring Iraq in 1980 and fighting a war which dragged on until 1988, it fell further off investors' radar and then spent much of the following decade in economic and political isolation. The result has been an economy plagued by state control, bureaucracy, inflation, unemployment and weak financial institutions.

#### ASIA RISING

Now, it appears to be taking steps to selectively engage what it deems will be important trade partners. Countries like fast-growing, energy-hungry China and India and moderate Muslim-dominant Asian countries like Malaysia are being singled out because in the minds of Iran's leaders, these countries do not have the same expectations that Western countries do. In particular, Iran looks at Malaysia as a model of an Islamic country that has developed

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The Teheran Stock Exchange is set to see more action as Iran pushes ahead with the privatisation of government-owned companies.

BLOOMBERG

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successfully, says Khajepour.

Asia has played second fiddle to the European Union and is likely to remain for the next decade or so, Iran's largest trading partner.

Investments into Iran counted names such as multinational oil majors Shell and BP and Eurozone oil companies such as Eni of Italy and Total of France. However, increasingly, Iran is drawing money and resources from companies such as Petronas of Malaysia and Sinopec of China.

Indeed, China is fast emerging as a key trading partner for Iran. In 2004, bilateral trade between the two countries was \$7 billion. In the current financial year, which ends in March 2007, Iran-China trade is projected to surge to \$11 billion. And by 2015, that figure could swell further to \$15 billion – which would mean a doubling in trade volume in just over a dec-

ade. That would also place it not far behind the EU, Iran's largest trading partner. (see table below)

Naturally, a significant chunk of this trade centres around energy. In October 2004, China inked a two-part deal where it will import more than 270 million tonnes of natural gas over the next 30 years from Iran's South Pars field. Chinese state-owned oil company Sinopec will also receive a 50% share in the Yadavaran field

in south-west Iran, giving it the rights to explore for oil over the next few decades. Estimates put the field's reserves at some 17 billion barrels.

China isn't the only emerging economy looking to Iran for energy. India, which is geographically closer and has longer historical ties, sealed a major deal in January 2005 with Iran. That includes a 25-year agreement for the sale of liquefied natural gas. Worth

### IRAN LOOKS EAST

Bilateral trade (\$ billion)	2004	2008*	2015*
Iran-China	7	12	15
Iran-India	3.2	5	10
Iran-Japan	9.8	10	10
Iran-Europe	15	18	20

NOTES: \* projected # projected and including LNG and natural gas  
Atieh Group



\$22 billion in all, it will kick off in 2009 with five million tonnes of LNG. Indian oil company ONGC also obtained full control over the Jufeyr oil field through a \$500-million investment and 25% in the Yadavaran field development.

Separately, Iran, Pakistan and India are pursuing a \$7.8-billion pipeline project which will transport gas from Iran to India and Pakistan.

#### PRIVATISATION PUSH

Aside from inviting foreign investment, Iran is pushing ahead with privatisation, a move which investors will be watching with care. Past efforts have met with little success due in part to legal and administrative ambiguities as well as Article 44 of its Constitution which limits private sector involvement. However, in late 2004, its supreme leader Ayatol-

lah Khamenei issued a decree clarifying the current regime's privatisation stance.

A key provision is that 80% of the shares of most government-owned companies will be transferred to the private or semi-government sector.

This covers all government banks except the Central Bank of Iran, Bank Melli Iran, Bank of Industry and Mine, Agriculture Bank, Bank Maskan, Bank Sepah and Exports Development Bank. It also includes all downstream oil and gas companies. However, the upstream sector, which is the exploration and production of oil and gas, will remain in government hands.

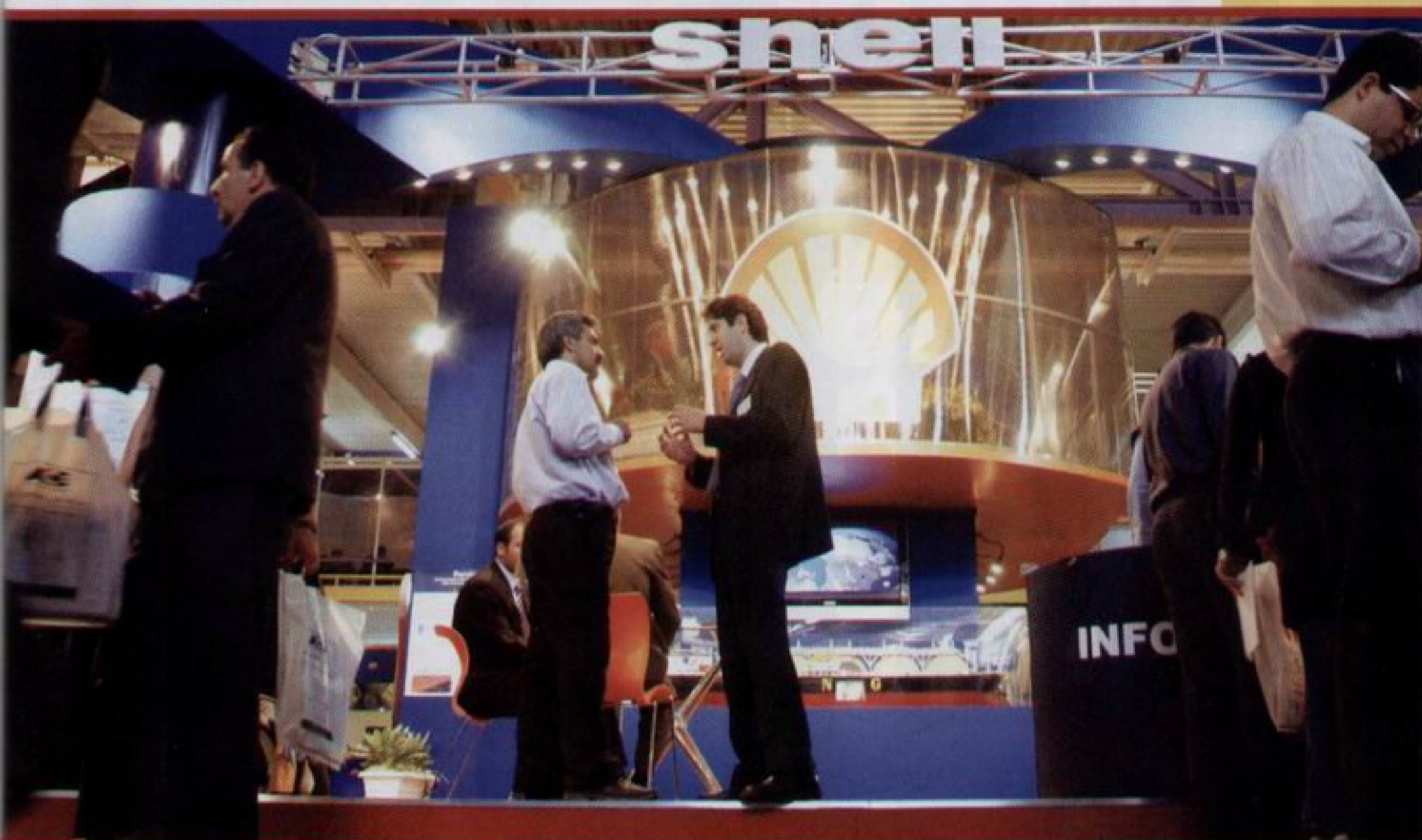
According to some estimates, the government's share of economic activity could fall from 65% currently to around 50% as a result, says Khajehpour. For all

that however, investors will need to remain aware of the potential downsides of putting money into Iran. Political risk is paramount and the relationship between the US and Iran needs to be watched carefully, says Khajehpour.

Aside from that, investors need to be aware of the reality of the legal environment in Iran. Although it has a relatively Western legal framework, there is a tendency towards ambiguity in its laws and contracts. As such, contracts need to be documented as clearly as possible.

Khajehpour also has a tip for foreign companies hoping to successfully penetrate the Iranian market. "It's very important to have a physical presence in Iran," he says. "You can't do business from a distance." For the isolated Iranians, it appears, seeing is believing. ●

Iranian and foreign businessmen visit a Shell exhibition booth at the 11th International Oil, Gas, and Petrochemical exhibition in Teheran, in April. The European Union is likely to remain Iran's largest trading partner for the next decade or so.



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