# Doing Business In Iran

**October 2016**

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**About the author**

The Department for International Trade is responsible for promoting British trade across the world and ensuring the UK takes advantage of the huge opportunities open to us.

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# Welcome to this guide

This guide is intended as a broad introduction to doing business in Iran. It has been produced by the Department for International Trade (DIT) for UK businesses to use, with contributions from relevant government departments. This guide should not take the place of legal advice or company's own due diligence.

# Introduction

In January 2016, Iran received extensive economic and financial sanctions relief as a result of meeting its obligations under the nuclear deal agreed on 14 July 2015, meaning the country is now able to trade more freely.

The UK government fully supports expanding our trade relationship with Iran and we would encourage UK businesses to take advantage of the commercial opportunities that arise from sanction relief. The Department for International Trade (DIT), based both in the UK and in the British Embassy in Tehran is on hand to support trade and investment between our two countries. The upgrade in diplomatic relations and appointment of Nicholas Hopton as British Ambassador to Iran on 5 September 2016 marks an important step forward in the two countries' diplomatic relations.

There is a positive outlook for UK-Iran trade relations. Iran is the biggest new market to enter the global economy in over a decade.

Although most economic and financial sanctions have now been lifted, some sanctions will remain in place and are not affected by the nuclear deal. In particular sanctions related to human rights, proliferation and support for terrorism remain in place. Business will wish to consider in particular, if they are dealing with a designated person or entity, whether a certain trade product or material is restricted, and how and to whom payments will be made. UK companies will also want to consider whether their proposed activity is subject to US sanctions. It is important to ensure appropriate due diligence measures are undertaken before engaging in any activity so if in doubt businesses should seek legal advice.

# Country Introduction

- With around 82 million people, Iran is the second most populated country in Middle East, after Egypt.
- Iran is the second largest economy in the region, after Saudi Arabia, with an estimated nominal GDP of $397 billion for 2015.
- Iran has received extensive economic and financial sanctions relief as a result of meeting its obligations under the nuclear deal agreed on 14 July 2015, meaning the country is now able to trade more freely. However, Iran is still subject to a number of US and EU sanctions. There are a range of prohibited activities in relation to the supply of specific goods and services. There are also restrictive measures on certain individuals and entities. Current sanctions will impact on certain activities and sales. Please read this guide carefully and identify the actions you will need to take to determine the business climate for your exports and activity to ensure that you remain within the boundaries of UK and EU law.
- The largest sector in the Iranian economy is currently the petroleum sector, accounting for 23% of GDP in 2014. However, the country is looking to diversify its economy, leveraging its significant agricultural, industrial and service industries.
- The government of Iran has recently been active in undertaking steps to attract foreign investors, with foreign investment of capital and technology needed across all major sectors of the economy.
- The currency of Iran is the Iranian Rial (IRR). In May 2016, the average market price (see section on Foreign Exchange, below) for £1 was IRR 49,940.[1]
- Farsi, sometimes referred to as Persian in English, is the first language in Iran. English is spoken, but not widely so.

# Country Profile

## *Demographic profile of Iran*

Iran is a country of around 82 million people, with a young, urban population – 43% of Iranians are under 25, whilst 73% live in cities.

There is significant ethnic diversity within Iran. Persians make up the majority of the population. Other major ethnic groups, in approximate order of size, include Azeris, Kurds, Arabs, Baluchi and Turkmen. The inhabitants of certain regions, such as Luristan and Gilan and Mazanderan, also have distinct cultural identities.

## *System of government*

Iran's system of government was created after the revolution of 1979 during which the ruling monarch, the Shah, was overthrown. Following a

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[1] The exchange rate of £1 to IRR 49,940 (the average rate of exchange in May 2016) has been used to compare the two currencies throughout this Guide. However, given the Rial's tendency towards depreciation in the past years, this figure is liable to change rapidly.

referendum in March that year, the country became an Islamic republic.

In practice, the country is governed by a complex network of institutions, some of which are democratically elected, and many of which possess considerable autonomy of action.

There are two centres of executive power in Iran; the government, led by President Hassan Rouhani, himself elected by popular vote, and the Supreme Leader, Ayatollah Ali Khamenei, appointed by a body known as the Assembly of Experts. Iran's Constitution defines the Supreme Leader to be the country's highest authority, followed by the President.

Iran's Parliament, the *majles*, drafts legislation and approves the appointment of government cabinet ministers. The 290 representatives to the *majles* are elected by the public. Legislation passed by the *majles* is submitted for approval to the Guardian Council, where its compliance with the Iranian Constitution and Islamic law (sharia) must be ascertained before it can be approved. If the Guardian Council rejects a piece of legislation three times, it is then referred to the Expediency Council, which will attempt to mediate between the two bodies in order to resolve disagreements. The members of the Guardian Council are appointed by the Supreme Leader and the *majles*, whilst members of the Expediency Council are appointed by the Supreme Leader alone.

Iran's judiciary is closely linked to the Supreme Leader, who appoints the country's Chief Justice, likewise, for the various branches of the armed forces, whose heads are also appointed by the Supreme Leader.

The division between public and private sectors in Iran is blurred by the presence of a number of para-statal organisations, close to the state but with a degree of autonomy. Most prominent amongst these are the bonyads or setads, charitable foundations created after the 1979 revolution to pursue social welfare programmes. Often the heads of these are appointed by the Supreme Leader and they will still conduct charitable activities. Yet many have also transformed into large business conglomerates and important actors in the country's economy. Some large religious organisations and even branches of the military also function in a similar manner, combining both their original, civil operations with significant business interests. This combination of considerable political and economic clout may be an area of concern for foreign investors.

## Overview of economy and economic performance

In comparison with some regional peers, Iran's economy is relatively diversified in terms of the dominance of the oil and gas sector. Though the oil and gas sector remains crucial to the country (in 2014 it contributed 23% to GDP), Iran also has the world's 7th largest mineral reserves, a large consumer market and a strong industrial manufacturing base.

Iran's economic performance over the past five years has been mixed, with GDP suffering sharp contractions in 2012 and 2013 due to a combination of internal and external factors. Inflation peaked at 35% in 2013, whilst international suspicions over Iran's nuclear programme led to the imposition of stringent economic sanctions from 2010 onwards. Those with the greatest impact targeted Iran's oil exports, with the resultant loss of hard currency doing severe economic damage.

However, with some nuclear related sanctions now lifted, Iran's economic performance is expected to improve.

The IMF and Iranian Government expect economic growth for 2016 in the range of 4%, up from approximately 0% last year. In June, EU High Representative for Foreign Affairs and Security Policy Federica Mogherini noted that trade between the European Union and Iran had increased by 22 percent in the first four months of 2016. Inflation is also down to approximately 9.7%, according to Iran's own figures.

## Key sectors

### *Oil & gas*

Oil and gas is the largest single sector within the Iranian economy, accounting for 23% of GDP in 2014. Iran has the world's largest gas reserves and fourth largest oil reserves. Iran's petroleum industry is mature - the first wells were drilled over a century ago and crude production peaked at 6 million barrels a day (mb/d) in 1975 – yet the extent of the country's reserves are such that there is potential for expansion. With 9% of global oil reserves, Iran accounts for just 3% of global production. In terms of gas, Iran holds 18% of global reserves with just 5% of global production.

The introduction of sanctions from 2010 onwards led to a rapid drop in Iran's oil exports, which stood at 2.5m b/d in 2011 but had fallen to 1m b/d by 2015. A European embargo on Iranian oil, introduced in 2011, played a significant role in this.

With many sanctions now lifted, Iran will be keen to quickly restart exports to Europe and other global customers – the country has already succeeded in doubling its oil exports between January and May 2016.

The Iranian government has announced ambitious growth plans for the sector. It has raised oil production from below 3m b/d prior to the JCPOA to around 3.6m b/d by mid-2016, and aims to be producing 5m b/d by 2020. Reported exports can fluctuate because of sales from stocks. The government is also seeking to double gas production, which has been rising quickly over the past decade, to 1.3bn cubic metres per day by 2020. Extraction from the South Pars gas field (which is thought to hold around 10 trillion cubic meters of gas) will be key to achieving this. The government has stated that it will aim to increase production despite the current low energy prices, with its main aim being to regain market share lost to competitors over the past five years. Industry analysts have predicted that Iran will achieve sizable increases in both oil and gas production, but that its targets will be easier to reach in a timely and efficient manner with foreign investment and the latest technology.

The government is actively seeking foreign partners to help drive this expansion. The Ministry of Petroleum has estimated that the sector will need around $105bn of capital, much of which will likely need to come from foreign investors. Moreover, Iran's international isolation has left its oil and gas industry cut off from the latest technology – much material is in need of maintenance and upgrading.

In order to attract investors, the government has recently created a new contract structure offering foreign partners more favourable terms. However, even with the growth of foreign investment, Iran's oil and gas industry will remain largely in the hands of the state, with constitutional limits on levels of foreign participation in the upstream sector.

Companies should bear in mind that certain goods, software and technology used in the oil and gas industry are controlled and will require a licence for export outside the EU. These include underwater marine acoustic systems and survey equipment, underwater field sensors, gyros or angular rate sensors, telecoms, and unmanned submersible vehicles. For further guidance, please see https://www.gov.uk/guidance/oil-gas-refining-and-petrochemicals and https://www.gov.uk/guidance/beginners-guide-to-export-controls

## *Petrochemicals*

Iran has a highly developed petrochemicals industry, with an output that covers almost the entire chemical production spectrum. Annual production capacity is around 60m tons, with approximately 75% of this currently in use, generating an annual revenue of around $20bn.

Iran hopes to overtake Saudi Arabia and become the Middle East's largest petrochemicals producer by 2025. In order to achieve this, the government has stated its ambition to double current capacity by 2020, reaching 120m tons per year, and then increase capacity by the same amount over the following five years, with projected production of 180m tons per year by 2025. Industry analysts have suggested that such increases in production may be more than the world chemicals market can bare and could cause price falls.

Due to the proximity and low prices of feed stock, Iran's petrochemicals sector enjoys significant competitive advantages over those of other countries. Prior to the imposition of sanctions, Iran was exporting around 20m tons of chemicals a year. Exports continued through the sanctions period, though these were directed largely to Central and East Asia.

Unlike the oil and gas sector, the petrochemicals sector has undergone significant privatisation over the last decade, with the majority of production now in private or semi-private hands. Many of these companies have previously received financing or entered into partnerships with international investors, and will likely be looking for international partners in the future. The Iranian government has estimated that expansion of the petrochemicals sector will require around $80bn of investment over the next ten years, and much of this will need to come from foreign investors.

## *Industrial manufacturing*

In contrast with many resource rich countries, Iran has developed a sizable manufacturing industry. For instance, Iran is the Middle East's largest automobile manufacturer, with production peaking at 1.6 million vehicles made in 2011, a year in which Iran was the world's 11th largest car maker. Iran also produces large quantities of manufactured metals and cement. The country is the world's 4th largest cement maker, 11th largest steel maker and 12th largest copper producer.

A current area of focus for Iran is energy intensive industries. Given Iran's cheap and plentiful energy resources, the country can derive a significant competitive advantage in the production of metals and other industrial goods which require large quantities of energy. Much heavy industry has developed in Iran's southern provinces in order to be close to these energy sources.

Iran's Sixth Five Year Development Plan, which began in March 2016, called for a particular focus on the development of value adding manufacturing. With many sanctions lifted, European car makers, who were previously very active in the Iranian market, have announced their interest in returning to the country. The government has also stated it will provide around $15bn of funding to increase manufactured metal production.

Like the oil and gas industry, much of Iran's manufacturing plant operates without access to the latest technology and is in need of maintenance and upgrades. Foreign investors will likely be sought for the capital and technology they can bring to any deal or joint venture.

## *Infrastructure*

As a geographically large country with a growing population, an economy focused on the extractive and manufacturing industries, and with aspirations towards economic growth, Iran's infrastructure development needs are extensive. The government has laid out ambitious plans in a number of sectors, including transport, power and water.

## *Transport*

Transport will be a crucial area of development for Iran's economy, with projects planned in a variety of areas. The country's ports, though they saw a decline in business during the sanctions period, are soon to undergo major redevelopment, with around $900m of projects planned by Iran's Ports and Maritime Organisation. Rail transport will see major expansion over the next decade, with Islamic Republic of Iran Railways planning to at least double the size of the country's rail network, alongside plans to extend Tehran's metro service to more areas of the city. Iran's plans regarding air transport have already made headlines, with an MOU announced for the purchase of 118 planes from Airbus in January 2016. The country's air fleet is aging, and more purchases may be likely – some analysts have estimated that Iran will require 300 new planes in the next five years. With the government hoping tourism and business travel will increase, there are also plans to expand Iran's civil airports – the capacity of Imam Khomeini Airport, Tehran's main airport, will increase six-fold under one such plan.

## *Power*

The country's anticipated economic growth and the government's prioritisation of energy-intensive industries' role in this will require additional sources of energy. The government is planning to add more than 5 GW of generation capacity annually to reach a total capacity of 96 GW by 2020. It seems likely that this will largely be gas-powered generation capacity, but development of renewable sources also looks likely to be a priority. The government has set a target of 5GW of renewables capacity by 2020, with wind-power likely to play a major part in this.

## *Water*

Iran faces severe water shortages, threatening food production (the agricultural sector is large, accounting for around 10% of GDP) and other water-intensive industries. In response, the government has committed $7bn of annual spending to build up the sector's infrastructure, including the construction of several desalination plants in the Persian Gulf region as well as pipelines necessary to distribute the water these produce around the country.

## *Banking and financial services*

Iran's financial services sector is relatively small – in 2014 it made up 2% of GDP – and faces a number of issues, described below. However, despite these issues and certain limitations on foreign investment, it is likely to be an area of opportunity for British businesses.

The government plays a significant role in the sector. There are eight state-owned banks active in the market, including two of the largest three by total assets, and the sector is regulated by the Central Bank of Iran, whose governor is appointed by the President. Current monetary policy is focused on reducing inflation and increasing liquidity.

A number of issues are currently adversely affecting the sector. Iran has very high levels of non-performing loans - estimates range from 15-40% of total lending. Low levels of liquidity have made securing credit difficult for both banks and businesses. A large shadow banking sector, thought to account for as much as 25% of all banking activities, is present in the market. Most concerning for international business, anti-money laundering (AML), know your customer (KYC) and counter terrorist financing (CTF) compliance processes in Iran do not generally meet international standards. As discussed in the Banking and Finance section, this latter point, alongside ongoing concerns around sanctions, will likely impede Iran's reconnection to the international banking system.

Iran's capital markets are small by international standards, but growing rapidly. The Tehran Stock Exchange has a market capitalisation of around $100bn. In the three weeks following Implementation Day, the market rose by 20%.

There is a recognition in both the Iranian government and financial services institutions that reform of the sector will be crucial to Iran's realising any trade dividend from the nuclear deal. The government has begun to take steps to reduce the shadow banking sector, and to improve compliance processes. A recently passed piece of legislation will require banks to raise their CTF standards. Foreign capital and expertise will likely be needed to help the industry as it develops in the coming years.

## Healthcare and Pharmaceuticals

Iran has one of the most developed healthcare and pharmaceutical sectors in the Middle East. Healthcare is widely available, with excellent standards of care to be found in cities, and around 90% of the country's population is covered by government insurance schemes. Iran's demographics indicate that spending on healthcare is likely to increase in the future – the population is growing, the median age is set to increase by eight years from 2010-2025 and the disease burden is shifting towards chronic, non-communicable conditions.

However, many healthcare providers currently face financial difficulties. Government regulation keeps medical costs low (although fees are still often beyond the means of poorer Iranians) whilst insurance firms regularly fail to pay on behalf of their customers. This has meant that many hospitals have been unable to afford up to date medical equipment or the most effective drugs.

Iran's government is seeking to further develop and modernise healthcare in the county. Current plans include the construction of new hospital complexes (the Sixth Five Year Development Plan calls on Iran's government to add 115,000 extra beds by 2021), the development of up to fifty new medical laboratories, the creation of comprehensive cancer centres in 13 regional hubs, the investment of $280m in new imaging centres, of $130m in new dialysis centres, and the development of dental and oral medical centres.

Iran also has a large pharmaceuticals sector, with sales worth £1.86bn in 2015 - drugs manufactured in the country made up £1.24bn of these sales. However, drugs produced in Iran tend to be low-value, high-volume products. Imports make up just 5% of the volume of sales (by units) but account for 38% of the value of sales. This is because Iran's manufacturing base lacks the latest technology and is unable to produce the most advanced medicines. Several international pharmaceuticals companies have maintained activity in Iran over the last five years, and more are planning on entering the market in the near future.

The government has a strong role in the sector, regulating the costs of both medicine and treatment. Protectionist tariffs defend local manufacturers from foreign competitors, except in the import of the most advanced technology and drugs, which Iran currently lacks the capacity to produce. However, the Iranian government has stated that future business partners will be sought on the basis of their ability and willingness to transfer technology to Iranian organisations, as it seeks to develop domestic capabilities in the sector.

## Retail

Iran's young demographic, rising middle class and growing internet penetration makes it an attractive market for international retailers. During the period of sanctions, investment in the retail industry remained low, with limited interest from multinational retailers. Consequently, independent wholesale stores continue to make up the majority of the retail landscape in Iran. That said, with sanctions lifted in January 2016, there has been an increase in investment and plans for investment by multinational retailers, a trend that is set to strengthen throughout 2016. However, the impact is currently marginal and the retailing structure remains traditional.

Grocery retailing in Iran is entering a new phase of development as major multinational firms expand activities in the country in light of sanctions being lifted. The most notable in terms of value share gain is Majid Al Futtaim Hypermarkets LLC (originally from UAE) with its Hyperstar brand which could become an important player, increasing its market share from 0.5% in 2010 to 1.9% in 2015.

On the other hand, the non-grocery segment of the retail industry is largely dominated by single-outlet operations including apparel specialist retailers and leisure and personal goods retailers. The concept of chain stores for non-grocery retailing is still very new in Iran.

The retailing model in Iran continues to be traditional, each major city having a central "bazaar" where key wholesalers supply small independent outlets across the city with goods that have been sourced from Tehran's central bazaar. This cycle means that the impact of chain stores is still very limited and thus each outlet accounts for a tiny proportion of total value sales.

Premium clothing and consumer product brands are in much demand and as a consequence a number of high profile fashion labels have already announced their intention of setting up new stores in Tehran, with other brands reportedly looking closely at the market.

Convenience is becoming one of the major demands among Iranian consumers. The future outlook for non-store retailing, particularly online, is very promising due to the rapid expansion of internet access and modernisation of online payment methods as well as wide spread advertising campaigns by key suppliers such as Digikala (Iran's Amazon equivalent).

## The state's role in the economy

The Iranian state acts as both the regulator of, and an important player in, the country's economy. Regulations can be complex, and consumer and employee protection is often given precedence over ease of doing business. Conversely, government enforcement of regulation is not always robust, with some companies able to use informal networks to win advantages in the market. Regulation relevant to foreign investors is discussed in greater detail below.

The government also creates regular economic plans and these have a significant impact on the economic direction of the country. The government's first Five Year Development Plan was begun in 1991 – the sixth Five Year Development Plan began in March 2016 (the beginning of the Iranian year 1395). In 2006, a Twenty Year Vision Plan was created, encompassing four Five Year Plans. The yearly government budget cycles are used to push towards the aims of each Plan.

The budget for the year 1395 (March 2016 to March 2017) was approved by the Parliament on April 19th. The total budget was $97bn, an increase of $25bn over last year's, and is based on oil production of 2.25m b/d at a price of $40 per barrel. The budget must still be approved by the Guardian Council before it is implemented.

The Iranian government owns the largest companies to be found operating in Iran, often in the extractive and manufacturing industries – examples include the National Iranian Oil Company (NIOC), the Iranian Mining Industries Development and Renovation Organisation (IMIDRO), the Industrial Development and Renovation Organisation (IDRO), Social Security Investment Company (SHASTA) and Bank Melli, Iran's largest bank by total assets.

As well as government-owned companies, Iran's economy is also home to a large number of entities that are owned by para-statal organisations, closely linked to the state but with a degree of independence.

## Iranian investment policy

Iran's current government, led by President Rouhani, has regularly stated its desire to attract increasing quantities of foreign direct investment. Iran's ambitious growth targets will require large sums of capital – the head of the Iranian government's Management and Planning Organisation has suggested that the Sixth Five Year Development Plan (2016-2021) will require $850bn of capital spending – and much of this will need to be found outside of the country. The country is also keen to acquire the latest technology and best practice relevant to its industries, and has publically stated that it will look to foreign investors to help provide this.

Since Implementation Day, the date on which many sanctions were lifted, the Iranian government has embarked on a process of economic diplomacy, signing high profile deals and exchanging trade delegations with European countries. Meanwhile, within Iran, the government has begun to take steps to create a legal and economic environment attractive to foreign investors. For instance, the government continues to work towards reform of subsidies on food and energy, signalling its desire to return to market principles. The most recent yearly budget, once approved by the Guardian Council, will remove subsidies for the wealthiest 30% of the population. As discussed below, the government is also seeking to unify the country's exchange rate, reducing the current FX risk faced by investors.

However, Iran's political culture remains heavily informed by the revolution of 1979, a significant aspect of which was economic nationalism and concern over foreign exploitation of Iran's resources and people. As such, liberalisation of the economy and the process of globalisation are still controversial topics within Iran, with some parts of the state more welcoming of foreign investment than others.

## Transparency and corruption

Transparency International's 2015 Corruption Perceptions Index ranked Iran 38th out of 168 countries in terms of the prevalence of public sector corruption. The World Bank's 2016 Ease of Doing Business Index placed Iran 118th on a list of 189 countries. Clearly, therefore, UK businesses will need to exercise increased vigilance in a business environment which may not meet European standards on transparency and corruption. As discussed below, due diligence will likely be necessary to ensure that any potential Iranian counterparties will not expose investors to compliance or reputational risks.

However, the Iranian government is taking a number of steps to address these issues. The Sixth Five Year Development Plan (which began in March 2016) calls for the creation of a National Anti-Corruption Strategy. On transparency, Iran's Securities and Exchange and Organisation, responsible for regulating the country's capital markets, has recently stated that all listed companies will be required to produce consolidated financial statements under the International Financial Reporting Standards (IFRS) from this Iranian financial year onwards. The *majles* and Guardian Council have also recently ratified a new bill raising banking standards in regard to Counter Terrorist Financing, though it is unclear whether these will meet international standards.

## Sanctions

For comprehensive UK guidance on sanctions currently in place against Iran, see https://www.gov.uk/guidance/sanctions-on-iran.

### *Sanctions background*

Elements of the Iranian economy have been under US sanctions since 1979, however it was from 2010 onwards that the international community began to impose increasingly restrictive sanctions due to concerns regarding Iran's nuclear programme. Some of the key milestones are:

- 2011 – the UK, US and Canada impose sanctions on Iran's financial sector;
- 2012 – the EU embargoes all oil imports from Iran and disconnects Iran from the SWIFT banking system;
- 2013 – the US introduces sanctions penalising financial institutions either holding Rials or facilitating transactions in the currency.

Several European banks have been subject to significant fines for breaching sanctions involving Iran. In addition, the majority of European businesses suspended operations in Iran from 2011 onwards. The repercussions of sanctions for Iran's economy were severe, and they contributed significantly to recession in the country during 2012 and 2013.

## *Sanctions relief*

Sanctions relief linked to the nuclear talks has come in two stages.

### *Joint Plan of Action (JPOA)*

The signing of this document in November 2013 by Iran and the P5 + 1 also known as the E3+3 (China, Germany, France, Russia, the United Kingdom, and the United States) provided limited and temporary sanctions relief to Iran. This was seen as an initial step towards a more comprehensive solution.

### *Joint Comprehensive Plan of Action (JCPOA)*

Negotiations on the so-called 'Nuclear Deal' came to a conclusion in July 2015, with the JCPOA coming into effect in October 2015. The International Atomic Energy Agency (IAEA) delivered its report verifying Iran's compliance with the requirements of the JCPOA in January 2016, triggering what was called Implementation Day and the lifting of all UN, most EU and most US secondary nuclear-related sanctions.[2]

[2] Secondary sanctions are those which apply to non-US entities. Primary sanctions apply to US entities, defined by the US Treasury as; any citizen or permanent resident of the USA, any entity organised under the laws of the USA (including foreign branches of these entities or US subsidiaries of foreign parent companies), any entity owned or controlled by a US person (i.e. a US person controls more than 50% of equity or a majority of the seats on the board of directors), any person (individual or entity) resident in the USA.

Many sanctions which previously applied to British businesses hoping to conduct activities in Iran have been lifted. The sectors which are principally affected by the lifting of these sanctions are:

- Finance, banking and insurance;
- Oil, gas and petrochemicals;
- Shipping, shipbuilding and transport;
- Gold and other precious metals;
- Banknotes and coinage.

However, as discussed immediately below, many sanctions have not been lifted.

## Remaining sanctions

Whilst the majority of EU nuclear-related economic and financial sanctions against Iran have been lifted, many other sanctions are not related to the nuclear deal and remain in place. EU sanctions remain in place against four Iranian banks, in addition to an arms embargo and human rights sanctions. An arms embargo means that you cannot export any goods, software or technology on the UK military lists. This includes aircraft, vehicles and marine equipment made to military specification.

### *EU Sanctions*

It should be noted that a number of Iranian individuals and entities remain subject to sanctions for proliferation, human rights and terrorism concerns. It is your responsibility to find out whether sanctions still affect you by checking the following HM Treasury Consolidated List of Targets: https://www.gov.uk/government/publications/financial-sanctions-consolidated-list-of-targets/consolidated-list-of-targets

You need to ensure that any proposed agreements do not deal, either directly or indirectly, with a designated entity either in the supply of material or services to Iranian entities or in the payment route utilised. Making funds and economic resources available to sanctioned entities, directly or indirectly, is still prohibited in the absence of a license. If someone is looking to deal with an entity designated under financial sanctions they will need to approach HM Treasury with information about their proposed dealings and the relevant grounds for licensing. HM Treasury would then consider whether a licence can be issued. Further guidance can be found on the HMT Office of Financial Sanctions Implementation (OFSI) pages: https://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation

For further information on the remaining EU sanctions, please visit https://www.gov.uk/guidance/sanctions-on-iran

## Violations and Snapback

It should be noted that snapback is a measure of last resort. However, if Iran does not meet its JCPOA commitments, JCPOA participants would consider this under the dispute resolution mechanism. This would determine whether Iran had breached its commitments and what would happen next – with the ultimate response being the snapback of sanctions.

If a participant of the Joint Commission thinks there has been a violation of the JCPOA the first instance is to notify the Joint Commission. The Joint Commission will discuss these concerns with a view of resolving it within 15 days. If the concern cannot be addressed by the Joint Commission, it will be discussed by Foreign Ministers and/or by an Advisory Panel made up of the complainant, defendant and an independent party. If the concern still cannot be resolved and the complainant believes that the violation constitutes significant non-performance of JCPOA commitments then the matter will be escalated to the UN Security Council (UNSC). This will allow for the snapback of sanctions.

The international community would have sufficient time, given the robust transparency measures in place, to ensure Iran is meeting its commitments. This deal means that it would take Iran at least 12 months to acquire sufficient fissile material for a nuclear weapon if it were to ‘breakout’ for a bomb. Any participant of the Joint Commission can initiate snapback if it believes a serious breach has occurred.

The Joint Commission will play a crucial role in reviewing any violation of the deal, and through this mechanism Iran will be under no illusion that the snapback of sanctions remains an option if they do not abide by their obligations. Robust and invasive transparency measures will give confidence in the ability to detect any such violation. An Iranian ‘nuclear snapback’ will no longer be possible given that Iran’s nuclear programme will be severely scaled back under the terms of the deal, and some of these actions such as the destruction of the current Arak reactor will be irreversible.

Businesses may need to consider legal advice in respect of any necessary contractual provisions which may provide a degree of protection for all parties in the event of potential snap back.

## US Sanctions

The US Treasury's Office of Foreign Assets Control (OFAC) designates a significant number of Iranian companies, individuals and vessels (Specially Designated Nationals (SDNs)) as subject to sanctions. British businesses which have no US footprint and which are not subject to US primary sanctions may still be subject to US secondary sanctions. Specifically those transactions which relate to:

- Iranian individuals or entities remaining on the SDN list, including certain Iranian banks;
- Iranian Revolutionary Guard Corps.

Most importantly, all US primary sanctions remain (see footnote 2). As such, British businesses must consider their US connections, including the presence of employees holding US citizenship or green cards, before undertaking Iran-related activity.

To facilitate international trade with Iran, OFAC has issued "General Licence H". Under this licence, British-domiciled entities owned or controlled by a US person may undertake certain transactions, as follows:

- Entities owned or controlled by a United States person and established or maintained outside the United States may conduct business with Iran if the business is conducted outside of a US nexus;
- US persons can provide advice for setting up new policies and procedures with Iran contracts however they cannot be involved in the day to day activities of an Iranian transaction;
- US parents can make available to their foreign subsidiaries common automated computing systems i.e. e-mail systems, accounting systems.

The sanctions remaining in force also prevent Iran-related transactions from passing through the US financial system or being transacted in US dollars, complicating payments into and out of Iran (see 'Banking and finance' section).

There are also ongoing sanctions related to export controls, described below.

## Export controls

Whilst businesses can now pursue a broader range of activities with Iran, strict controls remain in place on the export of a variety of goods, services and technology. These controls can be national (UK), regional (EU), extra-territorial (USA) and international (UN). Some completely prohibit exports, whilst others require that companies obtain a licence prior to conducting business. In addition to the physical movement of goods and technology, the intangible transfer of technology and software, or the provision of technological assistance or 'know how' are also controlled.

Export controls fall into four broad categories:

### *1. Controls on military or dual-use goods, services and technology*

The UK government, other states and international regimes maintain lists of controlled items. These include UK controls on items only being exported to Iran, e.g. some telecommunications; submersible vessels, aircraft etc. See the Goods Checker Tool on GOV.UK to determine whether your goods require a licence to export:

https://www.ecochecker.bis.gov.uk/spirefox5live/fox/spire/OGEL_GOODS_CHECKER_LANDING_PAGE/new

### *2. End-use controls*

Under such controls, the final use to which goods, services or technology will be put (for instance, human rights abuses, military use, etc) can trigger a restriction or prohibition on export. For example, certain otherwise uncontrolled goods at risk of being used as parts for, or to manufacture military equipment or items of a weapons of destruction nature including nuclear in an embargoed country will fall under this control and will necessitate a license prior to export.

Certain nuclear-related activities with Iran can only take place if they have been approved in advance by the UN Security Council. This approval will be undertaken using the "Procurement Channel" It covers:

- The supply, sale or transfer of items, materials, equipment, goods, and technology specified in the Nuclear Suppliers Group (NSG) Trigger List and NSG Dual-Use List, as well as any further items if the relevant state determines that they could contribute to activities inconsistent with the JCPOA.

- The provision to Iran of assistance or services related to the supply, sale, transfer, manufacture, or use of the items specified above (e.g. technical assistance or training, financial assistance, investment, brokering).
- The acquisition by any Iranian person, entity or body of an interest in commercial activities in another state involving uranium mining and the production and use of goods in the NSG Trigger List, and related investments.

For information on approvals required and how to obtain the end user undertaking from the Atomic Energy Organisation of Iran please refer to this guidance:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/495635/16-102-procurement-channel-guidance.pdf

### *3. End-user controls*

These proscribe specific entities and individuals with whom business is prohibited. Lists of these entities are provided by governments and international organisations such as the UN and EU but, given the complex ownership structures of many Iranian companies, final end-users may not always be apparent when trading with Iran. Contact ECO for further advice about any end user concerns using the End Use Advice Service on SPIRE: https://www.gov.uk/apply-strategic-export-licence-spire

### *4. Destination controls*

These are controls targeting specific countries, entities and individuals. They may apply to specific lists of exports or all exports, depending on the relevant legislation.

Export controls are complex, as seemingly innocuous exports can be either prohibited or require licences, depending on their destination, end user or the use to which they will be put. Businesses may need legal and professional assistance to fully understand the specific circumstances in relation to any planned activity with Iran.

## Business Considerations

### *Opportunity and risks – risk appetite*

Iran, like many frontier economies, presents British businesses with both exciting opportunities and with risks that need to be carefully considered. In a period of slow global growth, Iran's projected economic prospects are attractive. The country's strong demographic profile, its plentiful natural resources and its strategic location lend themselves to this positive story. Iran's capital needs and its recent isolation from international commerce mean that foreign investors will have a large role to play in future economic growth, and the country's government appears keen to encourage this.

However, prospective investors should be aware of a number of risks. Ongoing sanctions will continue to limit what business is legally permissible. Issues around banking and the transfer of money into and out of the country are exacerbated by a potentially unpredictable exchange rate. Any partnership with an Iranian entity will likely need to be preceded by thorough due diligence.

Though all of the above issues are likely to ease over time, for now British businesses will need to carefully weigh the benefits alongside their appetite for risk when considering any investment in the Iranian market.

### *Banking and finance*

Having been largely closed off from the international banking system for the past five years, Iran's financial institutions are now beginning to reconnect.

We are starting to see a small number of banks start to reengage and a number of transactions beginning to take place on a case by case basis. This is expected to increase as confidence builds, although, in the short term British businesses will likely face significant challenges in accessing either banking services or project finance needed for any Iran-related activities.

The majority of European banks remain reluctant to facilitate any business with Iran, including banks in the UK. This presents a challenge for UK business in accessing clearance channels, support for the facilitation of transactions, or to access finance and lending facilities as banks build confidence in reengaging with Iran-related business. Banks remain cautious of breaching US sanctions on Iran.

Iran will need to make progress to meet international regulatory standards and to build confidence with banks for them to re-engage in Iran-related business in order for tangible economic benefits to Iran to materialise. On 24 June 2016, the

Financial Action Task Force welcomed Iran's high-level political commitment to implement an Action Plan to address its strategic AML/CFT deficiencies and its decision to seek technical assistance. In light of the increased cooperation, the FATF suspended counter-measures for twelve months in order to monitor Iran's progress in implementing the Action Plan. Iran remains on the FATF Public Statement and in line with the UK's Money Laundering Regulations, firms are advised to apply enhanced due diligence measures in accordance with the risks. (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/534959/hmt_advisory_notice_june_2016.pdf). In addition, the UK Government, along with its European counterparts, is working with the US to seek greater clarity on guidance and reassurance for banks from the US Office for Foreign Asset Control (OFAC).

Industry analysts predict that Middle East regional banks, Europe's smaller banks and those with minimal US exposure will be the first to begin conducting business with Iran and providing services to their clients. As such, businesses will need to investigate their banking options carefully.

## *Foreign exchange*

There are currently two foreign exchange rates used in Iran – an official rate, set and maintained by the Central Bank of Iran (CBI), and a market rate. Until early 2011, Iran had just one exchange rate. The CBI maintained the value of the Rial using a 'managed-float' system, with Iran's large oil revenues allowing the CBI to keep official rates at roughly the same level as market rates. However, the onset of international sanctions eroded the CBI's ability to do this and led to a divergence of the two rates from early 2011 onwards.

In May 2016, the average market price of £1 was IRR 49,940. The average official price was IRR 44,125.

The transfer of large sums of foreign capital in and out of the country is conducted by the CBI – these transactions are conducted at the official rate. Smaller sums of money can be handled in the private exchange market, with transactions conducted at the market rate, though these are unsuitable for multiple, long term, large scale transactions.

There are several constraints around removing money from the country through the CBI. Article 10 of the Iranian securities market law allows the CBI to transfer foreign capital in four-monthly instalments over the course of one year, rather than a single lump sum. Capital invested in the country under the Foreign Investment Protection and Promotion Act (FIPPA – see below) can only be removed from the country after a three month notice period and, following confirmation that there are no outstanding fees owed, with the approval of the Minister of Finance. Transfer of profits and dividends out of the country are subject to the approval of the Minister of Finance, and will be allowed after the subtraction of any outstanding fees or taxes.

Over the past five years, the Rial has displayed high volatility and marked depreciation, due to high inflation and international sanctions. Embargoes on Iran's oil exports reduced access to hard currency, whilst other sanctions prevented financial institutions from either holding or transacting in Rials. Between 2011 and 2013, the currency lost two-thirds of its market value. Since then the rate of depreciation has slowed.

To address the uncertainty caused by the dual exchange rate system, the CBI has stated its current policy is to unify the two exchange rates over the next 12 months by allowing the official rate to depreciate gradually until it meets the market rate. The CBI has also indicated that the annual depreciation of the dollar to Rial rate should not exceed more than 10% per year. To further allay markets' fears there are indications that a local forwards market may be created to allow businesses to hedge FX risk.

## *Due diligence*

As discussed throughout this Guide, companies seeking to conduct business in Iran will face a number of risks. Despite the nuclear deal many sanctions are still in place, corruption remains a problem in Iran, the country's domestic politics and international relations are complex, and the Iranian state is a major player in much of the economy. Conducting thorough due diligence on potential partners will be necessary for British businesses to ensure they minimise compliance and reputational risks. The key areas of concern for investors are likely to be as follows:

- Sanctions, trade regulation and export controls compliance;
- Political exposure, via connections (current or former) with government entities or individuals;
- Terrorist financing or financial crime, such as

money-laundering, bribery, fraud;

- Reputational threats, through work with entities allegedly involved in human rights violations, corruption, or litigation.

Due diligence can help to give a fuller picture of the target entity or individual, although information can be unavailable or unclear, and understanding sanctions exposure can be very complex. In instances where any business activity would mean a breach of sanctions, the law which companies must follow is clear. However, issues of political or reputational risk require more subjective judgements from investors, who will need to carefully determine their risk appetite.

## Labour market

Iran's labour market is young, growing and has good access to education. 98% of Iranians between the age of 15 and 24 are literate, and 13% of Iranians over the age of 25 have completed tertiary education, with another 4.4m currently studying in university. The country produces large numbers of graduates in productive industries such as engineering, construction and manufacturing.

There is strong technical skill within Iran's developed industries, such as oil and gas, construction, manufacturing and mining. However, given the economy's isolation over the past five years, current international best practice is not always followed; this is particularly the case in technology-heavy industries such as financial services. Investors may need to commit significant resources to training local staff.

The economic problems of the past five years have resulted in high unemployment, which stood at 11.7% in April 2016, according to the World Bank. This is a particular problem for young people, with 29.4% of 15-24 year olds currently out of work.

Female labour force participation is low, with 12% of women active. Minimum wages are low by international standards – in 2014, the monthly minimum wage was around $216.

For details, see section on Iranian labour law.

## Cultural considerations

Iran's business culture can be different from that of other countries – even other countries in the Middle East. If this is not understood, it might cause business dealings to be confusing, time consuming, and, could prevent foreigners from achieving their desired outcomes.

Much business within Iran progresses on the basis of personal relationships. Face to face meetings and negotiations are a vital part of building the trust necessary to embark on a partnership. Displays of long-term commitment are an important part of this – foreign investors with a permanent base in the country will likely enjoy considerable advantages when seeking to make deals.

Negotiations themselves are rarely direct and to the point - business conversations can skirt around the issues and lack detail and transparency. Decisions take time, and are unlikely to be made without significant interaction between the two parties – pushing for a quick answer can prove counter-productive. Deals are often made in informal settings, over tea or dinner, or other interactions that in Europe would be considered social rather than professional.

In general, Iranians are very proud of their Persian heritage (confusing Iranians with their Arab neighbours is a particular faux pas). An appreciation of Iran's history and culture will go a long way towards helping foster relationships in the country.

## Legal and regulatory framework

Iran is an Islamic Republic and its political system is set out in the Constitution. Prior to 1979, the Iranian legal system was based on a codified legal system which was modelled from the laws of France Belgium and Switzerland, with many of these codified laws still in force today. Both the civil code (as amended) and the commercial and companies law, have their roots in the French commercial code.

Iran is a highly centralized country with the government regulating close to all activities. Even the most basic request can require complex forms, administrative processes and stamps of approval, which in turn can lead to delays and bureaucracy.

The constitution makes it clear that the entire Iranian legal system is to be based on Shari'a principles. The constitution covers laws and regulations in respect to civil, penal, financial, economic, administrative, cultural, military and political laws. Other notable areas of law that have been codified include the labour law of 1990, the Foreign Investment Law 1956 (regulations enacted in 1999). In addition a copyright and intellectual property (IP) law have also been in force since 1990 and 2009 respectively.

## Foreign Investment Law Overview

### *Bilateral Investment Treaty (BIT's)*

There is currently no BIT in place between Iran and the UK, though Iran has concluded BITs with 64 other countries. Amongst these are several European countries, including Germany, Italy and France.

Amongst other things, BITs with Iran provide protection against expropriation, nationalisation, and appropriation by giving assurance of fair compensation to the affected party, free transfer of capital, and guaranteed equal treatment with nationals. Furthermore, investors may choose to make use of international arbitration and international governing laws in any disputes that may arise. The treatment of foreign investors under BITs is seen as even more favourable than under FIPPA (see below).

### *Foreign Investment Promotion and Protection Act 2002 (FIPPA)*

Protection and incentives for foreign investment are also provided under Iranian law. The Foreign Investment Promotion and Protection Act (including its implementing regulations) provides security and legal protection to foreign investments based on transparency and international standards. In particular it:

- Guarantees important privileges to foreign investments such as an equal treatment standard;
- Allows the transfer of capital and dividends out of Iran;
- Provides for compensation in the case of nationalisation or expropriation;
- Allows for a streamlined and fast-track investment licensing and approval process;
- Gives access to foreign dispute resolution forums;
- Gives assistance to foreign investors in their relations with the authorities.

In order to receive a FIPPA licence, the foreign investor has to obtain a license from the Organisation for Investment, Economic and Technical Assistance of Iran (OIETAI). The OIETAI also provides technical and economic assistance and support for foreign investment undertakings in Iran. In general licenses are issued promptly, if the applicant can demonstrate the business activities are eligible. A business plan may also need to be submitted.

The license will protect the licensee throughout the lifetime of their operation in Iran, notwithstanding the type and manner of the investment. In fact, the interests and rights of foreign investors are fully recognised under FIPPA, and are secured against non-commercial risks which would commit the Iranian Government to not only facilitate the free flow of capital repatriation (including dividends, and capital gains) but also full and fair compensation against acts of Government expropriation, breach of contract and interruption, disruption by the government of the foreign investors activities. In essence foreign investors will enjoy the same treatment afforded to local investors, and all facilities, privileges and exemptions shall apply equally.

Under FIPPA, foreign capital is defined in a very broad manner and can be in cash or in kind, being machinery and equipment, raw materials, parts, specialised services as well as intellectual property. It also includes shareholder loans. A third party loan must be classified as either capital or a shareholder's loan.

FIPPA allows investment across most industries and fields including major infrastructure projects. Generally speaking no restrictions are imposed on the manner, type and volume of investment, percentage of shareholding or profit and capital repatriation as well as internal relations between the parties, and foreign investors may invest in all sectors open to private sector.

Investment (by real persons or juridical entities, which also includes Iranian nationals and companies residing in Iran or abroad) can be through foreign direct investment (equity participation in the share capital of Iranian companies), or foreign indirect investment through contractual arrangements, for example buy-back arrangements, project financing or Build Operate Transfer (BOT) Schemes.

Generally any type of investment in which the investor does not have an equity stake and/or is not qualified from an ownership standpoint will fall under indirect investment. Indirect investment in even closed areas of the market by the private sector is permissible. To obtain protection under FIPPA indirect investments need to obtain a licence under FIPPA.

There are also beneficial privileges relating to immigration services in the area of visas, residency and work permits for investors, managers, directors and experts, as well as their immediate family members.

### *Ownership*

A positive aspect of FIPPA and the BITs is that foreign investors are, with few exceptions, allowed to hold up to 100% of the shares, subject to a number of industries where a very small percentage of the shareholding is allocated allowing for the qualification of shares by directors, when investing in Iranian companies, which is a rare privilege in the wider region. Foreign investors can also freely choose between the legal forms provided under the Iranian Commercial Law.

### *Business areas limited or prohibited for foreign investors*

Foreign activity and investment is subject to limitations in three sectors in Iran: oil and gas, real estate, and banking and insurance.

***Oil and gas sector***
Limitations exist on foreign investment in nationalised resources such as oil and gas.

***Real estate sector***
Foreign ownership of land in certain geographical locations, as determined by the Ministry of Interior, is forbidden.

***Banking and insurance sector***
Certain limitations apply to the percentage of foreign investment in a bank or insurance company, unless the investment is made offshore where no limitations apply (see Free Trade Zones).

## Establishment of a Business

### *Corporate Commercial Overview*

Starting a business in Iran is relatively straightforward. Iran currently stands at 87 in the ranking of 189 economies on the ease of starting a business. In recent years setting up a business has become easier, with the introduction of an electronic registration system, a web portal for searching and reserving company names, and streamlining of the registration procedure and process.

There are a number of different forms of business which a foreigner can establish in Iran, the main ones being:

- Private Joint Stock Company;
- A Limited Liability Company;
- Branch office;
- Representative office.

Depending on the nature and extent of business activities in mind, one of the above vehicles will be used. The most common form for foreign investors is the establishment of a joint stock company which is a limited liability company by shares.

Establishment of the business entity can be in Iran itself (also commonly known as “onshore”), or in one of the many economic free zones. We have set out a brief outline of each of the corporate entities below.

### *Private Joint Stock Company (Sherkat Sahami Khass)*

A joint stock company provides for a limitation of shareholders’ liability to the value of its shares. A joint stock company can either be “private” or “public”, a private joint stock company is required to have a minimum share capital of IRR 1,000,000 (£20). All shares are allocated to its founders at the time of foundation. The share capital of a public joint stock company must be at least IRR 5,000,000 (£100). A private joint stock company must be formed by 3 or more individuals (shareholders). A foreign investor can hold 100% of the ownership in a private joint stock company, giving complete control over the affairs of the business, subject to a number of industries where a very small percentage of the shareholding is allocated allowing for the qualification of shares by directors.

Provisions governing the dissolution and liquidation of a joint stock company are provided in law, companies however should specify any specific provisions they desire in respect of dissolution or liquidation in their Articles as long as these do not contravene Iranian law.

### *Limited Liability Company (Sherkat ba Masouliyat Mahdoud) (LLC)*

An LLC provides for a limitation of partners’ liability to the value of its registered capital in the company. The principal difference between the Joint Stock Company and limited liability company, is that with the limited liability company the capital may not be divided into shares and the participants may not transfer their interests without the approval of a majority of participants representing three quarters of the company’s capital. The level of equity ownership in an LLC does not need to be the same as the level of capital contribution. A limited liability company must be formed by 2 or more participants. A foreign investor can hold 100% of the ownership in a private joint stock company, giving complete control over the affairs of the business, subject to a number of industries where a very small percentage of the shareholding is allocated allowing for the qualification of shares by directors.

### *Branch Office*

In accordance with Iranian law a branch office can be set up without the need for an Iranian partner. The branch is simply an Iranian registered extension of the foreign company setting up the branch, and thus the shareholders and directors are the same and do not require re-appointment. However in order to receive notices for potential legal proceedings the branch office must appoint a resident legal representative to accept such notices on behalf of the company and to deal with other communications as and when necessary.

The branch office is deemed to carry out business in Iran on behalf of the foreign company and thus the foreign company shall be responsible for all business carried out by the branch. The branch is obliged to provide a report on its activities, including the audited financial statements, to the requisite government authorities within three months after the tax return deadline. However, it is exempt from certain compliance obligations, such as holding annual general meetings or appointing a legal inspector.

The branch may operate in the following activities:

- Providing after sales services for the goods or services of the foreign company;
- Agreeing contractual terms between Iranian companies and the foreign company;
- Agreeing future investment by the foreign company in Iran;
- Participating in non-oil export sectors;
- Co-operation with technical and engineering companies in Iran for performance of works in a third country;
- Provision of technical and engineering services; and
- Carrying out activities licensed by governmental institutions.

It takes approximately 4-6 weeks to set up a branch in Iran, since there are a number of steps to be undertaken and supporting documentation to be submitted. Certification and notarisation/legalisation of documents will also be required. Documents will need to be translated into Farsi.

### *Representative and Liaison Office*

A foreign company may establish a representative office in Iran if it **does not** intend to carry out business in the country. In such a case, the foreign company will be able to engage in business dialogue in Iran through their representative office. A representative office will need to be managed by a person who resides permanently in Iran.

If the company only wishes to carry out marketing activities and not generate any income it will be considered a Liaison Office.

A Liaison Office is where the office of the company shall be solely engaged in conducting market research activity on behalf of its head office. A Liaison Office shall report the business opportunities available to the company directly to its head office and the office in Iran does not carry out any business or sign any contracts in Iran. It does not generate any income of its own in Iran and its expenses shall be covered by transfer of funds by its head office from outside Iran.

### *Free Zones*

As an alternative to setting up on the mainland, it is also possible to establish a business entity in one of the seven Iranian free zones. There are no limitations on foreign ownership in free zones. Free zones are specific areas within Iran introduced to attract foreign investment. Each Free Zone is administered and governed by a regulatory authority with a number of specific regulations. For example, banking, labour issues, social security coverage, and recruitment of foreign workers have their own rules and regulations. Commercial activities will also be treated as an investment under FIPPA, giving all the benefits that this act brings. However, businesses will still need to register with OIETAI.

Free zones will in all cases give certain tax exemptions and generally a more favourable business climate. Currently 7 free zones have been set up in Iran to encourage foreign investment, these are as follows:

| Free Zone | Location |
| --- | --- |
| Aras Trade – Industrial Free Zone | Caspian Sea |
| Chabahar Trade – Industrial Free Zone | Chabahar Gulf |
| Anazali Trade – | Caspian Sea |

| | |
|---|---|
| Industrial Free Zone | |
| Arvand Trade – Industrial Free Zone | Persian Gulf |
| Qeshm Trade – Industrial Free Zone | Persian Gulf (Strait of Horomoz) |
| Kish Trade – Industrial Free Zone | Persian Gulf (Kish Island) |
| Maku Trade Industrial Free Zone | Northwest Iran |

The licensing authority within each free zone is responsible for issuing free zone licenses and registering companies. Typically free zones are tailored to a specific industry.

## Other Noteworthy Commercial Provisions

- ***Articles of Association*** – the constitutional documents of a joint stock company are the Articles of Association. The subscribing shareholders, or founders must approve the Articles and affix their signature prior to the company being registered.

- ***Translation of Key Documents*** – all official documents, including the constituent documents, are required to be in Farsi. Any documents that need to be filed with an Iranian court will also need to be translated into Farsi by an official translator and certified by the Judiciary or notarised by the Iranian Embassy in London.

- ***Registered Address*** – all legal entities established in Iran will need to have a registered address in the country.

- ***Nationality of Shareholders*** – there are no legal restrictions with respect to the nationality of persons who may form joint stock companies.

- ***Founders/Shareholders Meeting*** – a meeting of the subscribing shareholders or founders is required for a public company.

- ***Shares*** – a joint stock company may issue both ordinary and preferred shares. The law does not expressly set out the privileges accorded to preferred shares. It is understood that priorities as to dividends and distribution of assets in liquidation, and multiple voting powers will be honoured under the law.

- ***Share Capital*** – a minimum capital of IRR 1,000,000 (£20) is required for a private joint stock company, and of IRR 5,000,000 (£100) for a public joint stock company. Payment for the shares may be in cash or kind. For capital provided by cash only 35% need be paid at time of formation with the balance to be paid within five years upon a call by the board of directors. For payment in kind the full amount of the property must be transferred to the company on formation. Although only 35% of the capital need be paid on formation, 100% of the capital must be subscribed for.

- ***Par Value*** – a par value, or nominal value, is required to be assigned to the shares of a joint stock company. For a public company, the law prescribes a maximum par value of 10,000 per share, there is no maximum or minimum value for a private company, however all shares for both private and public must be of equal par value, notwithstanding if they are ordinary or preferred shares.

- ***Share Certificates*** – specific requirements as to the form and content of share certificates are provided in the law.

- ***Transfer of Shares*** – bearer shares must be transferred by physical delivery, whilst the transfer of registered shares is not deemed complete until the transfer is registered in the Register of Companies.

- ***Dividends*** – dividends must be authorised by shareholders at a general meeting and may only be made up of distributable profits.

- ***Pre-emptive Rights*** – shareholders have the pre-emptive rights to subscribe to new shares. This right may be rescinded by a 2/3 vote taken at an extraordinary general meeting.

- ***Board of Directors*** – a public joint company must have a minimum of five directors. There is no minimum prescribed for a private joint stock company however it must elect a chairman and vice chairman, thus a private company must therefore have at least two directors.

- ***Election, Removal, Re-election, and Duration of Directors*** – directors are elected for two years at an ordinary general meeting. A director can be removed by the shareholders. Directors are eligible for re-election. The term of duration is as set out in the Articles of Association but may not be for more than two years.

- ***Board of Directors Meetings*** – the board should meet as agreed under the Articles of Association with a requisite quorum in the manner and notice as also set out in the Articles. The law further provides that one third of the board of directors together can call a meeting. Resolutions are adopted on a majority of directors present unless the Articles of Association expressly set out different requirements. Actions of the board are valid without a meeting if approved in writing by all the directors.

- ***Alternate Directors*** - alternate directors are authorised but are not mandatory.

- ***Managing Director*** - the law requires the appointment of a managing director by the board. This person may or may not be a member of the board. If he is on the board he may not also be the Chairman of the board unless this is approved by the shareholders by a ¾ vote. The Managing Director's scope of responsibility is set by the board and he is considered to be the company's representative with authority to sign on behalf of the company.

- ***Shareholders Meetings*** – there are three types of shareholders meetings, the first is the statutory or founders' meeting which is mandatory for a public company, the second is an ordinary meeting which must be held once a year, unless held extraordinarily during the year, and the third is the extraordinary meeting which is held as agreed between the shareholders or called by the Commercial Code. The extraordinary session of the ordinary general meeting may be called by the directors, inspectors (auditors) or anyone holding 20% or more of the company's shares, where action is required under the competence of an ordinary meeting, outside of the schedule of an organized ordinary meeting.

- ***Notice and Quorum of Shareholder's meeting***– written notice must be given not less than 10 days and not more than 40 days before the date of such a meeting. A quorum of more than 50% of shares entitled to vote must be present.

- ***Minority Shareholders*** – minority shareholders owning in aggregate one fifth of the company's shares are entitled to request the board and inspectors (auditors) to call a general meeting at any time. If the board fails to call the meeting then the shareholders themselves may call the meeting.

- ***Statutory Inspectors (auditors)*** – the law requires the appointment by the shareholders of a statutory inspector and an alternate inspector (optional) once a year at the ordinary general meeting.

- ***Books of Account*** – both public and private joint stock companies are required to maintain the journal, ledger, inventory and copy books of the company in Persian, and are required to determine the company's tax liability.

- ***Company Name*** – the law requires that the words, "Private Joint Stock Company" *(Sherkat Sahami Khass)* or Public Joint Company" (Sherkat Sahami Aam) appear with the name of the company clearly on all letter heads, publications and notices of the company. Names that are similar to those already registered will be refused by the registrar.

- ***Licensing Requirements*** – Generally speaking the Iranian authorities do not over burden companies with licensing requirements, however licenses are required for a number of operations:

    - *commercial card,* this is a permit issued by the Iran Chamber of Commerce, Industries and Mines and is required by all entities wishing to import and export;
    - *guild license,* this is required by entities active in an activity covered by a Guild Union, such as shops and professional services;
    - *establishment followed by operations license,* for companies involved in manufacturing; and
    - *exploration followed by operations license,* for companies involved in the mining sector.

***Ownership of Land*** – Foreign-owned Iranian companies are permitted to own land in Iran.

## *Joint Ventures*

Joint ventures are not expressly regulated under Iranian law. Instead, joint ventures are captured under the general principles of contract law, and under the rules of civil partnerships as set out under the Iranian Civil Code. There are also no restrictions on the establishment of a contractual or corporate JV with a foreign party.

The law specifically allows for the creation of special economic groups of common interest, with the participation of two or more natural or legal persons, with the aim of facilitating and developing economic and trade activities. Such joint ventures must be created for a limited period of time, be based on a written agreement between the parties, be registered with the Registrar of Companies in the form of a civil partnership and comply with the relevant legal provisions.

Parties usually establish joint ventures in the form of a Limited Liability Company or Joint Stock Company, however a limited partnership or general partnership joint venture can also be established. If the parties decide to establish a joint venture though a Limited Liability Company or Joint Stock Company, the joint venture will be governed by Iranian corporate law, primarily the Iranian Commercial Code for all corporate issues.

The joint venture will acquire its legal personality once it has been registered with the Registrar of Companies. Registration with the tax authorities will also be required. If the joint venture carries out regulated activities then the joint venture will need to register with the requisite ministry.

### *Registration processes*

Foreign investors establishing an operation in Iran will need to register with the relevant government authorities. Investors are encouraged to take legal advice to ensure they identify the requirements relevant to their business operation and location.

Some of the key authorities with which investors will need to register include:

- Iranian Foreign Investment Board;
- Companies Registrar;
- Ministry of Cooperatives, Labour and Social Welfare;
- The local municipality;
- Iranian National Tax Administration.

### *Application Procedure for an investment licensing permit under FIPPA*

- Submit Formal Application with supporting documentation to the Organisation for Investment, Economic and Technical Assistance of Iran (the "OIETAI"). The staff at the OIETAI may be consulted in preparation of the formal application;
- The OIETAI will present the application to the Foreign Investment Board (the "FIB"), in co-ordination with the relevant Ministry;
- Review of Application by the FIB. This should not normally take more than fifteen days from the date of receipt of the application. Representatives of the foreign investors are usually invited to take part in the FIB meeting;
- Communication of Draft license to the foreign investor, this allows the investor to review the details of the content of the license;
- Issuance of investment license. This will only be issued once the OIETAI is officially informed by the investor of their confirmation of the content of the license. Having received the investor's confirmation of the draft, the final investment license will be issued with the signature of the Minister of Economic Affairs and Finance.

The whole process should take no longer than approximately 60 days from submission of documents to the OIETAI.

### *Private company*

In forming a private company the following documents are required to be filed with the Companies Registration Office (http://sherkat.ssaa.ir/Default.aspx?tabid=4767):

- Draft Articles of Association signed by all shareholders;
- Statement that the shares have been subscribed together with bank certification showing that at least the minimum amounts have been paid up;
- A document signed by all the shareholders evidencing the election of the directors and inspectors/auditors;
- Acceptance documents signed by the directors and inspectors/auditors;
- A resolution designating the general circulation newspaper in which the legal notice of the company will be published;

- A declaration on the required form from the Companies Registration Office.

The company is legally considered to be formed when its Articles of Association have been approved by the shareholders at a founders' meeting and filed with the Companies Registration Office, together with minutes reflecting the election of the directors and inspectors/auditors, and their signed acceptance. The company's formation must then be announced in the official gazette (a general circulation newspaper of the founding shareholders' choosing).

Although the registration and publication requirements must be met to complete the formation process, the legal existence of the company commences on the date the directors inspectors/auditors accept their positions in writing.

### *Company Registration Requirements to set up a Branch Office of a Foreign Company*

All commercial entities engaged in activities in Iran, whether Iranian or foreign, must be registered. There are two registers; the Commercial register and the General register. The Companies Registration Office is a sub-division of the General Register.

Foreign companies who wish to set up a branch office in Iran will need to submit the following documentation to the Companies Registration Office in Tehran:

- A written request for the establishment of a branch office;
- Certified copies of the articles of association, certificate/notice of incorporation and any recent changes the foreign company has made with its domestic companies registrar;
- The company's most recent annual report;
- A business plan setting out the activities of the company;
- A letter of introduction from a government entity (if the branch has been set up following an agreement between the foreign company and that government entity);
- A Statement of Registration (a form to be filled out and signed by the foreign company);
- The Certificate of Registration (a form to be filled out and signed by the foreign company);
- A Letter of Authorisation given by the foreign company to its principal representative(s) in Iran;
- A letter of undertaking from the foreign company in which the foreign company undertakes to close down its branch office in Iran in case the licence of the branch is revoked.

All documents for submission to the Companies Registration Office (http://sherkat.ssaa.ir/Default.aspx?tabid=4767) must be certified by the Embassy in London (for instance, the company's local registry). All the documents will also need to be translated into Farsi by an official translator and certified by the Judiciary in Tehran.

### *Labour law*

Employment matters in Iran are governed by the Labour Code of 1990 (the "Code"), which applies to both Iranian and foreign employees. Employment of foreign nationals is subject to obtaining appropriate immigration permission and work permits. Pursuant to the Code, a foreigner may be employed provided that there are no qualified Iranian citizens that are similarly qualified and able to perform the work in question. Due to the abundance of skilled workforce in Iran, at the moment this rule is applied strictly. Rules are relaxed with respect to the executive management and the board of the company.

The provisions of the Code are broadly similar to employment laws in other Middle Eastern countries, including the United Arab Emirates, with some nuances that are specific to Iran. For example, employment contracts may be written or oral and may be subject to a probationary period (a maximum period of three months for skilled workers). Friday is the official rest day, and generally the maximum number of working hours is 8 hours a day or 44 hours a week (although different limits apply for particular industry sectors).

Furthermore, the minimum period of annual leave is one month. Employees are also permitted to take one month unpaid leave to perform the pilgrimage to Mecca. Moreover, there are also minimum wage criteria for certain industry sectors, as well and pension contributions or severance payments payable at the end of the employment period. Any provisions contained in an employment contract that are less favourable than the Code are null and void.

Specific to Iran, in the event an employee resigns from employment, he or she is required to provide one month's notice during which period the employee continues to work. However, the employee is permitted to change his or her mind regarding the resignation within 15 days, in which the resignation shall be deemed ineffective. The Code also contains provisions relating to equality of pay and non-discrimination on the basis of gender or other protected characteristics, as well as the option to suspend employment in situations such as military service. Employees are also permitted to participate in trade unions.

Employees in Iran are covered by the Social Security Act, which provides for medical treatment, compensation for work related accidents, disability, death, retirement and the like. Such coverage is funded by deductions from employees' salaries and contribution by employers.

## *Real estate*

Under certain circumstances foreign nationals without a permanent residence permit who frequently travel to Iran can acquire property. They must present a declaration through the diplomatic and consular representatives of the Islamic Republic of Iran, or the governor of the district in which the property is located, to the Ministry of Foreign Affairs.

Such purchases are forbidden in certain areas. It is worth noting that the Ministry of Interior, in cooperation with the Ministry of Intelligence and the military authorities, has listed areas in which the acquisition of property by wholly foreign-owned companies is forbidden.

## *Intellectual Property*

Iran is a signatory to the "Paris Union" the International Convention for the Protection of Industrial Property of the World Intellectual Property Organisation (WIPRO). Iranian laws and procedures as they pertain to IP are as follows:

## *Patents and Trademarks*

Patents in Iran are valid from between 5 to 20 years. The period is determined by the decision of the inventor. Fees are paid annually by the inventor for the duration of the patent. Patent applications are examined only for the correctness of documents and compliance with patent specifications. Rejection of an inventors patent is appealable in an Iranian court. As a signatory to the Paris Union, should a national of another signatory file an application in his home country and then within 12 months file a similar application in Iran, the filing date shall be deemed retroactively as the same date as the original application.

Trademark registrations are effective for 10 years following the date of filing and are renewable thereafter. The statute of limitations for contesting a trademark is three years. As with a patent, should an application for registration of a trademark be rejected the matter may be appealed to the Iranian courts.

The Iranian Industrial Property Office, has also taken positive steps to promote IP protection and encourage accession to international agreements and treaties.

## *Copyright*

There are no regulations under Iranian law covering copyright law *per se* and Iran is not a party to the Berne Convention for the protection of Literary and Artistic works. However Articles 23 through 31 of the law for Protection of the Rights of Authors, Composers and Artists may be invoked in favour of an author if it has been determined that his/her work has been published without his/her permission. The national law shall also protect foreign nationals, who create artistic, literary or technical works in the Islamic Republic of Iran.

## *Dispute resolution*

Iranian law allows for the freedom of choice of law only in circumstances where the contractual agreement was signed outside of Iran and the laws in effect at the place of signing allow for such law to be chosen.

The Civil Code mandates that if the contractual agreement is signed in Iran, the de facto applicable law will be Iranian law. However, if the contract concluded between an Iranian and a foreign national includes an arbitration clause, the choice of law by the parties will be recognised. This includes, provisions under business law regulating the import of goods or pharmaceutical products, but also mandatory contractual provisions. Foreign companies may choose one of these options for the resolution of disputes as follows:

- Courts of Iran;
- Arbitration;
- Courts of another jurisdiction (only if the contractual agreement was concluded abroad).

The courts of Iran comprise of three levels:

- Courts of First Instance;
- Appellate Courts;
- The Supreme Court.

The Iranian legal system is a civil law system which is founded on a combination of French law and Islamic jurisprudence. The courts of Iran consider the Civil Code as the main source of law for deciding on legal and commercial matters.

Unlike common law jurisdictions, case law does not act as binding precedent and the courts do not need to decide future case based on previous court's decisions.

However, the judgments of the General Assembly of the Supreme Court in respect of similar cases constitute case precedent to be followed by other courts.

### *Arbitration*

Under Iranian law, an arbitration clause can be agreed as part of a commercial contract. Under the Iranian constitution, the referral of disputes concerning public and governmental parties to arbitration requires the prior approval of the Council of Ministers and the Parliament; approval should be obtained prior to the referral of the dispute to arbitration. Please note, in one judicial decision it was decided that the parties should have obtained approval prior to entering into the contract.

While the requirement for a prior approval may not be necessarily be binding on an international arbitration tribunal, an arbitration award may face enforceability problems in Iran.

It is advisable for the arbitration clause to reference internationally accepted arbitration rules (ICC, Swiss Rules or DIS).

### *Anti-bribery and corruption*

Unlike the UK or the US, there is no specific legislation focusing solely on anti-bribery and corruption *per se* in Iran. However, there are a number of provisions outlawing bribery in various Iranian laws (without limitation):

- Islamic Penal Code;
- Act on Public Revolutionary Courts' Rules of Procedures in Criminal Matters;
- Aggravating the Punishment for Perpetrators of Bribery, Embezzlement and Fraud Act;
- Punishment of Unjust and Illicit Exercise of Influence Act;
- Penalizing the Disruption of the State's Economic System Act.

Iran signed the United Nations Convention against Corruption on December 2003 and placed its ratification with the Secretary-General on April 2009.

The main institutions tasked with preventing and combating corruption in Iran are:

- General Headquarters for Combating Economic Corruption;
- Ministry of Intelligence;
- High Council on Anti-Money Laundering;
- Supreme Audit Court;
- Secretariat of the General Headquarters for Promoting Integrity in the Administrative System and Combating Corruption;
- Judiciary, including the General Inspection Organisation;
- General and Revolutionary Prosecutor's Office;
- Judicial Complex for Economic Affairs and Law Enforcement Authorities;
- Police and the Financial Intelligence Unit.

The Islamic Penal Code and Aggravating Punishment Act contain provisions on active and passive bribery of public officials. It is worth mentioning that active and passive bribery of foreign officials and officials of public international organisations are not currently covered but draft provisions are being considered.

## Travelling to Iran – visas, security and other information

### *Introductory comments*

Like almost all foreign nationals, UK citizens require a visa to enter Iran.

British nationals - including dual British/Iranian nationals - face greater risks than nationals of many other countries. The security forces may be suspicious of people with British connections. The risks are likely to be higher for independent travellers or students than for people travelling as part of an organised tour or business people invited by the Iranian authorities or companies.

The Iranian government doesn't recognise dual nationality. The Iranian authorities will deny that the British government has any legitimate responsibility for British Iranians. If you're travelling to Iran as a dual national you should be aware that if, for whatever reason, you're detained by the Iranian authorities the British Embassy won't be able to gain access to visit you in prison or be able to offer consular assistance.

Several types of visa are available for business trips to Iran. Short, non-fee earning trips require a Business Visa, valid for up to one month, with longer visits involving paid activity requiring a Work Permit, which can last up to year (though these may be extended). Employees of companies investing in Iran under the Foreign Investment Promotion and Protection Act are eligible for Investor Visas, which can last up to three years. Foreign nationals planning on residing in Iran longer than three months must obtain a residence permit.

Visa applications can be complex and time-consuming. Depending on the type of visa and the applicant's background, waiting times can run to months. Female applicants will need to provide passport photos in which they are wearing hejab (a scarf covering the hair). Travellers with Israeli stamps in their passport will be denied a visa.

Travelling to Iran can also complicate entry into other countries. Legislation recently introduced by the United States' Congress leaves anyone who has been to Iran in the past five years ineligible for the country's Visa Waiver Programme, under which travellers receive permission to enter the USA by filling in an online form. Such travellers must now apply for a non-immigrant visa at a US Embassy.

However, the US government has made assurances that anyone travelling to Iran for legitimate reasons will not face discrimination during the visa process, and that 10-year multiple entry visas will be available to business travellers, mitigating much of the impact of this law. The recent deterioration in Iranian-Saudi relations has also led to concerns that travellers who have recently made trips to Iran may face difficulties when trying to enter Saudi Arabia.

Potential visitors to Iran are encouraged to fully appraise themselves of the travel advice published by the Foreign & Commonwealth Office, found here: https://www.gov.uk/foreign-travel-advice/iran and the Iranian Embassy in London.

## Immigration – employment visas

### *Entry Visa – Business Visitor (single, double or multiple entry)*

This is required by foreign nationals travelling to Iran for non-fee-earning short term economic, commercial, cultural or industrial purposes.

### *Validity*

Discretionary, but usually issued for up to 30 days (and usually extendable at the Police Department for Alien Affairs for up to two months)

### *Process*

***1) Obtain a visa permit from the Foreign Ministry in Iran***

An Iranian registered business must sponsor the entry visa application, and provide a letter of invitation. The letter, together with the application form and personal documents are submitted by the applicant to the Iranian Embassy. The application details are sent from the Embassy to the visa section at the Iranian Ministry of Foreign Affairs (MFA) in Tehran. Alternatively the sponsor may submit the application directly to the MFA in Iran on the applicant's behalf. The visa permit number is emailed to the applicant upon approval.

***2) Visa endorsement in the passport at an Iranian Embassy/Consulate***

This generally cannot be done by post, as fingerprints and an interview are sometimes required. However, if the Iranian Embassy in an applicant's home country is closed, another Embassy can be selected by the applicant on the visa permit application form.

### *Processing time*

2 weeks to obtain the visa permit.

1 day – 2 months for the visa stamping (depending on the country of application).

### *Entry visa with right of working - Work Permit – long term/hands on working*

According to Article 120 of the Iran Labour Law, foreign nationals are not permitted to work in Iran unless they are provided with an entry visa with the right to engage in specific work, and secondly, they receive a valid work permit.

### *Validity*

Entry visa with the right to work: 3 months starting from the date of notification to the Ministry of Foreign Affairs (in practice the work permit should be obtained within 1 month).

Work permit: a maximum period of one year (extendable for one year indefinitely).

If recruitment of a foreign national is deemed urgent, an emergency provisional work permit can be issued for up to three months.

## *Process*

### *1) Entry visa*

The Iranian employer is obliged to apply for an entry visa with the right to work for their proposed employee from the Iranian Department for Employment of Expatriates of the Ministry of Labour, Cooperatives and Social Welfare (MLCS).

The application includes a request for an entry visa with the right to work and a copy of the announcement of the company's establishment and/or its recent changes published in the Official Gazette to substantiate the request for additional foreign recruitment.

Upon approval, the entry visa with the right to work is sent to the Consular Section of the Ministry of Foreign Affairs (or representative office).

The applicant can then attend the Iranian Mission in their country of application to receive their entry stamp, and enter Iran.

### *2) Work permit*

The employer must submit the work permit application to the local MLCS branch within a maximum period of one month from the date of arrival of the foreign national. However in practice it is recommend that the work permit application is submitted within 7 days after arrival.

The application includes a request for the issuance of the work permit and the applicant's academic and/or professional certification attested by the Embassy of the Islamic Republic of Iran in their country of nationality (if staying in Iran for over 6 months).

Exceptions can be made for highly skilled individuals (i.e. foreign technical experts and specialists needed by the government) who can bypass some of the above steps but all cases must obtain the approval of the Technical Board for Employment of Foreign Citizens and the ratification of the Islamic Consultative Assembly.

### *Processing time*

3 weeks (15 working days) to obtain the entry permit with right to work.

Work permit processing time in Iran is unspecified.

## *Nationalisation regulations*

Iranian Labour Law Section 121 confirms that a work permit will only be granted to a foreign national if there are no qualified Iranian citizens able to perform the role, the foreign national has sufficient skills and expertise for the role, and their knowledge can be used to train Iranian citizens so that eventually, the role can be filled by an Iranian.

## *Entry Visa - Investor Visa - Foreign Investment Promotion and Protection Act (FIPPA)*

The Organisation for Investment, Economic and Technical Assistance (OIETAI) may approach the Ministry of Foreign Affairs to confirm an individual's investor status and request visas, residence permits and work permits for foreign investors and their immediate family members in relation to investments covered by FIPPA.

Upon approval of the request, the Ministry of Foreign Affairs in Iran provides authorisation to the relevant Iranian Mission abroad to issue a single entry visa, or three year multi-entry visa. A three month residence permit is automatically granted upon each entry.

After entering Iran, the investor may obtain a three year residence permit, upon submission of an official confirmation from the OIETAI of the coverage of the investment under FIPPA. Following this the MLCS must issue a work permit. The residence permit removes the requirement to obtain entry and exit visas for traveling to or from Iran.

The Islamic Republic News Agency on 8 February 2016 stated that the Director General for Foreign Nationals Employment Department of Ministry of Cooperatives, Labour and Social Welfare, Ali Aqbali, confirmed that minimum investment would be $300,000.

## *Residence permit*

If a foreign national intends to reside in Iran for over 3 months, they must obtain a residence permit from the Central Police Administration.

Issuance and renewal of residence permits is contingent upon obtaining a work permit (except in the case of investors, as above). The validity of a residence permit may not exceed that of a work permit.

A foreign national leaving Iran after a stay of longer than three months must also obtain an exit visa. They must present proof that all taxes have been paid to the Ministry of Economic Affairs and Finance to the Police upon application.

# Audit and accountancy

Iran's audit sector is dominated by the state, with two main public organisations. The government-run Audit Organisation (AO) is responsible for auditing government entities and defining the country's audit standards. Though current figures are not available, its activities are thought to account for most of the market.

The Iranian Association of Certified Public Accountants (IACPA) reviews audit firms' performance each year, ranking them A, B, C or D, with A reflecting the highest level of quality. Firms may lose their license to practice if they do not meet IACPA standards. As of January 2015, there were 69 firms ranked A; 121 B-ranked firms; 41 C-ranked firms, 8 ranked D and 27 new firms not yet reviewed by the IACPA.

Listed companies must rotate auditors every four years and these auditors may not provide other services to the company. Auditors themselves are not allowed to hold other positions, apart from teaching posts at universities.

From 2006 onwards the Audit Organisation, has been implementing a series of measures designed to improve standards. These measures included adopting the practices of the International Accounting Standards (IAS), issuance of a standard accounting and editing code of ethics, and the publication of a number of textbooks and manuals to educate the market on international standards. This effort is continuing; from the Iranian year 1395, beginning in March 2016, companies listed on the Tehran Stock Exchange have had to prepare IFRS-compliant financial statements.

# Taxation

## *Tax Overview*

The framework of the Iranian tax system, amendments and tax regulations are approved by the Iranian Parliament (*majles*).

There are two key tax laws:

- The Direct Taxes 1988 as amended 21 July 2015 ("DTA");
- The Value Added Taxes Act 2008, as amended 21 July 2015 ("VAT Act").

The Iranian National Tax Administration ("INTA") is the tax administration body in Iran. The INTA assesses and collects direct and indirect tax liabilities.

### *Type of tax system*

Iran has a classical tax system; the profits of companies are taxed at the corporate level and dividends distributed to shareholders are exempt from taxation.

### *Taxable person*

Iranian residents are taxed on worldwide income, whilst foreign entities are taxed on income derived from sources in Iran or from activities performed in Iran. Iran applies a 'source' approach to taxation whereby a tax liability can arise from income deemed to be derived from sources in Iran, regardless of whether the activities are performed within or outside the country.

### *Residence*

A company is resident in Iran if it is established under the Iranian Commercial Code, or if its place of management is located Iran.

## *Tax rates*

The corporate tax rate is 25% and applies to both resident and foreign entities (with the exception of insurance enterprises and foreign airline and shipping companies).

Resident entities are assessed on an actual profits basis whilst non-resident entities will be taxed on a deemed profits basis of 10% – 40% (resulting in an effective tax rate of 2.5% - 10%). It is the obligation of the Iranian resident to withhold and remit the tax due to the authorities.

The Executive Regulation with the applicable coefficients has been released which sets out the deemed profit percentage applicable on the relevant activities, e.g. certain construction works 20%, certain contracting and technical services 15%, certain transportation activities in Iran 18%. These deemed profits would then be subject to corporate tax at a rate of 25%, resulting in an effective withholding tax on the examples mentioned of 5%, 3.8% and 4.5% respectively.

### *Withholding taxes*

*Dividends:* There is no withholding tax on dividends paid by Iranian companies.

*Interest:* Interest paid to a non-resident is subject to a 5% withholding tax.

*Royalties*: Royalties paid to a non-resident are subject to corporate tax on a deemed profits basis of 10% - 40%.

*Services:* The most recent Budget removed Iran's withholding tax on services. However, the deemed profit basis will apply to payments to a non-resident in respect of services (see section on Tax Rates above). Previously, any payments to a non-resident would have suffered an additional 3% withholding tax.

### Tax holidays and incentives

Iran offers several incentives for manufacturing and mining companies, which apply automatically if the specified conditions are met. Manufacturing companies set up in Special Economic Zones (usually deprived areas some way out of major cities) can qualify for a tax exemption (of either 80% or 100%) for a period of up to 10 years.

Furthermore, there are seven areas in Iran which have been designated as Free Trade Zones (FTZs). Companies which are registered and licensed to operate in any of these FTZs are exempt from corporate tax for 20 years on income derived from their activity in the FTZ. Income derived from operations carried out outside the FTZ is taxable on the same basis as non-FTZ companies.

## Tax Administration

### Registration requirements

Companies are required to register for the following taxes with the State Tax Organisation and Social Insurance Organisation:

- Value Added Tax (VAT);
- Corporate income taxes;
- Customs related tariffs;
- Social taxes and employment / employee related taxes.

Every entity, resident or foreign, is required to obtain an economic code to operate in Iran. The code is similar to a tax identification code of which there are two types:

- *Commercial code:* Local companies and foreign companies with local registration in Iran need to request a commercial code.
- *Comprehensive commercial code:* Foreign companies, without a legal presence in Iran, need to obtain a comprehensive commercial code in order to do business with Iran-based customers. Local customers will require this code in order to make any payment to a non-resident foreign company.

Any payment made to a supplier without an economic code will be added back to the profit and loss account of the Iranian entity and no tax deduction will be allowed for the expense.

Finally, according to the Iranian National Tax Administration, foreign investors will receive tax breaks under the Sixth Five-Year Development Plan (2016-21), however details of this are yet to be made clear.

### Tax Return Filing

All Iranian entities and branches of foreign companies must file an annual corporate income tax return and submit their balance sheet and "profit and loss" account within 4 months after the end of the fiscal year.

Tax filings are based on the company's fiscal-year. Returns are due to be filed with the tax authorities and tax due must be paid at the same time as the return is due. The system is one of self-assessment. Companies enjoying tax exemptions are not excused from the obligation to file returns and failure to do so results in the revocation of the exemption for the tax year concerned.

The taxable income of companies is assessed through examination of the statutory books of account, prepared in conformity with the applicable accounting standards.

### Taxable period

The Iranian calendar year, beginning on the first day of Farvardin (21 March) and ending at the last day of Esfand (20 March of the following year), is generally used for Iranian tax purposes. However, a company or branch may use its own accounting year if different.

### Tax penalties

A penalty equal to 30% of the tax due is payable for late submission of returns or failure to submit the tax return. Furthermore, failure to submit "the balance sheet and the profit and loss statement", or the statutory books carries a penalty of 20% of the tax due, for each instance. If the statutory books are rejected for tax audit purposes, the penalty is 10%.

Any late payment of taxes will give rise to a fine equal to 2.5% of the principal amount per month of delay.

### Tax calculation

To determine the taxable income for any business, the net income should be adjusted by adding back disallowable expenses (i.e. expenses related to the earning of the enterprise's income). Disallowable expenses include but are not limited to salaries paid to owners, partners or shareholders, provisions (other than those relating to the termination of employees benefits), fines paid to the government and municipalities, corporate tax, withholding tax and depreciation in excess of the allowable amount.

Losses may be carried forward until the cumulative loss is fully offset.

There is currently no concept of taxation on a consolidated basis, or group relief, for related companies in Iran.

## *Double taxation relief*

There is no unilateral double taxation relief mechanism in the Iranian DTA with respect to foreign tax paid on foreign-source income. Double taxation relief is only available under double tax treaties in force.

## *Capital gains tax*

There is no specific regulation about capital gains taxation in Iran but in accordance with Article 105 of the DTA, in which the aggregated income of the company is subject to corporate tax, all gains derived from selling fixed assets (except for immovable properties, real estate, and shares) are subject to corporate tax as a part of taxable income.

Gains derived from the transfer of real property are taxed at a rate of 5% of the “rateable value” of the property, which is the value of the property indicated in regional value tables. Tax is not imposed on the actual gains.

Gains from the disposal of other capital assets – the gain being the difference between the market value of the asset at time of disposal, as approved by the tax authorities, and its net book value – are taxed at the corporate tax rate of 25%.

## *Transfer pricing*

There are no transfer pricing rules in Iranian taxation laws and regulations. However, the tax authority has the power to adjust the taxable profits of an entity if they consider the amounts recorded to be unreasonable.

## *Value Added Tax (VAT)*

The Iranian VAT Act was enacted on 8 June 2008. It came into force on 22 September 2008 for importers, exporters and companies with a turnover of at least IRR 3,000 million (£60,072) in the period 21 March 2007 to 19 March 2008, or a turnover of at least IRR 1,250 million (£25,030) in the first 5 months of the period 20 March 2008 to 21 August 2008. For most other companies, including branches of foreign companies, the VAT Act came into force on 23 September 2009.

## *Taxable transactions*

The supply of goods and services in Iran, as well as their import or export, are subject to the provisions of the VAT Act.

## *Taxable persons*

All companies engaged in the supply of goods and services, or imports and exports, are regarded as taxpayers and subject to the provisions of the VAT Act.

The burden of paying VAT upon import of goods and services is borne by the importer. Where a non-resident company provides services to a resident company, the resident company must calculate and pay the applicable VAT to the tax office.

## *Tax point*

For supplies of goods, VAT becomes chargeable on the date of invoice, date of delivery of goods or date of completion of the transaction, whichever occurs earlier. For supplies of services, VAT becomes chargeable on the date of invoice or date of rendering the service, whichever occurs earlier.
There are special chargeability rules for self-consumption cases and supplies of goods and services for non-monetary consideration.

## *Taxable amount*

The basis for calculating the VAT due is the price of the goods or services as specified on the invoice. In the absence of a valid invoice or where it is proved that the price on the invoice is artificial, the basis for calculating the VAT due is the market price of the goods or services on the date of the tax point.

The VAT taxable amount excludes the following:

- Discounts given;
- Taxes payable as per the VAT Act that have already been paid by the supplier of the goods or services;
- Other indirect taxes and levies payable in respect of the goods or services, at the time of supply.

The basis for calculating the VAT due on imported goods is the customs value of the goods, plus the import duties and charges (i.e. customs duties and commercial profits) as stated in the customs documents.

## *VAT rates*

The standard VAT rate in Iran is 9%. The Iranian National Tax Administration (INTA) announced at the end of 2015 that the 9% VAT rate will remain unchanged for the fiscal year 2016-2017 budget bill. The VAT rate applied to special goods is as follows:

- Any kind of cigarettes and tobacco products, 15%;
- Any kind of gasoline and aircraft fuels, 30%;
- Fuel oil, 11%.

A contamination excise amounting to 1% of the sales is imposed on contaminating production units, including refineries and petrochemical factories. Iran also levies a Car Transfer Tax and excise on intra-city transport services and motor vehicles.

### *Exemptions and refunds*

The supply or import of 17 different types of goods and services is exempt from VAT. This includes basic food, medicines, agricultural products, financial services, travellers' imports (subject to the limits set by the customs legislation), immovable property and handmade carpets.

The export of goods and services from an official exit point shall not be subject to VAT, and any tax paid in respect of such exports will be refunded upon the submission of a certificate issued by the customs authorities certifying the export of the goods.

### *Deductions*

The VAT incurred by taxpayers on the acquisition of goods and services in the course of their business activity ("input" VAT) shall be deducted from the VAT that they are liable to pay to the tax authorities ("output" VAT) or be refunded, as the case may be. A valid invoice issued in accordance with the VAT Act is required to exercise the right to deduct the input VAT.

The VAT incurred by taxpayers who supply goods and/ or services that are exempt or outside the scope of VAT shall not be deductible/ refundable. Taxpayers engaged in the supply of taxable and non-taxable goods and services simultaneously are only entitled to deduct the VAT incurred in relation to the supply of the taxable goods and services.

The VAT incurred with respect to the acquisition of special goods is only deductible/refundable upon import, production or distribution.

### *Compliance obligations*

According to the Iran VAT Act the companies engaged in the supply of goods and services subject to the VAT Act shall register in accordance with the procedures determined by the INTA.

VAT returns are submitted on a quarterly basis. At the end of each quarter, if output VAT (i.e. VAT collected from customers) is higher than the input VAT (i.e. VAT paid on purchases of goods or services), the difference must be paid to the tax authorities. If input VAT is higher than the output VAT, the difference will be carried forward to the subsequent quarter, or refunded at the request of the taxpayer.

Please note that Iran uses the solar year for tax purposes; each solar year begins on 21$^{st}$ March and finishes on 20$^{th}$ March of the next year.

Taxpayers shall submit the VAT returns within 15 days after the end of the corresponding tax (quarterly) period and pay the VAT due, if any, to the account of the INTA in due time.

Taxpayers are required to issue an invoice to document the supplies of goods and services subject to VAT. In particular, the invoices must contain the details of the parties to the transaction, in the form determined by the INTA, and shall include the taxable amount and the VAT rate separately.

Any VAT documents including books and invoices shall be kept for ten years and presented to the tax authorities upon request.

### *Penalties*

The penalties stipulated by the VAT Act range from 25% of the tax due to the full amount of the tax due, depending on the infringement. A 2% monthly delay interest applies in case of late VAT due payment.

## Custom duties

### *Overview*

The Islamic Republic of Iran's Customs Administration (IRICA), under the supervision of the Ministry of Economic Affairs and Finance, is responsible for the enforcement of customs laws and regulations related to export, import, transit and collection of customs duties and taxes in Iran.

Iran is a member of the following treaties and has signed the following agreements:

- Customs Convention on the ATA Carnet for the Temporary Admission of Goods (ATA Convention);
- Convention on the International Transport of Goods under cover of TIR Carnets (TIR Convention);

- Economic Cooperation Organisation (ECO);
- Harmonised System (HS) Convention;
- Revised Kyoto Convention (Simplification and Harmonisation of Customs Procedures);
- Organisation of the Petroleum Exporting Countries (OPEC);
- World Customs Organisation (WCO);
- World Trade Organisation (WTO) - observer status.

The main entry ports to Iran are Bandar Abbas, Bandar e-Asaluyeh, Bandar Imam Khomeini and Tehran Airport.

The key customs legislation comprises the Export-Import Regulation Act and the Executive Ordinance to the Export-Import Regulation Act, and the Regulations on Exports, Imports and Customs in the Free Trade Industrial Zones.

## Import procedures

The Iranian customs regulations distinguish three categories of goods intended to be imported:

1. Permissible goods, which may be imported without a license or approval, provided that all relevant criteria for their import have been met;
2. Conditional goods, restricted goods that require the issuance of a license, approval or authorisation prior to their import. Examples of this category are animals and products of animal origin, foodstuff, cosmetics, radio and telecommunication equipment;
3. Prohibited goods, the import of which (and purchase, sale or consumption, as the case may be) is forbidden under Islamic Sharia and/or any other Iranian law. Examples of this category are alcoholic drinks and gambling tools.

In order to protect local industry, additional restrictions and conditions may apply to the import of foreign goods which are similar to locally manufactured goods, subject to the requirements of the local market.

Goods imported into Iran can be declared for any of the following customs procedures:

- Release for free circulation (for consumption in local market);
- Transit, domestic and international;
- Temporary admission;
- Free Trade Zone;
- (Bonded) Warehousing;
- Re-export, including drawback procedures;
- Export.

## Customs duty rates

Iran follows the Harmonised Commodity Description and Coding System (HS) for classification of goods for customs purposes.

The Iranian Customs Tariff based on the HS provides for the import duty rates applicable to any goods imported into Iran. The import duty rate depends on the nature of the goods imported and can be as high as 75%.

## Customs Value

The customs value of imported goods is generally determined by their transaction value, which is the price paid or payable for the goods when imported into the customs territory of Iran. It is usually calculated on the basis of the Cost, Insurance and Freight (CIF) value. If the customs value cannot be determined on the basis of the transaction value of the imported goods, the following values are to be applied successively as a basis for its calculation:

- The transaction value of identical imported goods;
- The transaction value of similar imported goods;
- The deductive value;
- The computed value;
- The value deduced by way of an appropriate fallback method.

In practice, the customs value is to be approved by the customs authorities. This may imply the use or reference prices, average prices for the same category of goods, etc.

## Free Trade Zones and bonded warehouses

There are seven free trade zones (FTZs) and 16 special economic zones in Iran. The FTZs are located in Anzali, Araz, Arvand, Chabahar, Kish, Makou and Qeshm.

Imports of goods from third countries into the FTZs are not subject to import duties provided the goods are sold within the FTZ or re-exported from Iran. Additionally, imports of construction materials, production equipment, spare parts, tools, etc. are duty free, provided they are used for production/ construction purposes within the free zone.

Goods manufactured in the FTZs are subject to customs duties when imported into mainland Iran in proportion to the amount of foreign raw materials and components used in their production, i.e. local raw materials and value added in the FTZ are duty free.

The Iranian customs regulations also stipulate special procedures for temporary admission of goods into the FTZs and temporary exports of goods from the FTZs into the local market for purposes of repair and maintenance.

Storage of goods in bonded warehouses is also allowed in Iran, subject to a limited period of time and compliance with the applicable customs procedures.

### *Exemptions*

Temporary admission of goods to be incorporated in the production, finishing, processing and/ or packaging of goods subsequently re-exported from Iran are exempt from all import duties, except those designated as expenses or fees, provided that a valid bond is deposited with the Iranian Customs Authorities and the requirements set by the Executive Ordinance of the Export-Import Regulation Act are met. This exemption is normally granted only to companies holding a valid production license and traders having a contract with such licensed production companies.

Imports of commercial samples and goods intended for exhibitions may also benefit from the temporary admission relief.

Import duty refund (drawback) is available for components, parts, packaging materials and other foreign inputs that have been incorporated in the manufacture, preparation and packaging of goods intended to be exported from Iran.

### *Registration requirements & payments*

Individuals and companies intending to conduct any economic activity in Iran must be registered with the Ministry of Industry, Mines and Trade and with the Iran Chamber of Commerce, Industries, Mines and Agriculture (ICCIMA).

After successful registration a commercial card will be issued to the company, which is a key requirement to import in accordance with the Export-Import Regulation Act. Importers are allowed to import goods into Iran based on their registered trade activity in the commercial card. For other non-commercial imports, e.g. goods for personal consumption, an additional import permit is required.

Generally, registration with the Ministry of Economic Affairs and Finance is required for customs duty and tax payments, and online registration with the Trade Promotion Organisation of Iran (TPO), executive body of the Ministry of Industry, Mines and Trade, is also compulsory. The registration with the TPO allows importers to obtain the import license for each import of goods into Iran.

For restricted items (e.g. foodstuff, cosmetics, etc.), additional approvals from the relevant ministries or their respective executive bodies are required. A special authorisation is also required for imports of used goods.

## Stamp taxes

Various agreements, instruments, licences and certificates levy stamp duty tax which can be anywhere between 200 - 3,000,000 IRR (£o.004 - £60). Specifically, shares which are not listed on the stock exchange will be subject to a flat rate of 4% applicable to their face value. For shares that are trading on the stock exchange, the transfer tax applies at a flat rate of 0.5% on the sale proceeds.

## Employment Income Tax

### *Taxable Persons*

Individuals working in Iran will be liable to income tax on the following basis:

- Iranian nationals considered resident under the laws of the Islamic Republic of Iran, will be subject to Iranian tax on their worldwide income;
- Iranian nationals who are not considered as resident in Iran (e.g. individuals who live and pay taxes in another country), will only be subject to Iranian tax on income earned in Iran;
- Non-Iranian nationals will be subject to Iranian tax on any income earned in Iran.

### *Overview*

Individuals receiving employment income in Iran will be subject to income tax (Salary Tax) at progressive rates up to 20%.

The rates for the fiscal year to 20 March 2016 were:

- 0% up to IRR 138 million (£2,763);

- 10% on income between IRR 138 million (£2,763) and IRR 966 million (£19,343);
- 20% on income over IRR 966 million (£19,343).

Income tax will be levied on salaries, allowances and all remuneration whether paid in cash or as a benefit in kind, as outlined in an individual's employment contract.

Director's remuneration is also subject to tax and should be added to the annual salary obtained from employment payments.

### *Withholding & Reporting Requirements*

Employers are required to list all compensation and benefits that they provide within their employees' employment contracts. Details of remuneration paid to employees, taxes withheld and the employment contracts should be reported to the tax authorities and to the Ministry of Cooperatives, Labour and Social Welfare.

Tax on employment income should be withheld at source under the Pay-As-You-Earn (PAYE) system. The employer is obliged to calculate and withhold tax at the time of payment and remit this to the tax authorities within 30 days.

National social security obligations and contributions also need to be made (see below for further information).

### *Income Tax Filing*

The fiscal year in Iran runs from 21 March each year and individuals will be assessed separately for tax purposes (i.e. there is no joint filing).

As tax is withheld at source on employment income, there is typically no requirement to file an individual tax return to declare employment income, which is taxable and has not be subject to withholding tax, they must pay the taxes due within 30 days of receipt. This income should then be reported through a tax return by 22 July following the fiscal year.

In these cases, taxes on salary from outside of Iran must be paid within 30 days of receipt and should be reported through a tax return by 22 July following the fiscal year.

Note, if an individual receives other forms of income outside of their employment (e.g. Iranian real estate income) they may also have Iranian tax return filing requirements.

### *Exemptions & Deductions*

Pension income, retirement allowances, termination payments, work-related travel expenses and various other types of employment income may qualify as exempt from income tax.

Expenses incurred on both medical treatments and life insurance (paid to Iranian insurance companies) should be deductible for income tax purposes.

### *Benefits in Kind*

Benefits in kind from employment are considered taxable income and will be subject to tax at the progressive rates up to 20%.

However, certain benefits in kind attract a flat rate of tax as follows:

- The taxable value of furnished housing will be taxed at 25%;
- Unfurnished housing at 20%;
- Chauffeur-driven cars at 10%;
- Cars without a chauffeur at 5%.

The value of a benefit in kind is typically calculated as the cost to the employer of providing the benefit.

### *Tax Clearance*

Exit visas and extensions of residence permits and work permits will only be issued to foreigners on production of a tax clearance certificate or written commitment by the employer.

### *National social security contributions*

All employees working in Iran should be covered by the employer under the national social security contributory scheme. The social security charge is levied on income up to a certain ceiling, which is revised annually. The ceiling for the year starting 20 March 2016 is. 56,851,620 IRR (£1,138) per month. The employee's contribution is 7%, and the employer's share is:

- 23% for Iranian employees;
- 20% for expatriate employees.

Clause B of Article 5 of the Social Security Law provides that expatriate personnel may be exempt from the Iranian social security charge if they can prove to the Social Security Organisation (SSO) that they are insured under a similar scheme in their country of domicile. Social security contributions are deductible for income tax purposes.

In addition to the national social security contributions, compulsory accident insurance is available to employees. This insurance covers medical treatment, compensation for lost wages, disability or death arising from accidents at work. The premium is 3% of salary and fringe benefits, with no ceiling, payable by the employee. However, this charge is waived where an expatriate employee is covered under the Iranian social security scheme

## Department for International Trade

The Department for International Trade (DIT) leads the government's approach to increase the number of exporters and inward investors to the UK.

DIT is responsible for promoting British trade across the world and ensuring the UK takes advantage of the huge opportunities open to us.

DIT has professional advisers around the UK and in more than 100 countries. DIT works closely with Scottish Enterprise , Invest Northern Ireland and Business Wales.

### *Responsibilities*

DIT is responsible for:

- developing, coordinating and delivering a new trade and investment policy to promote UK business across the globe
- developing and negotiating free trade agreements and market access deals with non-EU countries
- negotiating plurilateral trade deals (focused on specific sectors or products)
- providing operational support for exports and facilitating inward and outward investment

### *Supporting trade with Iran*

DIT is on hand to provide advice and support to companies looking to export to Iran and is working alongside other government departments to put in place what is needed to ensure UK companies are ready to benefit from stronger trade relationships with Iran as the country re-establishes itself within the international business community.

DIT has been present in Iran since January 2016, based at the British Embassy in Tehran, and is growing its presence to support UK businesses and trade with Iran. There is also a team within DIT, the Frontier Markets – Iran team, based in the UK to support trade with Iran. However, in the first instance, companies should contact their local International Trade Adviser to discuss their business requirements for doing business with Iran.

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## UK Export Finance

UK Export Finance (UKEF) is the UK's export credit agency and a government department, with a mission to ensure that no viable UK export fails for lack of finance or insurance from the private sector. The moment the nuclear related economic and financial sanctions were lifted, UKEF reintroduced cover with the intention of supporting UK companies seeking to compete for business in Iran.

UKEF can help UK businesses realise the opportunities that economic re-engagement with Iran will bring through issuing guarantees, loans and insurance, with a market risk appetite of hundreds of millions of Pounds. It is working with counterparts in Iran, such as the Export Guarantees Fund of Iran and the Central Bank of Iran, to develop the tools to support UK-Iran trade.

All UKEF's finance products rely on a bank, either to act as agent or to provide the loan against which UKEF provides it guarantee. This means any disruption to banking services for business with Iran may impact access to support.

When an export contract meets its risk standards, UKEF can provide support to exports in all sectors, including early priority areas such as aerospace, financial and professional advisory services, infrastructure, technology and oil and gas sectors. These are sectors in which UK businesses have significant expertise.

UKEF expects its support in the short-term will be for export contracts supported by the government of Iran, as otherwise buyers may struggle to meet our risk standards. However it will consider all approaches for support on an ongoing basis.

### *Specific issues that UKEF support may help with:*

- Winning export contracts by providing attractive financing terms to Iranian buyers;
- Fulfilling contracts by supporting working capital loans and advance payment guarantees;
- Ensuring payment by insuring against buyer default.

### *Working in partnership with banks and insurers*

UK exporters should talk to their bank or approach other specialist financial organisations to try to secure the support they require. Where they are unable to find all the support they need from these sources, UKEF may be able to help.

### *A wide range of support*

Types of assistance UKEF is able to offer, in the right circumstances, include:

***Buyer loans and loan guarantees*** – Often in order to secure major capital goods and services contracts with overseas buyers an exporter may need to include details of a financing package within its bid. Such projects can be sizable and require medium to long-term export finance.

UKEF can provide guarantees to banks making medium and long-term loans available to overseas buyers of UK goods and services. In some circumstances, UKEF may also be able to lend directly to an overseas buyer to finance the purchase of capital goods and/or services from UK businesses.

***Letter of credit guarantees*** – Letters of Credit (LCs) are a form of payment guarantee made by the buyer's bank to the exporter, subject to certain conditions such as delivery on time and to the specified standards. In some circumstances, UKEF can provide exporters' banks with its own guarantee of payment based on LCs from the buyer's bank.

***Bond support*** – Under our Bond Support Scheme we can offer guarantees to banks issuing performance or other contract bonds in relation to UK exports to Iran. This often means the bank can issue the bond and also expand working capital facilities for exporters, as the extra credit is guaranteed by UKEF.

***Working capital support*** – UKEF's Export Working Capital Scheme can enhance a bank's ability to provide working capital to support export-related activity. Under the scheme, UKEF provides a partial (typically 80%) guarantee to lenders to cover the credit risks associated with export working capital facilities. The scheme is particularly useful in circumstances where a UK exporter wins an overseas contract that is larger than it is used to handling, or manages to win a number of contracts at the same time, but may struggle to finance them all at once.

Both the bond support and export working capital products are accessed through participating banks, a list of which can be accessed at www.gov.uk/uk-export-finance.

***Credit insurance*** – UKEF's Export Insurance Policy (EXIP) can insure exporters against the commercial and political risks of not being paid under an export contract, where cover is unavailable from the private sector. There is no maximum or minimum contract value for consideration, and the policy can cover up to 95% of contract value. UKEF can also provide insurance protection to exporters against the calling of contract bonds unfairly or due to political events.

Exporters can approach UKEF directly for credit insurance support or alternatively through a specialist insurance broker, a list of which can be accessed at www.gov.uk/uk-export-finance.

### *Export Finance Advisers*

UKEF has a regional network of Export Finance Advisers (EFAs) who stand ready to offer free trade finance information to UK companies who are exporting or considering exporting across the World, including to Iran.

The EFAs act as local points of contact to introduce exporters and prospective exporters to finance providers, credit insurers, insurance brokers, trade support bodies and sources of government support. They can also help explain UKEF's own product range, complementing what is available in the private market.

For more information and to book a meeting with an EFA, visit: www.gov.uk/making-exports-happen

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