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# BUSINESS RELATIONS BETWEEN CANADA AND IRAN

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FEBRUARY 14, 2018

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# AGENDA

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- Introduction to the Iran-Canada Business Council
- Overview of Current Political and Economic Situation in Iran
- Analysis of Canada's Relationship with Iran
- Power of Unelected & Quasi-Governmental Organizations in Iran
- Concluding Words

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# Introduction

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# THE ICBC AND ITS MISSION

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## Who we are

- Canadian federal not-for-profit corporation, which has been at the forefront of promoting and fostering the development of bilateral trade of goods and services and bilateral investment between Canada and Iran.
- Founded in 1992.
- Alliance with Iran & Canada Chamber of Commerce in Iran

## Mission

- Organizing information sessions about business opportunities in Iran.
- Facilitating collaboration between Canadian and Iranian businesses | | e.g. networking and trade missions between Iran and Canada.
- Act as liaison with the federal, provincial and local governments on issues pertaining to bilateral trade and investment between the two countries.
- Visa support, mediation and business research.

# Some facts

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- Iran became an Islamic Republic in 1979.
- Constitution provides for:
  - A Supreme Leader (appointed by an Assembly of Experts for life, currently Ayatollah Ali Khamenei);
  - A President (Hassan Rouhani became president in 2013 and reelected in 2017 with 57% of the vote);
  - A parliament (Majlis with 290 members);
  - Guardian Council (appointed body of 12 that approves legislation).

# HISTORY OF BUSINESS RELATIONS BETWEEN CANADA AND IRAN

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- 1980: Canada helped US diplomats escape Iran and embassy was closed. No formal relationship until 1988.
- Throughout the 1990s, commercial relations between the two countries expanded rapidly:
  - Iran becomes one of Canada's **most important trading partners in the Middle East** region;
  - Zahra Kazemi's death in 2003.
- Difficult economic relationships between the two countries in 2010, and in September 2012, diplomatic relationship was ended again by closing both embassies.
- Canadian Government enacted a sanctions regime governed by the Special Economic Measures Act (SEMA) and the Special Economic Measures (Iran) Regulations in 2012, which imposed many restrictions on trade with Iran, including import of sensitive goods and technology from Canada and nuclear and missiles development.
- **Removal of the sanctions:**
  - In July 14, 2015, UN Security Council in cooperation with P5+1 came to an agreement with Iran which was passed as UN Security Council Resolution 2231.
- 2016: Confirmation by the International Atomic Energy Agency that Iran fulfilled all necessary commitments under JCPOA:
  - Canada announces willingness to resume discussions with Iran – possibility of restoring diplomatic contact.

# AFTER THE EASING OF SANCTIONS

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## Sanctions

The sanctions regime was modified on February 5, 2016 but the following restrictions remain:

- Prohibitions on the export to Iran of:
  - Goods and technology related to uranium enrichment and processing;
  - Nuclear weapon and *missile technology*;
  - Military weapons;
  - Sensitive products listed on the Export Control List (ECL).
- Prohibition on dealing with certain individuals in Iran, including :
  - With respect to technical and financial assistance with missiles, nuclear and arms materials;
  - Travel restriction against people listed by the Security Council.

## Permits

The Minister of Foreign Affairs may issue a certificate to authorize an activity restricted by the regulations, on a case-by-case basis.

## Legal Advice

Department of Foreign Affairs, Trade and Development (DFATD) or Global Affairs Canada do not provide legal advice or opinion as to whether or not a specific activity or transaction would contravene sanctions legislation.



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# Overview of Current Political and Economic Situation in Iran

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# Political / Economical

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- Mr. Stéphane Dion, Canada's Foreign Affairs Minister, lifted most sanctions against Iran in 2016, paving the way for non-military exports to Iran and possibility of a mutual dialogue between the two countries.
- Since Canada broke off ties with Iran in September 2012 and closed the embassy in Tehran, there is still no diplomatic relationship between Tehran and Ottawa. There are some major issues remaining that include human rights and Israel; and Iran remains on the list of state sponsors of terrorism.
- Iran is a market that could produce great opportunities for businesses that are willing to enter it with a long term outlook and are willing to create a partnership.
- More than a decade of international sanctions has left Iranian industry in a weak position and it will require billions of dollars in investment to help it become competitive. After removing the sanctions, Iran was allowed to repatriate about \$120 billion in assets held abroad including Canada and that has created additional opportunities to do business with the rest of the world.

# Economical overview

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- 65% of Iran's export income is from oil & gas (as well as 50% of government budget).
- 137 billion barrels of proven reserves.
- 1,050 trillion cubic feet of proven natural gas reserves ( world's second largest).
- Ranks in the top ten in the world in mineral resources (lead, copper, gold, uranium, tin, marble , lime and coal).
- Auto manufacturing is the largest industrial group with over \$11 billion in sales.
- Agriculture accounts for about 20% of non-oil GDP.

Exports non-oil goods about \$33 billion

# Export

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China	\$ 8.3 billion
UAE	\$ 7.4 billion
Iraq	\$ 6.1 billion
Turkey	\$ 3.2 Billion
South Korea	\$ 2.8 billion

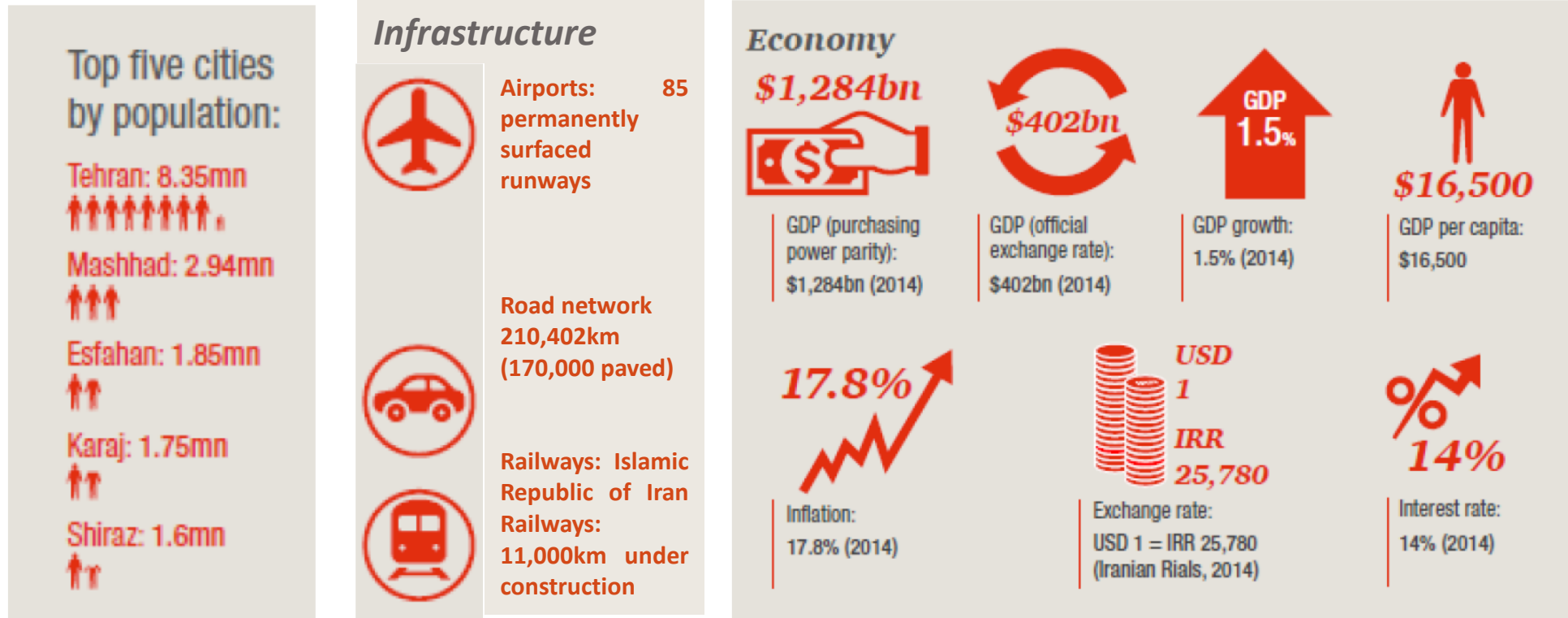
Imports about \$40 billion

# Import

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China	\$ 10.8 billion
UAE	\$ 6.4 billion
South Korea	\$ 3.4 billion
Turkey & Germany	\$ 2.6 billion

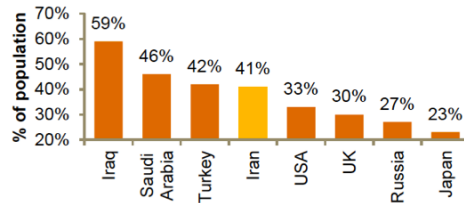
# COUNTRY OVERVIEW



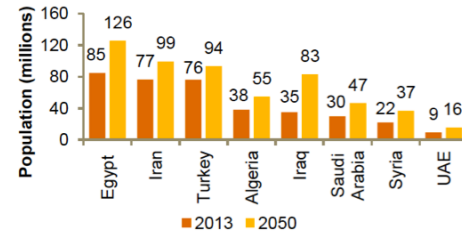
Data provided by PwC in May 2016 publication  
 Source: [http://gcnode.no/wp-content/uploads/PwC\\_052016\\_Iran\\_MRH-kort.pdf](http://gcnode.no/wp-content/uploads/PwC_052016_Iran_MRH-kort.pdf)

# POPULATION DEMOGRAPHIC

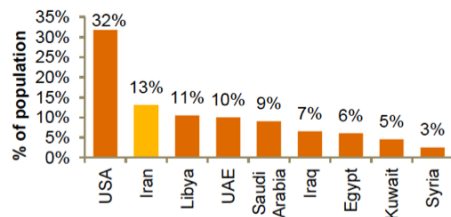
Percentage of population under 25



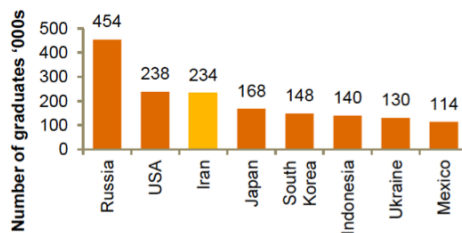
Population growth projections



Percentage of population 25+ who completed tertiary education



Countries with the highest number of engineering, manufacturing and construction graduates in 2015



<sup>1</sup>No data for China and India

## Strengths of the Iranian market

- Population of around 80 million (the second largest in the Middle East after Egypt)
- Youth of population (60% are estimated to be under 30 years old)
- Highly educated workforce

PwC

Data provided by PwC in May 2016 publication

Source: [http://gcnocode.no/wp-content/uploads/PwC\\_052016\\_Iran\\_MRH-kort.pdf](http://gcnocode.no/wp-content/uploads/PwC_052016_Iran_MRH-kort.pdf)



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# Banking & Finance

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- Investment + Buyback.
- Banking hurdles are a part of the political environment.
- Western banks are independent and risk averse.
- Oman ( SOHAR), Turkey (Ziraat) and Russia ( VTB).
- Deal in their local currency.
- Iranian banks have very low capital adequacy.

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# Analysis of Canada's Relationship with Iran

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# COMPARISON WITH IRAN'S RELATIONSHIP WITH EUROPE AND ASIA

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Canada has a good standing with Iranian people but needs to catch up with Asia/EU in terms of its presence.

- EU trade with Iran in 2016 stands at around USD 8 billion and is expected to quadruple by 2018.
- Many European firms have announced an interest or finalized investments in Iran.

The Iranian-Canadian community's size is significant and growing, which displays the potential to build links between the two countries.

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# Power of unelected & quasi-governmental organizations in Iran

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# IMPORTANT ORGANIZATIONS

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## Religious Powerhouses

- Astan Ghods

## Other important organisations

- Bonyads Control 20% of national GDP
- Revolutionary guards
- Semi-governmental holdings

The dominance of the state in Iran's economy means that it has complex regulations, often giving consumer and employee protection precedence over ease of doing business.

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# Concluding Words

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# CONCLUDING WORDS

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- Last major emerging market.
- Transition from state-owned to privatization.
- Short term risk and volatility.
- What to do now?