

# Iran: report on a promising market

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# Priority Sectors of Interest

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# Four Major Priority Sectors of Interest

- Health and Life Sciences
- Pharmaceutical Products
- Agriculture and Agri-food
- Infrastructure and Construction

# Health and Life Sciences

# Introduction

- The World Health Organization classifies the Iranian health system as one of the strongest in the world.
  - Iran spends approximately **6 percent of its GDP** in the health sector, which represents approximately US\$826 per inhabitant. The Iranian government has increased healthcare budget on an annual basis and the health care spending is said to reach nearly **\$40 billion in 2020**.
- The government recently took measures under the **Healthcare Transformation Plan (HTP)**. The plan has set forth 3 main objectives:
  - Increase healthcare spending;
  - Improve quality of services;
  - Improve accessibility of healthcare services.

# Introduction

- The local government has already made significant investments of over **US\$3 billion** in hospitals. Almost 50 cancer, dialysis and medical imaging centres are also under development.
- The government forecasted a **US\$17 billion investment requirement** in the next five years to meet the mid-term demand.



# Needs in the Healthcare System

- There is currently a severe undersupply of hospital beds and medical centres.
  - The current number of hospital beds per 1 000 people in Iran is 1.7 while the world's average is 3.1. The government has set a target for the ratio to reach **2.6 in 5 years**.
- Over **50% of current medical centre** capacity is categorized as “worn out”, needing overhaul and renovation.
- The number of medical centres needed in coming years:
  - Mega Hospitals: 20;
  - Dialysis Centres: 412;
  - Cancer Clinics: 87;
  - Diagnostic Centres: 500;
  - Emergency Units: 750 (average per province).

# Strength of the Medical Services Sector

- Advanced and sophisticated human capital in practitioner, education and research & development levels.
- High percentage of basic healthcare insurance coverage.
- Low import duties on medical equipment with no real local competition.
- High emphasis on foreign direct investments and FIPPA.
- Diverse medical resources with specialized hubs.



# Investment Opportunities

## 1) Greenfield Projects:

- Opportunities offered by the government, the Social Security Organization (SSO) and projects that can be defined in collaboration with the private sector or international partners.
- The government has introduced a public-private partnership (PPP) program for 4 main categories: hospitals, cancer treatment centres, dialysis centres and medical imaging centres.



# Investment Opportunities

## 2) Brownfield Projects:

- Unfinished projects that are offered by the Ministry of Health and Medical Education (MoHME) and SSO.
- Many current operating hospitals and other medical centres need refurbishment and renovation.
- The MoHME has a set of unfinished projects that are offered for co-investment.

## 3) Acquisition

- Acquisition of hospitals and medical centres currently operating in good condition with the owners looking to outright sell or looking for partnership opportunities.

# Pharmaceutical Products

# Introduction

- With the release of sanctions, imports will pick up again to reach **US\$1.16 billion in 2019**. The market has forecasted to become the 4<sup>th</sup> largest pharmaceutical market in the Middle East and North Africa region by 2024 in terms of market size.
- Iran has a lively pharmaceutical market. The sector is made up of approximately 100 companies, with most focused on drug manufacturing.
- Between **90% and 97%** of the country's finished medicinal product requirements are produced locally, as well as around 50% of the raw materials needed as inputs.
- Owing to the critical importance of affordability and local production growth, the government is reaching out to international companies in the near to mid-term for heavy investment in domestic production.

# Iran Pharma 2017

- At Iran Pharma 2017, it was said that what Iran needs is not new drugs, save for a few niche products, but **modern production technologies** and ways of increasing economies of scale.
- Iran has slowed its production of advanced medication due to a technology shortage. Imports in this sector represented only **5% of market volume**, but accounted for 38% of its global value.
- New ideas for financing in the health industry arose:
  - Before there is a product, capital is needed. And the lack of it seems to be the Achilles' heel of the Iranian pharmaceutical industry.
  - Solution: **venture capital funds**.

# Potential of the Pharmaceutical Industry

## 1) Positive Market Dynamics

- Iran's nominal GDP is forecast to grow by around **12% annually**, reaching a nominal GDP of **\$665 billion in 2020**.
- Iran's population is also on the up. By 2020, it will have **84.2 million inhabitants**.
- The Iranian pharmaceuticals market – valued by BMI Research at \$1.9 billion in 2015 – is predicted to grow at a compound annual growth rate of 6%.
- Iran is also building a government-backed \$2 billion "Industrial Pharmaceutical City" near Tehran. It will house incubators and startups under the same roof as research labs and biotech producers.

# Potential of the Pharmaceutical Industry

## 2) Pharmaceutical Infrastructure

- Approximately 60 plants produce almost 40 billion drug units each year, meeting **96% of domestic demand**. Most do not meet international good manufacturing practice standards, but government initiatives are addressing this.
- Research and development focuses mainly on new generic drugs, although investment in novel products is increasing: 12 new treatments for diseases, including cancer and diabetes, were launched in 2015, for example.



# Potential of the Pharmaceutical Industry

## 3) Skilled Workforce

- Around 80% of Iranians receive a secondary education and the literacy rate is more than 98%, according to the UN. When it comes to science and medicine, its high standards of education appear to be paying off.
- In 2012, the science database Scopus ranked Iran 17th in the world in terms of output of scientific papers and 23rd in terms of highly cited medical articles in 2011.



# Potential of the Pharmaceutical Industry

## 4) Competitive Landscape

- The sector is made up of about 100 companies, with most being focused on drug manufacturing. Some also carry out R&D, import non-locally produced drugs or provide distribution, offering ample potential for cooperation.
- The largest producer is Darou Pakhsh Pharmaceutical Manufacturing Company. The company generated revenues of over **\$700 million in 2014** and is listed on the Tehran Stock Exchange.

## 5) Trade Crossroads

- Iran has always enjoyed a prime position on international trade routes. Its geographic location also makes it an ideal export hub for Central Asia.

# Agriculture and Agri-Food

# Introduction

- Due to the sanctions period, both the agricultural sector and the area of food production have suffered from a lack of new modern technology and lack of product diversity and specialized products.
- Food Sector
  - Expected Growth: in 2016, expected growth in the Iranian food market was estimated to be around **2.5% per year**, which corresponds to a growth of **60 billion USD per year**.
- Characteristics of the agricultural sector in Iran:
  - Most farms are small and many are not economically viable;
  - Private farmers and ranchers perform **93% of the cultivation activities**;
  - Protectionist measures motivated by the goal of encouraging local production and reaching **food self-sufficiency and independence**, but opportunities for foreign firms exist.

# Opportunities in the Agricultural Sector

- Need for modernization of farming equipment:
  - Farming machines are worn out and use antiquated farming techniques.
  - Locally produced tractors and agricultural machinery have been largely cut off from new technologies and development.
  - The agricultural sector needs an overall modernisation update:
    - Mechanization of farms;
    - Automation systems for animal husbandry.
- Technologies that promote efficiency of use of natural resources:
  - Modern systems and technologies that can reduce the consumption of natural resources, **in particular water**, increase effectivity and productivity of Iranian agriculture are also highly required:
    - Irrigation systems and drainage networks;
    - Water collection and recycling systems.
  - Iran currently suffers from deficits of two key agricultural resources: **water and soil**.

# Water and Soil Deficits

## *Water*

- Iran is exploiting **97% of surface waters** and **70% of its ground water** supplies, whereas the international benchmark for surface water use is 40%.
- The agricultural sector is responsible for more than half of the total water consumption in Iran, but only contributes to around 11% of Iran's GDP.
- Over-construction of dams and ineffective use and management of water supplies and sources.

## *Soil*

- Insufficient fallow periods have led to land overuse and less fertile soil.
- According to the Food and Agriculture Organization of the United Nations (FAO), the correct application of fertilisers could **increase yields by 60%** without expanding the cultivated areas in Iran.

# Food Sector: Greater Demand for Food Products

- Greater need for foreign food supplies expected in the coming years due to various factors:
  - The **GDP-growth** in Iran has increased from 0.9% in 2015 to 4.6% in 2016. The Economist Intelligence Unit predicts that Iranian GDP will increase further, reaching 5.4% in 2017 and **5.9% in 2018**;
    - This positive development in Iranian economy is expected to contribute to a general increase in household spending and thus, an increase in food consumption and demand for specialized food products.
  - **Population growth**;
  - Migration of **rural population** to major cities (less farms to produce food);
  - **Less local food productivity** due to overconsumption of water and natural resources.

# Food Sector: Opportunities

- Specialized machinery for food processing and packaging industry.
- Food supplements.
- Food additives.
- “Canadian” brand.



# Infrastructure and Construction



# Introduction

- The Iranian infrastructure sector shows huge room for improvement, with inward foreign direct investment (FDI) and new technology needed to enhance the country's ageing transport system and utilities.
- In the *Global Competitive Report from the World Economic Forum 2016-2017*, Iran was ranked **76th out of 138 countries** for the quality of its overall infrastructure.
- The country is expected to address its investment deficits, thereby creating investment opportunities in the coming decade of about **US\$250 billion to US\$300 billion** in its transport infrastructure and another **US\$120 billion to US\$150 billion** in the area of power generation, water supply and waste-water treatment.

# Projects Underway

## Railway network:

- With a target to more than double the country's railway network to **25,000 km by 2025**, the Iranian government is planning to invest about **US\$25 billion** in its rail networks, including the construction of the Tehran-Isfahan high-speed rail and the electrification of the Tehran-Mashhad railway.
- Since sanctions were lifted, Iran has signed a memorandum of understanding (MoU) with France to improve the railway stations of Tehran and Mashhad, and another with Germany to upgrade the country's railway system software.

# Projects Underway

## Metro network:

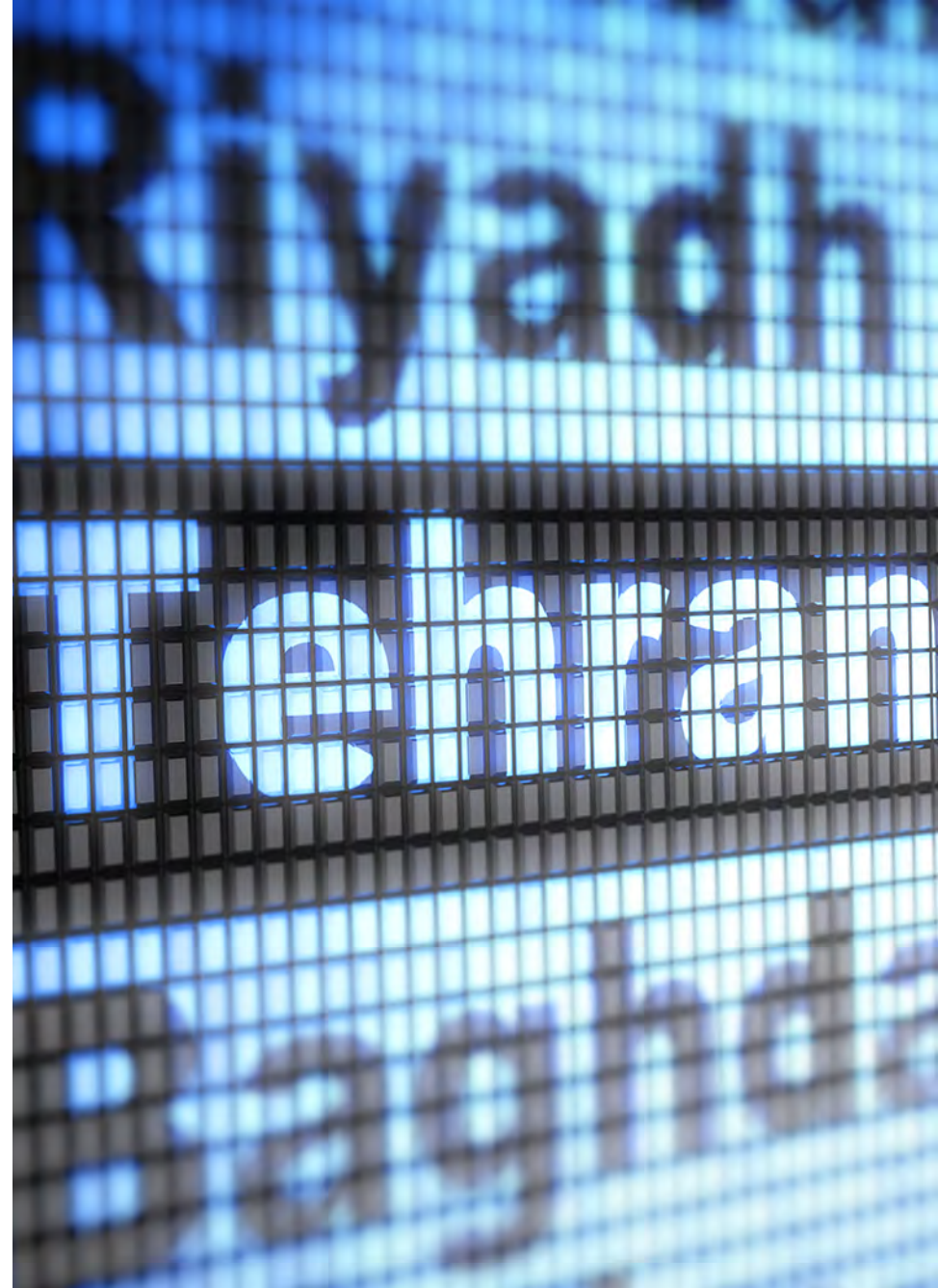
- The expansion of Tehran's metro network is another project that has attracted considerable attention from international suppliers.



# Projects Underway

## Aviation infrastructure:

- The Iranian government also intends to upgrade its aviation infrastructure as air traffic increases.
- According to the chairman of the Iranian parliament's civil aviation commission, Iran is looking to add as many as **500 new aircrafts** in the next three to five years.
- Eg., Vinci Airports (with Iran's Kayson Inc.): Expansion of the airports in Mashhad and Isfahan, Iran's 2nd and 5th largest airports respectively.



# Projects Underway

## Port infrastructure:

- Development is also underway in many Iranian ports, including the third-phase expansion of the Shahid Rajaei Port in Bandar Abbas and construction of new terminals at Chabahar and Negin Island in Bushehr.

## Water projects:

- According to Iran's energy minister, the country already has 160 large dams in operation and 90 more are under construction.
- There are currently major investments by the Iranian government, such as an annual US\$7 billion in water infrastructure.
- For the water sector alone, Iran aims to attract **US\$12 billion** of investment for its water and waste-water services projects by 2021.

# Projects Underway

## Renewable Projects:

- Given its climate, Iran has plenty of potential when it comes to renewable energy.
- Large-scale Projects:
  - 2017: Norway's Saga Energy signed a **€2.5bn (\$2.9bn)** deal with the state-owned Amin Energy Developers to build a solar power plant with generating capacity of up to 2GW over the next five years.
  - UK's Quercus said it planned to deliver 600MW of solar power in Iran at a total cost of some **€500m**.
- Smaller-scale Projects:
  - Joint venture of Germany's Adore and Switzerland's Durion: 20MW Mokran solar power plant completed in Kerman province and a 100MW solar plant planned for an adjoining site.
  - April 2017: Iran's Ghadir Electricity and Energy Company and Greece's Metka announced they had completed a 10MW plant close to Isfahan.

# Opportunities for Canadian Firms

- Specialized consulting/engineering services:
  - Infrastructure projects;
  - Mining and Oil & Gas Projects;
  - Tourism Industry (Hotel constructions – Eg., Mélia and Accor);
  - Consulting in specialized areas related to infrastructure:
    - Eg., software systems and management expertise to support infrastructure construction.
- Equipment suppliers.
- Partnering with local firms to bid for Iranian projects.
- Iranian Government keen to attract investment through various arrangements:
  - Build-Own-Operate (BOO), Build-Operate-Transfer (BOT), etc.
- Europeans (Italy, France) and Asian (China, South Korea) very present in Iran.

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# Thank you



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