POLITECNICO DI TORINO

Title: Economic relations between Iran and Italy

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Chapter 1: introduction

1.1 INTRODUCTION

The relations between the Islamic Republic and Italy enjoy an important historical and cultural past. Political relations between Iran and Italy date back to the period Parthian Empire, a major political and cultural powers of ancient Persia when Ctesiphon and Rome were the capitals of two universal powers. Italy has always been one of largest trade partners of Iran. In 2005, Italy was the third largest trading partner of Iran with 7.5% of all exports to Iran. It was also the top trading partner of Iran in the European Union in early 2006. From 2006 onwards, a series of restrictive measures and sanctions was enacted against Iran aimed at discouraging Iran's nuclear program. As a consequence, not only Iran but also its main partners suffered a lot during this period. The sanctions have cost Italy more than €15 billion in lost exports since 2006 with more than 60% of this loss occurring in the 2011-2013.

As sanctions lifted after compliance with nuclear deal in early 2016, there will be a huge opportunity for both countries to restart their former relations. If Italian exports could repeat growth like that in the pre-sanctions period (2000-2005), the level of exports could exceed € 2.5 billion in 2018, returning to a level more than the pre-sanctions peak reached in 2005.

On the other hand, Iranian e-commerce industry has witnessed a tremendous growth in the past couple of years. Online shopping is becoming more common amongst the various classes of the society. Over 39 percent of Iranians are shopping online at least once a month, according to studies.

So for foreigners looking to enter the country, it's clear that e-commerce could be a huge target for investment and they can meet a thriving Iranian e-commerce industry.

1.2 OBJECTIVES

The objective of this dissertation to study the economic relations between Iran and Italy and the impact of sanctions on the relations between the two countries. Also, it aims is to provide Italian companies with crucial information and finding the best logistic, marketing, payment solution to facilitate and increase their export to Iran.

1.3 OUTLINE OF THE DESSERTATION

A full understanding of the economic relation between Italy and Iran requires a knowledge of the geographical and political situation of Iran. As well as, knowledge some factors such as income, general information, unemployment rate, inflation rate, GDP annual growth rate and taxation system are mandatory will be covered in chapter two.

Chapter three will be devoted to, trade channels, we evaluated all alternatives channels in Iran, both direct and indirect, to be used by Italian companies, to connect them with Iranian market and customers in order to sell their goods and services through these channels. Achieving this goal is not possible without, completely analyzing export strategy pillars which consist of trade

channels, logistics channels (distribution networks), marketing strategies, payment systems and legal issues.
Introducing main online market places in Iran is the next essential step for companies who want to enter Iran market for the first time and through marketplace model. Digikala is the largest e-commerce website in Iran which owns more than 85% of online market and considered as the biggest online shop in the Middle East with over 850 thousand visitors per day.

In the section 3.5 denoted to distribution networks, the goal is analyzing the most appropriate distribution network through which the foreign company can deliver its goods and services to Iran considering costs, quality, service level and other main influencing issues. According to the specific geographical situation of Iran, the country has many different types of water, air, rail and road transportation modes that were described completely.
To have a successful business, a fast and reliable distribution network is essential because customers must be able to get products and services when they want them. Therefore, we studied alternative distribution networks that the Italian company can face in terms of external and internal transportation modes and number and places of central and regional warehouses in choosing the best distribution option, besides selecting the best transportation modes and number and places of warehouses, the company should also make a balance in the order cycle time that can be promised by them and the order cycle time that's acceptable for its Iranian customers.

Good marketing strategies can be the key factor explaining whether a firm makes profit or it has many unsold products. According to this issue, we studied all alternative channels that a foreign company can use in Iran to promote brand awareness in order to increase its potential customers, both traditional and online marketing. By traditional we mean banners, billboards, printed advertising and so on. But as the internet and social media became our mail concern in each society, the online marketing plays more crucial role.

In Iran there are plenty of websites and social networks which counts as best platforms for online marketing including Facenama and Aparat.

In the payment systems section, we first describe the inaccessibility of Iranian people to international payment systems. In turn we described all possible solutions and services that are accessible for Iranian customers to buy their desired product through online websites.

We go through Iran legal system which has to be carefully considered to make the trade possible. Tariffs and regulations, foreign investment laws, investment licensing process, trade laws and taxation systems of Iran are among the issues that we clarify in chapter 3.

We could not neglect the effect of Iran's Nuclear Program and sanctions on international business trade. In chapter 4 we went to economic relation between Iran and Italy before and after sanction. Also study about sanction conditions and total turnover between these two countries.

From 2006 onwards, the USA, the UN and the EU, adopted a series of restrictive measures against Iran that were aimed at discouraging the country's nuclear program. Between 2008 and 2012 these measures became increasingly harsh: the first sanctions included an asset freeze on several Iranian companies and restrictions on certain financial and commercial transactions (mainly linked to the oil & gas sector).
Even though the approved sanctions are already in force, the main sanctioning countries (the "5+1" group comprising the USA, Great Britain, Germany, France, Russia and China) have agreed a plan for a progressive slackening of the countermeasures in the light of Iran's commitment to reduce its nuclear program.
As a part of the European Union, Italy has supported all sanctions against Iran and has stated that it would support further sanctions if Iran does not comply with the IAEA and its Nuclear Non-Proliferation Treaty obligations.
After the interim nuclear deal agreed in 2013 the cooperation between the two countries reached $ 1.5 billion. Trade relations between Iran and Italy improved in 2014, reaching more than $ 2 billion. The statistics show that the trade between the two countries in 2016 was $ 2.8 billion, which is a growing trend.

And at the end in chapter 5 we have conclusion of total Iranian export and import turnover with all around the world and specifically with Italy. In this chapter we see clearly how Iran's Nuclear Program cause to change trade among countries during sanction period.
Turning to the impact of sanctions on the geographical distribution of Iranian imports, we note one clear decomposition in 2014 compared to 2005. In 2005, the European Union represented over 40% Iranian imports but its weight has been decreasing (9.5% in 2014), in favor of the countries of the Middle East and the emerging countries of Asia (which together have provided over 70% of supplies in 2014).
On the import side, until 2011 Iran was third major oil supplier crude oil for Italy, with a value of € 5.1 billion. This value has undergone a reduction of over 60 percent in 2012 and then almost cancel out in the last two years.
medicines and basic materials for production industrial and agricultural sectors, while capital goods, industrial machinery and durable goods have priority residual. This system could have affected the decline in mechanical exports from Italy to Iran.

Chapter 2:

The Islamic Republic of Iran: The Domestic Context

It is difficult to fully understand the foreign policy of a state without taking into account its domestic environment and circumstances. The domestic societal, economic, and political context of a state greatly determines what a state can conceive and achieve in the international arena. As highlighted by Fear on, domestic politics matter in the sense that they cause a state to pursue “suboptimal foreign policies”, and differences in a state’s “political institutions, cultures, economic structures, and leadership goals” have the potential to cause a state to pursue differing foreign policy choices, which are completely unrelated to the systemic environment or the concept of relative power. This chapter seeks to provide a broad overview of some of the more salient elements of Iran’s domestic environment. Although much of Iran’s rich and complex domestic situation cannot be covered in this chapter, a number of variables have been selected to provide a better grasp on how Iran’s internal characteristics impact its external actions and agendas. This chapter will firstly outline Iran’s geographical situation and resource base, describing the vulnerabilities, opportunities, and unchangeable material realities that face Iranian policy elites in the making of foreign policy. Secondly, a description of Iran’s national identity is provided, examining the role nationalism and Islam play in informing Iran’s foreign policies and the worldviews of its elites. Finally, this chapter examines the key institutions and figures that influence and implement foreign policy in the Islamic Republic.

2.1 GENERAL INFORMATION ABOUT IRAN

2.1.1 Geographical Situation

Tehran is capital (located in the northwestern part of the country) and major cities are Mashhad, Isfahan, Karaj, Tabriz, Shiraz, Ahvaz, and Qom. Spoken dialects are Kurdish, Azeri, Arabic, Baluchi and Persian which is official one.

This section is mainly from [2]

Situated in southwestern Asia, Iran covers an area of 1,648,000 sq. km which is approximately five times larger than Italy. Iran is bounded from the north by Armenia, Azerbaijan, Turkmenistan, and the Caspian Sea, on the east by Afghanistan and Pakistan, on the south by the Gulf of Oman and the Persian Gulf, on the west by Iraq and Turkey. Iran's territory includes several islands in the Persian Gulf. Acting as a link between two continents and a vital gateway to the Indian Ocean, the ability to control Iran has historically meant the ability to dictate the flow of cross-continental trade and communication between Europe and Asia.

2.1.2 Population

According to static in 2018 Iran has a people of 82.1 million people. Tehran has population of 8.5 million. The larger Tehran metropolitan area has a population estimated at 14 million, which makes it the largest city in all of Western Asia and one of the three largest cities in the Middle East after Cairo and Istanbul. The major part (89%) of the population in Iran is Shi'a Muslim, 10% is Sunni Muslim, and the remaining 1% are Christian, Zoroastrian, Baha'i and Jewish.

Table 2.1. data of population, 1965-2018 (Population in million)

Year	Population	% Male	% Female	Density (km^2)	Population Rank	Growth Rate
2018	82,0	50.28%	49.72%	49.8	18	1.05%
2017	81,1	50.29%	49.71%	49.3	18	1.10%
2016	80,3	50.31%	49.69%	48.7	17	1.16%

2015	79,4	50.33%	49.67%	48.1	17	1.25%
2010	74,6	50.58%	49.42%	45.2	17	1.15%
2005	70,4	51.07%	48.93%	42.7	17	1.26%
2000	66,1	50.70%	49.30%	40.1	17	1.77%
1995	60,6	50.74%	49.26%	36.7	16	1.50%
1990	56,2	50.96%	49.04%	34.1	20	3.50%
1985	47,3	51.07%	48.93%	28.7	22	4.13%
1980	38,7	51.53%	48.47%	23.4	22	3.39%
1975	32,7	51.38%	48.62%	19.8	25	2.80%
1970	28,5	51.39%	48.61%	17.3	25	2.70%
1965	24,9	51.39%	48.61%	15.1	26	2.64%

2.1.3 Economy

2.1.3.1 From 1962 to 2005

A country with a substantial economic potential, Iran witnessed rapid economic growth during the reign of Shah Muhammad Reza Pahlavi. Development of its extensive agricultural, mineral, and power resources was financed through oil revenues. The traditional land tenure system, under which farmers were sharecroppers, was replaced through a land reform program inaugurated in 1962. In addition to carpets, Iran produced a variety of consumer goods and building materials. Oil, however, became the lifeblood of the economy. With the astonishing growth of its oil revenues, Iran became a major world economic power, whose investments helped several industrialized countries pay for their oil needs during the 1970s.

The economy changed drastically after 1979. The war with Iraq, which curtailed oil exports, coupled with the decrease in the price of oil, especially in 1986, sent oil revenues spiraling downward from $20.5 billion in 1979 to an estimated $5.3 billion in 1986. This forced annual GDP growth down from 12.96% in 1982 to -1.57% in 1984; GDP was estimated to have fallen by -9.17% in 1986. The war's drain on the state budget, the drop in oil prices, poor economic management, declining agricultural output, an estimated 1987 inflation rate of 30–50%, and large budget deficits combined to put enormous strains on the economy.

After Iran accepted a UN cease-fire resolution in 1988, it began reforming the economy with the implementation of the Islamic republic's first five-year social and economic development plan for 1989–94. The plan emphasized revitalizing market mechanisms, deregulating the economy, and rebuilding basic infrastructure. These reforms led to economic growth and lowered budget deficits. GDP grew an average 7% a year in real terms over 1989–92. The general government deficit was reduced from 9% of GDP in 1988 to an estimated 2% in 1992. The inflation rate decreased from 29% in 1988 to around 10% in 1990, but had redoubled to 20% in 1991–92.

Other impacts of the first plan included a growth in agricultural production of 5.6%; industrial production of 15%; water, gas and electricity of 18.9%; and transport of 11.9%. In 1991, the government adopted a structural adjustment program similar in nature to the kind the IMF imposes on developing nations in exchange for aid. The structural adjustments advocated by then-president Rafsanjani included privatizations of state-owned enterprises, deregulation, cutting government subsidies, and encouraging foreign investment. While marginally wellintentioned, the Rafsanjani reforms led to little economic improvement. Privatization was especially ineffective. Political corruption and rampant cronyism led to many enterprises ending up in the hands of a small clique of well-connected elites. By 1997, 86% of Iran's GDP came from state-owned businesses. Deregulation also hit considerable snags. In 1996 alone, more than 250 regulations on imports and exports were issued by 24 ministries—many of them repetitive or contradictory.

In April 1995, the United States imposed trade and investment sanctions against Iran, in reprisal for what the United States believed was Iran's continued support of international terrorism. This move, unduplicated even by the strongest allies of the United States, had some economic impact—most notably a precipitous drop in the value of the Rial, which the government was forced to prop up.

The GDP growth rate stood at 5.85% in 2000, 2.39% in 2001, 8.08% in 2002, and 8.64% in 2003. GDP on average grew at a rate of 5.6% over the 2001–05 period. Inflation averaged 14.6% from 2001–05. The unemployment rate stood at 11.2% in 2004, but it is significantly higher among young people. The Iranian economy in the mid-2000s remained determined by its reliance upon oil, and continued to pass through periods of boom and bust as oil prices rose and fell on the volatile international markets. The state remained the dominant economic actor, as it was the recipient of crude oil revenue. Iran ranks second in the world in natural gas reserves and fourth in proven crude oil reserves. The services sector has grown, but bureaucracy, the uncertainty of long-term economic planning, and currency-exchange restrictions have made services a volatile sector. The agricultural sector has been aided by state investment, with the improvement of packaging and marketing helping to develop new export markets. Export-based agricultural products—such as dates, flowers, and pistachios—have seen substantial growth, aided by large-scale irrigation projects, although successive years of serious drought in 1999–2001 put a damper on growth in the agricultural sector. In 2005, agriculture accounted for 11.8% of GDP, with industry contributing 43.3% and services 44.9%. As of 2001, 30% of the labor force was engaged in agriculture, with 25% in industry and 45% in services.

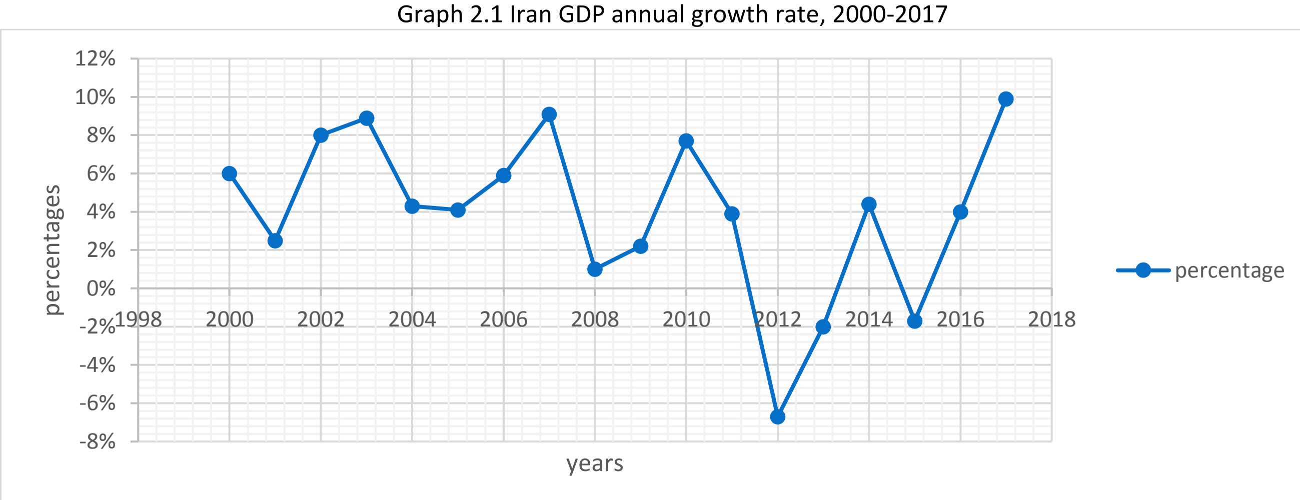
Table 2.2 Iran GDP Annual Growth Rate, 1966-2017

YEAR	GDP annual growth rate	YEAR	GDP annual growth rate
2017	9.7%	1991	12.72%
2016	4.3%	1990	13.59%
2015	-1.50%	1989	6.18%
2014	4.34%	1988	-6.30%
2013	-1.91%	1987	-1.40%
2012	-6.61%	1986	-9.17%
2011	3.75%	1985	2.07%
2010	6.58%	1984	-1.57%
2009	2.31%	1983	12.61%
2008	0.92%	1982	12.96%
2007	9.12%	1981	-5.20%
2006	5.70%	1980	-13.23%

2005	4.21%	1979	-7.12%
2004	4.34%	1978	-7.48%
2003	8.64%	1977	-1.30%
2002	8.08%	1976	17.73%
2001	2.39%	1975	5.75%
2000	5.85%	1974	9.38%
1999	2.00%	1973	5.53%
1998	2.08%	1972	16.29%
1997	1.35%	1971	12.98%
1996	6.35%	1970	9.84%
1995	2.40%	1969	12.91%
1994	-1.70%	1968	12.50%
1993	-1.47%	1967	10.63%
1992	3.30%	1966	10.43%

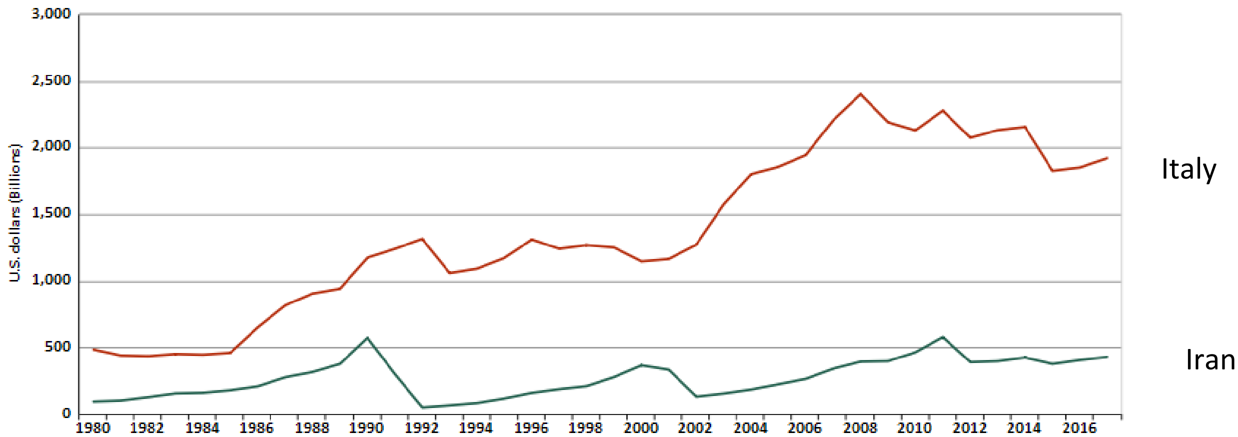
Source: world development indicators

Graph 2.1 Iran GDP annual growth rate, 2000-2017



Next graph represents GDP at purchaser's prices of Iran and Italy from 1980 to 2016. Data are in current U.S. dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates.

Graph 2.2 GDP at purchaser's prices of Iran and Italy

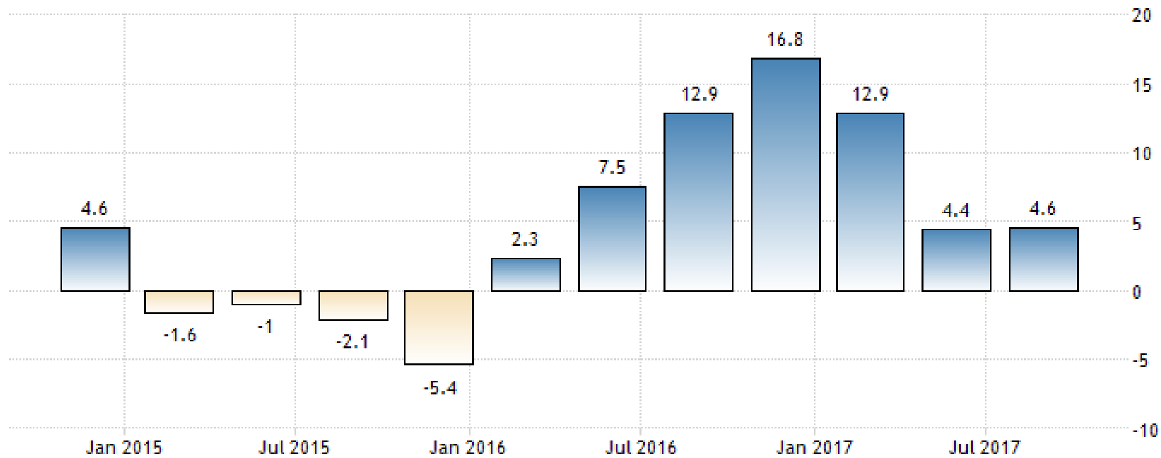


2.1.3.2 Recent Years

Iranian authorities have adopted a comprehensive strategy encompassing market-based reforms as reflected in the government's 20-year vision document and the sixth five-year development plan for the 2016-2021 period. The sixth five-year development plan is comprised of three pillars, namely, the development of a resilient economy, progress in science and technology, and the promotion of cultural excellence. On the economic front, the development plan envisages an annual economic growth rate of 8 percent and reforms of state-owned enterprises, the financial and banking sector, and the allocation and management of oil revenues among the main priorities of the government during the five-year period.

The Iranian government has implemented a major reform of its subsidy program on key staples such as petroleum products, water, electricity and bread, which has resulted in a moderate improvement in the efficiency of expenditures and economic activities. The overall indirect subsidies, which were estimated to be equivalent to 27 percent of GDP in 2007/2008 (approximately US$77.2 billion), have been replaced by a direct cash transfer program to Iranian households. The second phase of the subsidy reform plan began in Spring 2014 which involves a more gradual fuel price adjustment than previously envisaged and the greater targeting of cash transfers to low-income households. Around 3 million high income households have already been removed from the cash transfer recipient list.

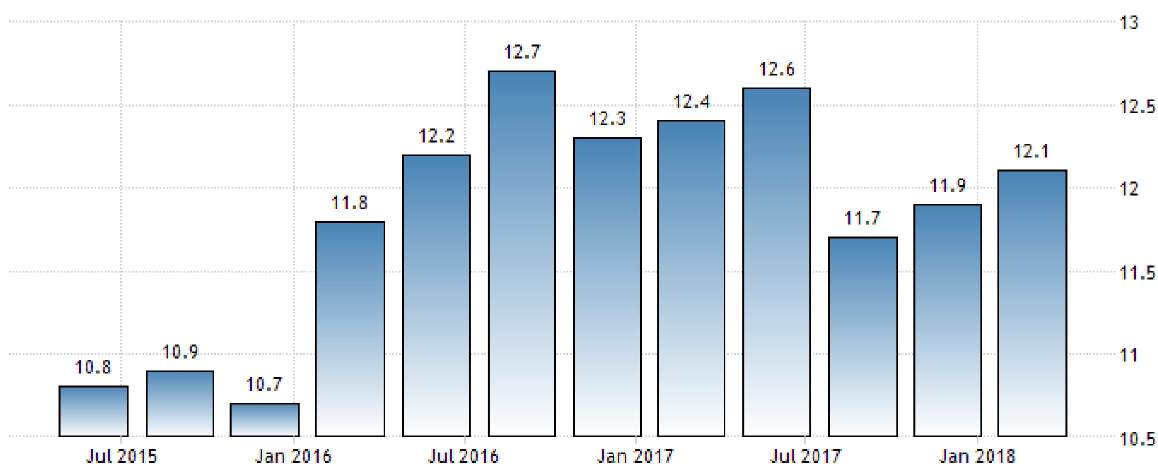
Graph 2.3 Iran annual quarterly growth rate (2015-2017)



Latest data available shows that average GDP annual growth rate of the Iranian economy brought the overall growth in the 2016 to 10 percent. Despite the dominance of the oil sector—driven by the positive impact of the Joint Comprehensive Plan of Action implementation on oil production and exports, there are some signs of dynamism in the non-oil sectors as well. However, we saw decrease in the first quarter of the 2017 to 12.9 percent with respect to last quarter in 2016. In second and third quarters (corresponding to April-September) even dropped to 4.5 percent an average.

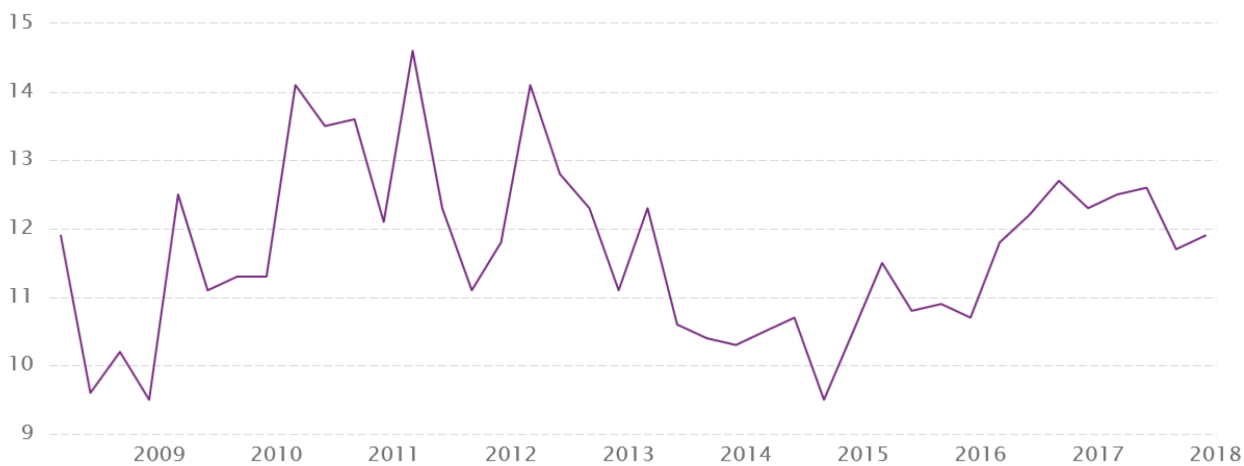
The unemployment rate measures the number of unemployed and people actively looking for a job as a percentage of the labor force. Unemployment rate returned to 12.7 percent (or 3.3 million unemployed) in the second period (semiannually) of 2016 despite the high growth rate of GDP in this period.

Graph 2.4 Iran unemployment rate from 2015 to 2018 (semiannually)



Iran's Unemployment Rate increased to 11.9 % in Jan 2018, from the previously reported number of 11.7 % in Dec 2017. Iran's Unemployment Rate is updated quarterly, available from Jun 2001 to Dec 2017, with an average rate of 11.7 %. The data reached an all-time high of 14.7 % in Mar 2002 and a record low of 9.5 % in Sep 2014.

Graph 2.5 Unemployment rate, 2008 - 2017 (percentages-quarterly)

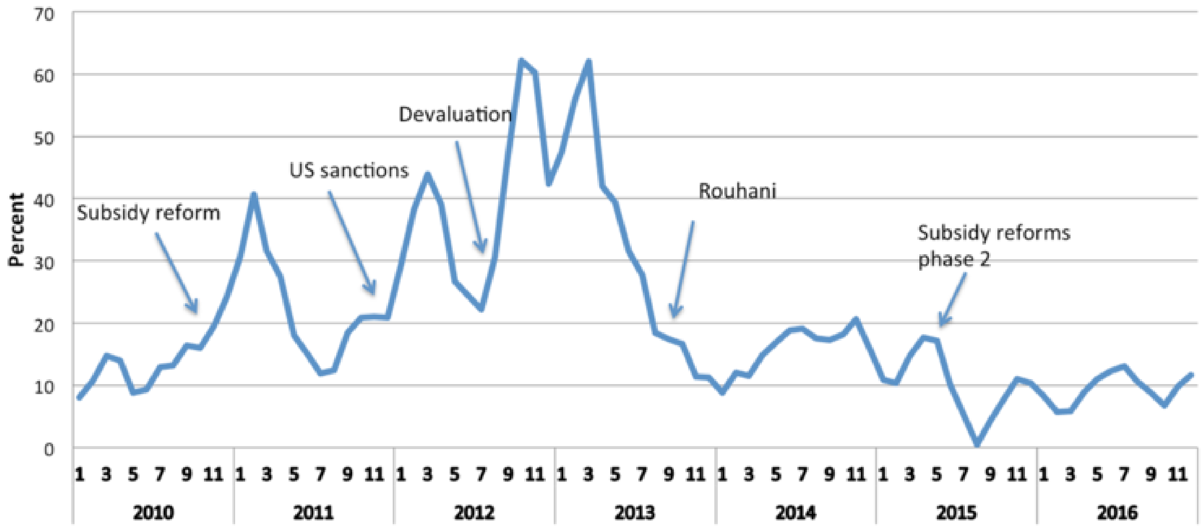


Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly.

Graph 2.6 Inflation rate, 2017-2018 (percentages)

Consumer prices in Iran increased 9.7 percent year-on-year in May of 2018, accelerating from a 7.9 percent rise in the previous month. It is the highest inflation rate since January 2018, as prices went up at faster pace for: housing and utilities, food and beverages, transport, furnishings and household equipment, clothing and footwear and health.

Graph 2.7 Inflation rates, 2010-2016 (quarterly)



The abrupt rise in energy price increased the rate of monthly inflation threefold between mid-2010 and the first quarter of 2011. Inflation started to come down only months after the start of the subsidy reform program until other factors pushed it up again. As it has marked on the graph, the first shock was the tightening of the sanctions, which soon led to the collapse of the Rial, which was highly over valued to begin with and could not withstand the loss of some fifty billion dollars in annual oil revenues.

As the graph shows clearly, inflation started to slow down five months before Rouhani took office. Annual inflation is estimated to have fall below 10 percent in 2016, for the first time in a quarter of a century due to a less accommodative monetary policy. Inflation dropped to almost zero in second half of 2015 after the start of the subsidy reform2 program. Corresponding latest data inflation rate stayed over 10 percent an average in 2016.

Poverty is estimated to have fallen from 13.1 percent to 8.1 percent between 2009 and 2013. This was likely due to a universal cash transfer program in late 2010, which preceded the elimination of subsidies on energy and bread. The program appears to have more than compensated for the likely increase in energy expenditures of less-well-off households, thus contributing to positive consumption growth of the bottom 40 percent of the population, even though overall consumption growth between 2009 and 2013 was negative. However, poverty increased in 2014, which may have been associated with a declining social assistance in real terms.

Both external and budget balances improved in 2016. Iran's current account surplus witnessed a strong boost due to the robust growth in oil exports. The current account surplus is estimated to have increased to 6.5 percent of GDP in 2016 up from 2.7 percent in 2015 benefiting strongly from the removal of oil sanctions and a recovery in exports. Similarly, the fiscal deficit is estimated to have improved in 2016 due to strong growth in revenues, with the central government budget deficit declining to around 1.5 percent of GDP from 1.9 percent in 2015. The government's proposed budget for 2017 mandates a reduction in the deficit by reducing total expenditures and increasing overall revenue shares of GDP.

In the medium to long term, growth prospects will rely on the pace of Iran's reintegration with the global economy in banking, trade and investment and the implementation of key structural reforms. Growth rates in 2017-19 are expected to retreat to slightly above 4 percent. As Iranian banks face the challenge of delays in establishing correspondent banking relationship with large international banks, foreign direct investment inflows to Iran and trade relationships with the rest of the world are restrained. Still, recent developments suggest non-oil sector and investments are likely to play a bigger role in the next few years.
Going forward, implementing the domestic reform agenda is likely to bring the highest growth dividend in the medium to long term. President Hassan Rouhani challenge, after the May 2017 elections, will be to prioritize the reforms outlined in the new five-year development plan and steadily implement them. This will involve tackling the structural reform agenda that will boost the non-oil sector growth, through creating a level-playing field for existing and new firms, improving the business environment and the efficiency of labor markets.

2.1.4 Income

According to central bank of Iran statistics in 2017, Average annual gross income of urban households is 350,000,000 Rials (8,537$ per year).

Graph 2.8 Distribution of households expenses

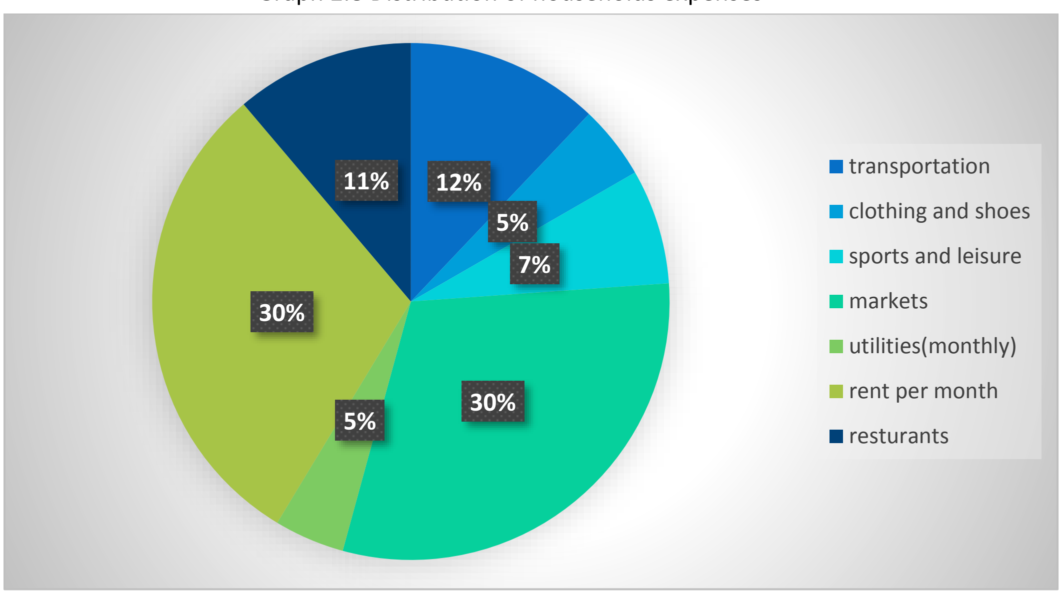


Table 2.3 Business sectors in Iran

Sectors	Details
AGRICULTURE	Iran's total area, 11% is cultivated, 27% consists of permanent pastures, and 7% is forest and woodland. The remaining 55% consists of

	wasteland, lakes, mountains, desert, and urban areas. About one-third of the labor force is employed in agriculture.
ANIMAL HUSBANDRY	Main animals are: sheep, goats, head of cattle, water buffalo, camels and chickens
FISHING	The Caspian Sea provides a seemingly inexhaustible source of sturgeon, salmon, and other species of fish (About 200,000 kg of caviar are sold per year)
MINING	Of Iran's 2,700 mines, most were privately owned, producing 42 minerals; some 65% of the mines produced building and construction materials and 20% were stone quarries. Mineral exports included chromite, refined sulfur, lead, zinc, copper, and decorative stone, Iron, steel, old, silver, asbestos, barite, borax, hydraulic cement, clays and etc.
ENERGY AND POWER	Oil and Gas
AUTOMOTIVE INDUSTRY	The sector directly employs about 500,000 people (roughly 2.3% of the workforce), and many more in related industries. The Iranian manufacturers currently produce six different types of vehicle, including passenger cars, 4WD, trucks, buses, minibuses, and pickup trucks

2.1.5 Exchange Rate

2.1.5.1 Exchange Rate Between 2010 and 2015

Exchange rates are one of the key indicators affecting macroeconomic performance. Iranian currency dropped in period of 2010 to 2015. This decline was due to international sanctions against by Iran's nuclear program.

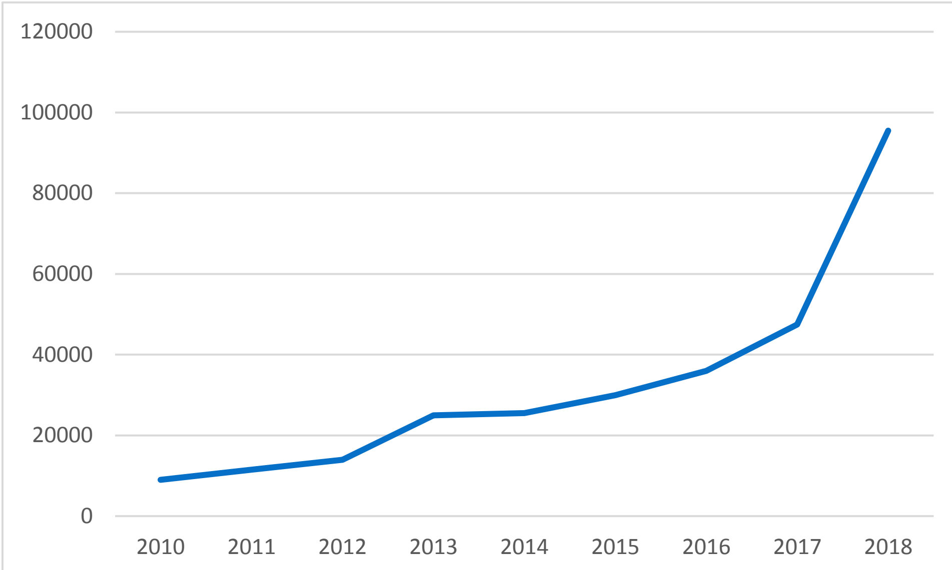
In recently months see next graph value of Rial sharply decline after trump speech about new sanctions against Iran. 1 euro was equal to 47,500 and 95,000 Rial in 2017 and 2018, respectively. This is while nobody is interested in selling the euro because they believe this value of euro is not real and will be increase in short time.

Various reasons for this price jump are presented by experts in Iran:

- The central bank has lowered its exchange rate on the market or sold at a higher price
- The government's attempt to raise the price of the currency to obtain single-rate
- One of the government's actions to offset the next year's budget deficit.
- Increased demand for currency
- Exit more currency refer to enter currency (higher rate of imports)
- Analysts say the government's policy of "currency crackdown" and the attempt to keep the exchange rate down will cause its price to climb as if it had been abandoned.

- The distrust or conscientiousness of citizens to the banks is another factor that has led to large volumes of Iranian citizens' capital invading the currency market.

Graph 2.9 Exchange rate, 2010 – 2018 (Rial for 1€)



2.2 LEGAL ISSUES

2.2.1 Import Tariffs and Regulations

Iran is in the process of streamlining and modernizing the customs procedure to monitor imported goods. Tariffs and duty rates are constantly revised and are subject to change without notice.

Tariff

Iran has extensive tariffs on imports and exports across a range of goods in the country. Imports valued at over US$50,000 are subject to a pre-shipment quantity and quality inspection. The inspector must be an internationally recognized organization that inspects all goods at the country of origin. The Iranian Embassy has imposed a variety of tax/tariff rates on varying goods, ranging from 10 to 25 per cent, with automotive vehicles at 100 per cent (probably its measure trade protection as Iran has automotive industry)

Non-tariff barriers

Indirect taxes such as value added tax (VAT) is a set rate per goods, ranging from 3 to 10 per cent and some goods may be subject to double taxation if also required from the country of origin. In 2015 it is set that VAT is going to increase by one per cent to generate more revenues for the country.

There is a variety of items which are exempt from taxes when imported into Iran. Some popular items are:

- Unprocessed agricultural products

- Flour, bread, sugar, rice, milk cheese
- Machinery
- Livestock and animals
- Feedstock and pesticide

Iran currently has free trade zones which avoid the non-tariff barriers such as value added services (VAT). These specialized economic zones have been established to provide:

- 100 per cent foreign ownership
- Flexible monetary control
- No entry visa required
- 20 years' tax exemption

Special certificates

Cargo and goods being imported into the country must be secured and fully concealed with documentation of commercial invoice, bill of lading, labelling and measurements. Most imports come via ports through the gulf and are apparent to customs upon arrival.

Methods of quoting and payment

All goods and services must be identified through their present costs before entering into the country. Any goods valuing over US$50,000 are subject to additional taxes. This is the method of quoting used in Iran whilst payments must be made before shipment of goods. Companies may request delayed payment of three to six months' instalments or work with government official to agree on a payment period.

2.2.2 Foreign Investment Laws Overview

Foreign Direct Investment (FDI) in Iran is allowed only through participation of foreign entity in the equity capital of existing and new Iranian companies. Maximum foreign participation in the joint companies is 49%. However, this proportion will be determined on merits of each project. The Law for the Attraction and Protection of Foreign Investments of 1955 (The Law) provides the legal framework for the approval of all foreign investments in Iran.

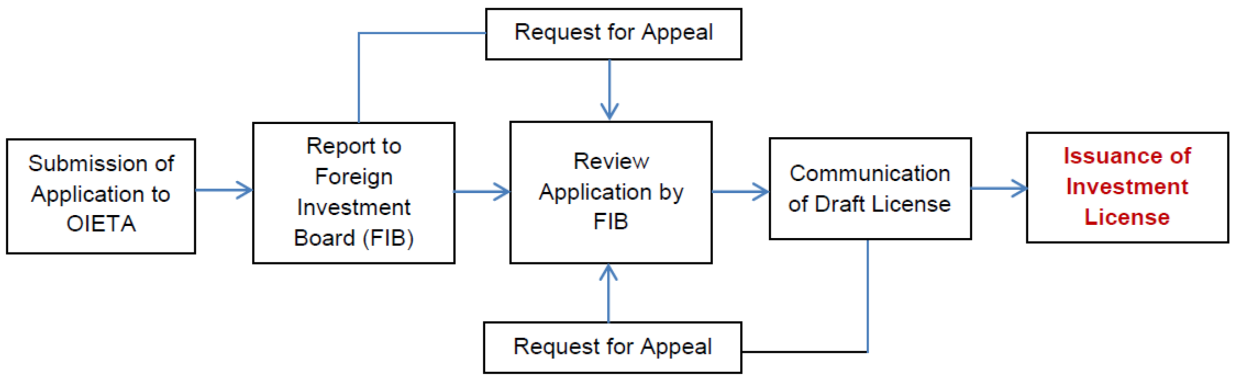
In accordance with Article I of the Law, foreign natural or legal persons importing capital, either in cash or in the form of machinery, etc. into Iran with the permission of the government of Iran for the purpose of development and productive activities in industry, mining, agriculture and transportation shall enjoy the facilities provided by the Law. In general, the facilities referred to, among other things, are the annual transfer of net profits in the currency of the original investment, repatriation of the original capital and the accrued profits derived there from and proceeds of the sale of capital or shares and the remaining portion of capital in the event of liquidation government guarantee of fair compensation in the event of expropriation, all at the exchange rate of the Central Bank's selling rate on the day of actual transfer, and with the legal facilities accorded to domestic investors.

Organization for Investment Economic and Technical Assistance of Iran (OIETAI)

The OIETAI was founded in June 1975 to conduct and perform a host of activities which, before its establishment, were delegated to different government agencies. The activities mandated to the OIETAI have all an external nature with global international affairs. It ranges from investment to financing as well as from bilateral to regional and international relations.

The president of the Organization is ex-officio the Deputy Minister for Investments and International Affairs of the Ministry of Economic Affairs and Finance. The Organization is legally empowered to represent the central investment promotion authority of the government of Iran by providing legal protection and full security to foreign investments by way of facilitating the flow of capital into the country under the new Foreign Investment Promotion and Protection Act (FIPPA) ratified in May 2002.

Graph 2.10 Investment Licensing Process



2.2.3 Foreign Investment and Protection Act

Since 1955, the legal framework of Iran's foreign investment regime had been defined under the Law for the Attraction and Protection of Foreign Investments (LAPFI). In line with reforms in the overall economic framework, Iran's Assembly undertook to propose and approve a new bill concerning foreign investment law. The new Foreign Investment Promotion and Protection Act (FIPPA) were ratified in May 2002, replacing the LAPFI of 1955. The most important developments introduced by FIPPA for foreign investments in Iran are the following:

- Broader fields for involvement by foreign investors, including involvement in major infrastructure.
- Recognition of new modes of foreign capital exposure in addition to FDI, e.g. project financing, buy-back financing arrangements and build – operate - transfer (BOT) investment schemes.
- Streamlined and fast- track investment licensing application and approval process.
- Creation of a one - stop institution called the Centre for Foreign Investment Services at the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), for focused and efficient support for foreign investment undertakings in Iran.
- Further liberalization of foreign exchange mechanisms as enjoyed by foreign investors
- Introduction of new legal options governing government-investor(s) relations

Foreign entities as well as Iranian nationals importing capital from abroad are considered foreign investors. Foreign investment is allowed for the purpose of development and rehabilitation and productive activities in the areas of industry, mining, agriculture and services.
Foreign investment is possible in all areas of economic activity. A foreign investor, by importing capital (as defined in a very broad and diversified form, being in cash or in kind, or being machinery and equipment, raw materials, parts, specialized services as well as intellectual property for the purpose of investment in industry, mining, agriculture and services), is eligible to enjoy the privileges and facilities provided by the FIPPA. Foreign investors must apply and obtain the investment license and FIPPA coverage to enjoy the advantages and facilities of the law.
The FIPPA provides for protection and security of the interests and rights of foreign investors against non-commercial risks. This would commit the Iranian government not only to facilitate the free flow of capital repatriation but also to full and fair compensation for acts of expropriation by the government, as well as for the interruption of a foreign investor's activities.
The FIPPA does not impose any restriction whatsoever on what is deemed to be legally permissible in the manner of investment, the type of investment, and the volume of investment, the percentage of shareholding (in free zone), profit and capital repatriation as well as internal mutual relations between the parties to an investment project.
Generally speaking, commercial risks are usually insured by the export credit and investment insurance agencies. The risks related to transfer issues and expropriation remains the basis of the risks attributed to an investment in a recipient country. The FIPPA honors all the rights and entitlements of investors by facilitating and making available the necessary foreign exchange for transfer purposes either transfers of profits or capital repatriation.
There is neither limitation imposed on the amount of profits to be transferred, nor on capital and gains on capital to be repatriated. In the event of expropriation and nationalization of foreign assets, investors are entitled to receive compensation based on the fair market value of the expropriated assets on the day immediately before expropriation takes place.
The FIPPA also recognizes the rights of foreign investors in cases where, as a result of the enactment of a law or a decision by the government, the implementation of a project is seized or interrupted.
In such cases the government is obliged to guarantee all the payments which should have been paid on maturity. Foreign investors will enjoy the same and equal treatment that is accorded to local investors. There should be no discrimination vis-à-vis foreign investors, and all facilities, privileges; exemptions will be equally extended to foreign investors. In addition, a "most favored nation" treatment may also be applicable to investors from countries with which the Iranian government has entered into a Bilateral Investment Treaty (BIT) which provides for more favorable treatment than national treatment.
FIPPA introduces new legal options in respect of government-investor relations, which symbolize the receptive and constructive approach of the Iranian government toward safeguarding the interests of foreign investors. Facilities have been placed in the areas of entry & exit visas, residence & work permits for investors, managers, directors and experts, as well as their immediate relatives. These facilities are provided on a long-term basis which creates comfort and confidence for those involved in investment projects.

The FIPPA provides for investment in all areas of economic activity in Iran. In fact, no area, other than those related to arms, ammunition and security, is closed to foreign investment. According to Article (3) of the FIPPA, foreign investment is divided into two broad categories:
Investing in all areas is open to the Iranian private sector by way of direct equity participation in the share capital of Iranian companies, whether in greenfield projects or in existing firms or companies.
Foreign investors may invest in business opportunities in Iran through contractual arrangements in any type of investment other than direct investment. This category enables foreign investors to enter in the areas which are closed to the private sector of the Iranian economy or areas in the upstream fields or national projects in which a direct participation is not by law permissible.

2.2.3.1 Starting a Business in Iran

Starting a business in Iran requires 6 steps and takes 12 days on average to complete. Investors can start a business with minimum of 1,000,000 Rials which is equivalent of 11.5$. According to word bank, Iran currently stands at 124 in the ranking of 190 economies on the easy of doing business and 62nd in the World Economic Forum (WEF) 2011 analysis of global competiveness of 142 countries. Below we provide a list of most recent changes in the start-up:

Table 2.4 Business start-up in Iran

year	Business start-up
2010	The Islamic Republic of Iran simplified business start-up introducing an electronic registration system.
2011	Iran eased business start-up by installing a web portal allowing entrepreneurs to search for and reserve a unique company name.
2013	Iran made starting a business more difficult by requiring company founders to obtain a criminal record clearance to register a new company.
2015	The Islamic Republic of Iran made starting a business easier by streamlining the name reservation and company registration procedures.

2.2.3.2 Free Zones

A firm establishing a business in the free zones of Iran and will be exempted from paying any taxes for the first 15 years of activities in the Free Zones. In addition, a firm can establish a company in the free zones of Iran without the usual limit of 49% of foreign number of shares.

Currently 6 major districts have been dedicated to Free Zones of Iran in order to encourage foreign investments.
The table below provides information regarding those 6 Free Zones of Iran:

Table 2.5 Free zones in Iran

NAME	LOCATION	PROVINCE
Anzali Trade - Industrial Free Zone	Caspian Sea	Gilan
Aras Trade - Industrial Free Zone	Caspian Sea	East Azarbaijan
Arvand Trade - Industrial Free Zone	Persian Gulf	Khuzestan
Chabahar Trade - Industrial Zone	Chabahar Gulf	Sistan and Baluchestan
Kish Trade - Industrial Free Zone	Persian Gulf	Hormozgan
Qeshm Trade - Industrial Zone	Persian Gulf	Hormozgan

Iran has device of the system of free zone in order to attract foreign and local investments in industrial, a part from before about 15 years tax free and unlimited number of share we will introduce other interesting factors. Eliminating the unnecessary formalities and regulations will help starting a business easier and faster in the "Free Industrial & Trading Zones" of Iran. The following are some of the advantages of establishing a business in the Free Zones:

- Import goods without paying any custom duty fees
- Manufactured goods in free zones imported to mainland will be free of any custom duties
- No restrictions on transporting and re-exporting your goods
- Possibility of joint venture and foreign and local investments
- Free transfer of capitals and funds
- Banking and transactions are governed by the regulations of the Free Zones
- Labor issues, social security coverage and foreigner's recruitment are governed by the regulations of the Free Zones
- Retail sales are for local and foreigners
- Granted visa at the port of entry "Free Zones"

2.2.3.3 Business Organizations

A wide variety of legal arrangements may be used to carry on business activity in Iran. Some of the more commonly used arrangements are corporations, limited partnerships, partnerships, and co-ownership, Joint Stock Company and limited liability companies.
The selection of the appropriate form of business organization will depend in each case upon the circumstances of the investor, the nature of the activity to be conducted, the method of financing, income tax ramifications and the potential liabilities related to the activity.
Generally, one of the first issues faced by a foreign entity contemplating carrying on business in Iran is whether to conduct the business directly in Iran as an Iranian branch of its principal business, or to create a separate Iranian entity to carry on the business.

2.2.3.4 100% Ownership

Foreign investors can now establish their company with 100% ownership of the shares and control of their business in a free zone. This can be an advantage to some of the companies willing to be more involved in the Iranian market providing them with more security and stability as a foreign investor. There are two types of companies which can be registered for foreign investment opportunities:

1) Limited Liability Company
2) Joint Stock Company
3) Branch

1) Limited Liability Company

A Limited Liability Company (Sherkat ba Masoliat Mahdoud) is defined as a company formed by 2 or more individuals to conduct business transactions and activities. Limited Liability Company is based upon the direct contributions of the partners to the partnership and not by share subscription.

The formation of limited liability partnership is deemed to have taken place when the capital in cash has been fully contributed and when non-cash contributors have been assessed and delivered. The name of the company must always include the phrase “Limited Liability” otherwise under the law the company will be considered as a general partnership.

2) Joint Stock Company

A Joint Stock Company (Sherkat Sahamie Khas) is defined as a company formed by 3 or more individuals to conduct business transactions and activities. Joint Stock Company is based upon the direct contributions of the partners to the partnership and not by share subscription. The formation of Joint Stock Company is deemed to have taken place when the capital in cash has been fully contributed and when non-cash contributors have been assessed and delivered.

3) Branch

Foreign Companies can establish a branch of their company in order to conduct their business in Iran. The Branch will be a foreign company and act as a branch under Mother Company and may operate in the following areas of activities:

- Post sales service for the goods or services of the mother company
- carrying out the contracts terms between Iranians and Mother Company
- Plan future investment of the mother company in Iran
- Collaborate with Iranian experts for business activities in neighbor countries.
- Participate in non-oil exports market in Iran.
- Regulating duties in the areas of clearance from government organizations and services in the fields of transportations, insurance, banking and marketing, etc.

A local branch office of a foreign company is the subordinate of the mother company which carries out the objectives and business transaction for the mother company. The operation of the branch office will be conducted under the name and responsibility of the mother company.

The branch office is subject to Iranian laws in areas such as labor, social security, taxation, etc. The government protects the legal rights of a registered branch office as of the mother and domestic companies.

Table 2.6 Types of companies

	Limited Liability Company	Joint Stock Company	Branch
Company Law	Iranian Commercial Law, Iranian Attraction and Protection of Foreign Investment Act, Originally enacted in1995		
Company Obligations	_	_	Mother Company
Founder	2 or more	3 or more	Mother Company
Initial Capital Requirement	1,000,000 Rials (11.5$)	3,000,000 Rials (35$)	_
Liability	Limited by shares	Limited by shares	Mother Company
Cost of Incorporation	About $150 USD	About $200 USD	About $150 USD
Incorporation	Statutes and Registration	Article of Incorporations and Registration	Registration
Company Name	Free and Company Form	Free and Company Form	Mother Company
Formalities and Process	Low	Moderate	Low
Credit/ Funds	Generally Possible	Generally Possible	Possible

Employment of Foreign Nationals in Iran

Foreign nationals are prohibited from working in Iran unless they receive work and employment permits (even if they are supposed to receive wage and salary outside the Iranian territory). The work permit serves as the employment license for the foreign nationals in Iran.

The work permit for the employment of foreign nationals in Iran is issued by the "Department General for Employment of Foreign Nationals" (also called Department for Employment of Expatriates) of the Ministry of Cooperatives, Labor and Social Welfare upon a request by Iranian employers. In provincial capitals it is issued by the Foreign Citizens Divisions of the Department General of Cooperatives, Labor and Social Welfare.

The Iranian employers are obligated to seek the permission of the Department General for Employment of Foreign Nationals before concluding any contract that may lead to the employment of foreign citizens in Iran. The rules and regulations for acquiring work permit for the foreign nationals are available in the Labor Law of the Islamic Republic of Iran, ratified in 1990 (articles 120 through 129 and executive bylaw of Article 129).

Although due to abundance of educated job-seekers in the country and for the purpose of reducing unemployment rate of the educated and skilled job-seekers the Technical Board for Employment of Foreign Nationals has strict rules and regulations (stipulated in Article 121 of Labor Law) for issuance of work permits. In the 2002 Foreign Investment Promotion and

Protection Act (FIPPA), has considered promising provisions for issuance of work permits for foreign investors, managers and experts in relation with the investments under FIPPA.

The work permits of foreign nationals are issued, extended or renewed for a period of one year. Upon expiry of the work permit, if the Iranian employer still needs the specialty of expatriates, he/she can apply for the extension of the work permit of his foreign laborer or expert. The application is sent to the Technical Board for Employment and upon approval the permit is extended for a period of one year.
Foreign nationals with valid work permits, whose contracts with employer become null and void for any reason, will be subject to renewal of work permit after changing the employer. The renewal of work permit – upon the change in employer or the type of work – will be carried out by the responsible divisions of the Ministry of Cooperatives, Labor and Social Welfare after the approval of the Technical Board for Employment of Foreign Nationals.

2.2.3.5 Trade Laws of Iran

Iran Customs Administration is a government organization under supervision of Ministry of Economic Affairs and Finance which plays vital role as protector of the country's economic borders and coordinator at entry and exit gates of the country and is responsible for executing customs laws and regulations related to export, import, transit and collecting duties and customs taxes and presenting technical requirements and facilitating the trade in the country.

Table 2.7 Trade Laws of Iran and Status of Goods

Allowed Goods	Do not require permission to be cleared from customs
Conditional Goods	Require permission(s) to be cleared from customs
Prohibited Goods	Illegal by the laws of Islamic Republic of Iran

The general guideline of the custom laws of Iran does not prohibit any other goods from entering the country other than the list below but usually certain permits and licenses are required in order to clear your goods from customs:

- Alcoholic drinks
- Gambling tools
- Weapons, ammunition and explosive goods
- Narcotic drugs
- Magazines, photos, films and snaps and those goods, which are against religious and national dignity of the country
- Any type of writings which are against the official religion of the country and /or disturbing discipline and public purity and national dignity
- Those types of goods which have legitimate and legal prohibition and /or their import and export have not been allowed according to the customs tariff table or special rules

2.3. TAXATION SYSTEM FOR FOREIGN INVESTORS

Foreign investors in Iran enjoy the same supports and privileges offered to the Iranian investors. The Direct Taxation Law passed in 1987 and the following amendments have considered no discrimination in taxation of domestic and foreign investors. This means both Iranian and foreign investors pay the same amount of taxes. Tax exemptions and discounts are also equally granted to domestic and foreign investors.

The law was extensively reviewed and reformed in 2001 to be in tandem with the ongoing economic conditions in the country. Production and investment promotion in line with the economic development of the country was one major factor behind the need for amendment of the law.

Taxable Real and Legal Entities According to Direct Taxation Law

- All owners, whether real or legal, for their properties inside Iran.
- Any real person residing in Iran for the incomes earned inside and outside the country
- Any Iranian real person residing abroad for all the income he makes in Iran
- Any Iranian legal entity for the incomes earned inside or outside the country
- Any non-Iranian real or legal entities for the income earned in Iran, and also for the income gained through delegation of authority dealership, technical and educational assistance or movie contracts (for any sort of income earned as rental, right of display and the like) in the territory of the Islamic Republic of Iran The aggregate income of companies, and also the income, from the profit-making activities of other juridical persons derived from different sources in Iran or abroad, less the losses resulting from nonexempt sources and minus the prescribed exemptions, shall be taxed at the flat rate of 25%, except the cases for which separate rates are provided under the present Direct Taxation Law. Persons, whether legal or real, will not be taxable for the stocks or the dividends of their shares in other capital corporations

Factory owners and legal entities are obligated to, even within the exemption period, submit profit or loss report, balance sheets provided from their official statutory books maximum four months after their tax year (March through February in Iran) along with the list of partners including number of shares and addresses to the appropriate tax department of the legal entity (Article 110). If these legal entities do not submit the documents within the stipulated time span any tax exemption will be null and considered void (Article 193).

Highlight of Tax Holidays (Tax Incentives)

In order to encourage development of Iranian industries the tax laws of Iran provide great incentives for foreign investors.

Table 2.8 Tax holidays in Iran

Business Activity	Level of Exemption	Duration of Exemption
Agriculture	100%	Perpetual

Industy and Mining	80%	4 Years
Industy and Mining in Less Developed Areas	50%	20 Years
Tourism	100%	Perpetual
Export of Service & Non-Oil Goods	100%	During 5th Development Plan
Handicraft	100%	Perpetual
Educational & Sport Services	100%	Perpetual
Cultural Activities	100%	Perpetual
Salary in Less Developed Areas	50%	Perpetual
All Economic Activities in Free Zones	100%	20 Years

Value-Added Tax Act (VATA) in Iran

The Value-Added Tax Act (VATA) was ratified by the parliament in 2007. Value-added tax (VAT) in Iran is levied on the sale of all goods and services and their imports. VATA, however, does not include the export of goods and services through official customs gates. Therefore, the taxes paid for the export of goods and services will be refundable by submitting the customs clearance sheets (for goods) and valid documents (Article 13).

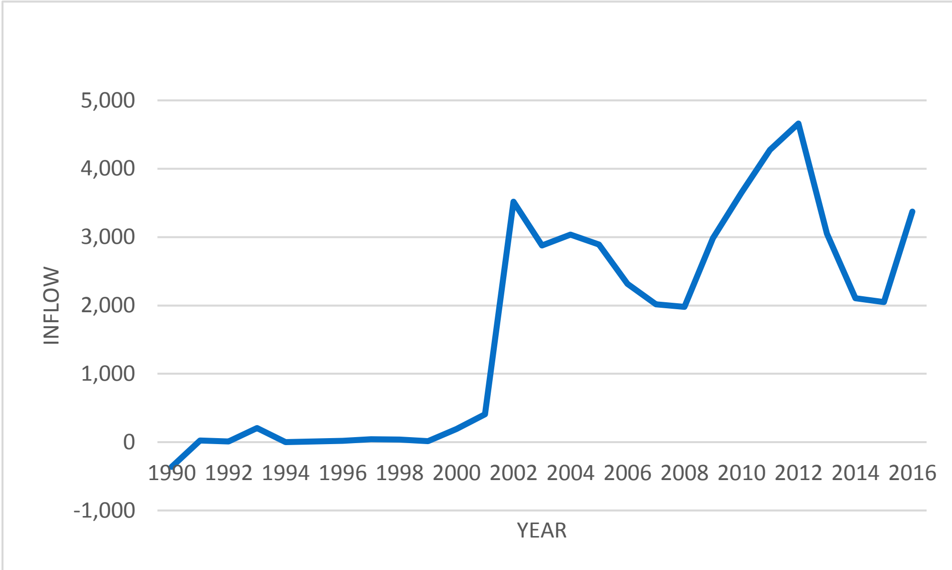
Currently, the VAT rate stands at 9% as of 2015 (VAT rate for two special goods of cigarettes and jet fuel is relatively high).

2.4 FDI in Iran

Iran has attracted more and more foreign investment and signed billions of dollars' worth of finance deal after the nuclear deal it signed with world powers in 2015, especially following the deal's implementation in 2016.

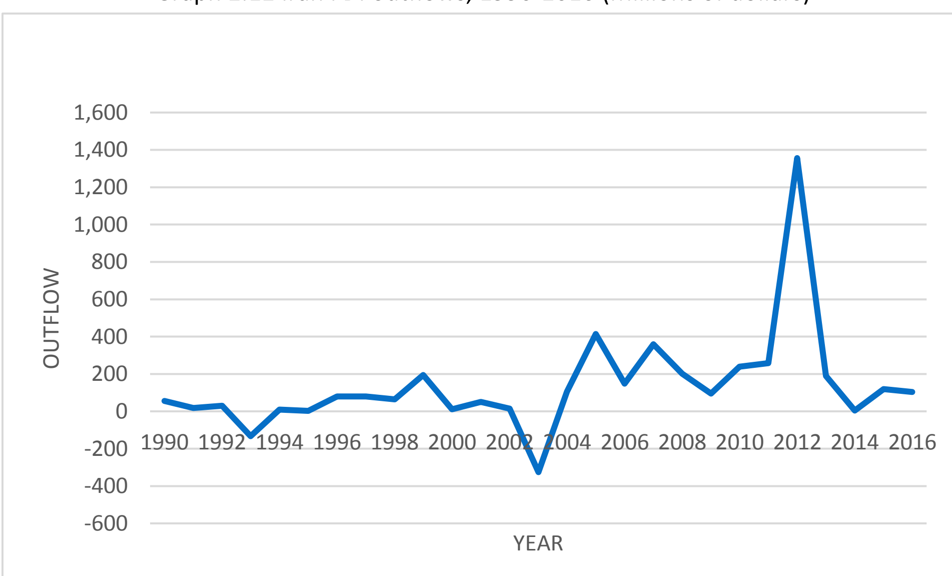
FDI is usually accompanied by transfer of advanced technology, modern management and technical know-how. Foreign companies have fewer problems in exports, thanks to their sales network, vast markets and well-known brands.

Graph 2.11 Iran FDI inflows, 1990-2016 (Millions of dollars)

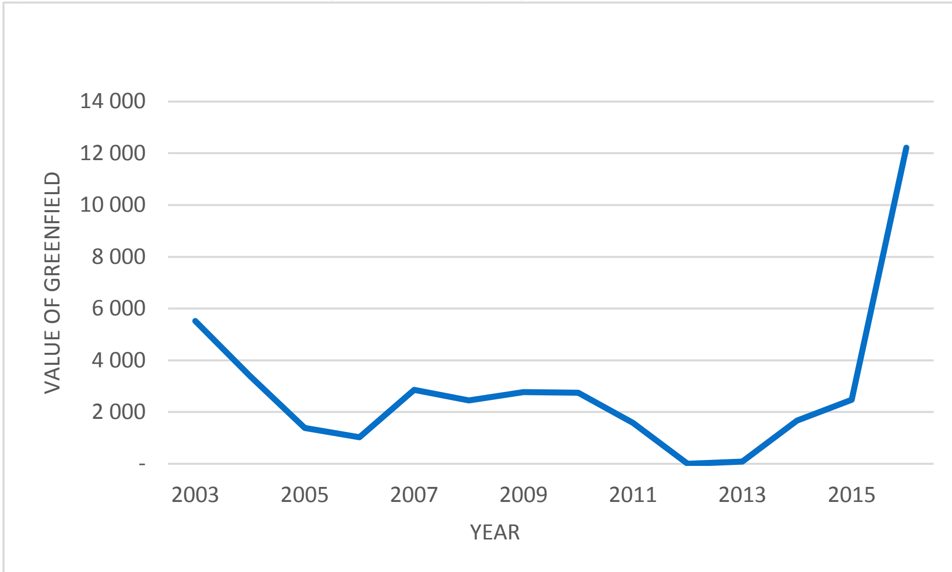


The latest value for Foreign direct investment, net outflows (current US$) in Iran was $104 million as of 2016. Over the past 26 years, the value for this indicator has fluctuated between $1,3 billion in 2012 and -$325 million in 2003.

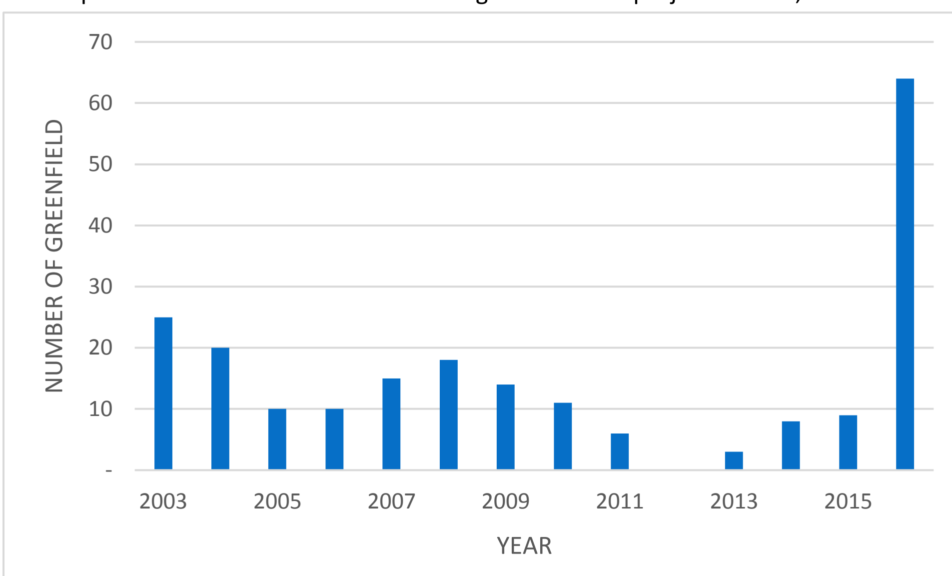
Graph 2.12 Iran FDI outflows, 1990-2016 (Millions of dollars)



Graph 2.13 Value of announced greenfield FDI projects in Iran, 2003-2016 (Millions of dollars)



Graph 2.14 Number of total announced greenfield FDI projects in Iran, 2003-2016



Source: UNCTAD

2.5 KEY INSTITUTIONS AND FIGURES IN ECONOMIC FOREIGN POLICY DECISION-MAKING

The Islamic Republic of Iran's complicated system of governance has had a major impact on how foreign policy has been conceived and implemented since the revolution 1979. This section will outline the key institutions and figures involved in foreign policy-making. This focus, therefore, makes it unnecessary to outline the whole institutional structure of the Islamic Republic.

Institutions such as the Assembly of Experts, the Expediency Council, religious foundations and the judiciary, while important in understanding Iran's internal power dynamics, are not examined due to their peripheral formal and informal role in the foreign policy-making processes of the Islamic Republic.

2.5.1 The Supreme Leader (Vali-e Faqih)

Sitting at the apex of the Iranian foreign policy pyramid is the Supreme Leader (Vali-e Faqih). The Supreme Leader is the most powerful figure within the Islamic Republic of Iran, and the Office of the Supreme Leader is the center around which all other institutions of the Islamic Republic revolve.

Khomeini was first Iranian religious and political leader, who in 1979 made Iran the world's first Islamic republic. After Khomeini's death, Khamenei was elected by Assembly of Experts as new Super Leader on 4 June 1989, at the age of 49. The Supreme Leader "supervises" the legislative, executive and judicial branches of Iranian government, and has the authority to appoint jurists to the Guardian Council, and can appoint Iran's highest judicial authority. Furthermore, the Supreme Leader is also the Commander-in-Chief of the Guardians of the Islamic Revolutionary Corps (IRGC) (Sepah-e Pasdaran), appoints the Commander-in-Chiefs of the three branches of the Iranian armed forces, oversees the Supreme National Security Council (Shura-ye amniyat-e melli) (SNSC) through two representatives appointed by himself, and has the authority to mobilize troops and declare war or peace. The Supreme Leader also signs the appointment certificate of the president; he can also dismiss the president if the Supreme Court finds the president has violated his legal duties, or if the parliament (Majles-e Shura-ye Melli) finds the president to be "politically incompetent".

2.5.2 The President

The president is Iran's most powerful official after the Supreme Leader. Every four years Iranians vote to elect a new president.

The president is mainly responsible for the day-to-day decisions regarding economic and socio-cultural affairs. The president has the power to appoint and dismiss cabinet ministers, controls the Planning and Budget Organization (Sazeman-e Barname va Buje), appoints the director of the Iranian Central Bank, and is the chairman of the SNSC.

Furthermore, the president implements legislation passed by the Iranian parliament, signs international agreements and treaties, is responsible for the state budget, accepts the credentials of foreign ambassadors, and signs the credentials of Iranian ambassadors.

In relation to foreign policy and national security, the president is subjected to significant political and constitutional barriers. The president has little formal control over foreign policy, and has no control over Iran's armed forces, which constitutionally fall under the umbrella of the Supreme Leader.

The current president of Iran Hassan Rouhani was elected on June 2013, he came after Mahmoud Ahmadinezhad. Hassan Rouhani is perhaps the first president under the Islamic Republic that can succeed at creating consensus between competing factions around a centrist position.

Chapter 3: TRADE CHANNELS

3.1. DIRECT EXPORT

Direct export uses to deliver goods or services directly on purchase orders which avoid any middleman to earn higher return on sales, or even assist to set lower prices for a more competitive position.

3.1.1 Online Sales (e-Commerce)

Iran is on the verge of an ecommerce boom which will offer considerable business opportunities to international and local investors, as well as to those financial institutions prepared to finance these projects.
Moreover, there is a young population (70% are under the age of 35), which is technologically sophisticated; the penetration rates for internet and mobile phones are among the highest in the Middle East.
The efficient new local debit card system has not only eased access to online payment, but also strengthened consumer trust regarding online shopping. Broadband subscriptions have been doubling every year since 2005.
The Iranian middle class is large and growing. This is where the most of the best opportunities lie. Furthermore, it is a market beginning to thrive on technology-driven retail. While many stores don't have a virtual presence, there is a prospering, though still small, e-commerce sector.
With the largest number of smartphone and Internet users in the Middle East, its ecommerce is growing faster than any other in the region. Using an Old Iranian delivery method, shoppers can order online and expect delivery within hours by speedy motorcycle delivery man for a cost not more than postage.

Pros:

- New generation in Iran are get used to buy from domestic online shops
- 35% of Iranian have access to online shops
- The total amount of online sales in Iran, reached to 17 billion USD in 2014
- Internet penetration rate in Iran is 55%

Cons:

- limited access of Iranian customers to credit cards due to sanctions
- There is legal office or agency of international online shops in Iran, so always there is a kind of fear to put order on them
- Risk of currency exchange rate is still a matter

3.1.2 Fair and Exhibition

About 138 international fairs hold each year in more than 8 cities of Iran, Tehran hosts about 47% of the international fairs. Large participation of actively interested visitors provides many opportunities for sales and generates sales leads

Pros:

- Networking with wide range of stockholders and consumers

- Fact-to- face meetings with customers as a valuable source of up to date information for market research
- Face-to-face meeting with government officials and talking to them about opportunities, problems and etc.

Cons:

- Cost
- There is no pre-selected beachhead market and sometimes meeting the right target is a matter of luck to competitors. Unorganized crowed and visual clutter requires multifaceted exhibiting strategy.

3.1.3 Tenders

Services and commodities in different categories notably including Oil, Gas and Petrochemical, Agriculture, Healthcare and Urbanization projects with invitation to tender. These projects are often financially supported by government. However, tenders capable of financing the whole project have better chances of winning the tenders.

Pros:

- Guarantee on payment
- Credential buyer (Government)
- Fair and verified competition
- Tender volume is ranged from thousands to millions USD

Cons:

- To support local companies, Iranian attendees' overall scores are weighted by 1.1 to 1.6 in comparison to overseas attendees.
- Complicated procedures for tender application.
- Non-refundable application fee

3.2. INDIRECT EXPORT

A middleman facilitates imports to Iran and delivers directly to market or just pass it to the local distributors. There are two main types of indirect export, "agent or representative" and "local distributors".

3.2.1 Agent or Representative

Known as one of the most convenient ways, in-land agent or representative is offering a well-tried & common strategy to be deployed for Iran Market entry. Customers usually look for reliable purchasing sources. However, for several years, sanctions forced local businessmen to get their agency right indirectly from Middle East representatives of the mother companies, an approach that caused many harmful side effects. One of the primary side effects is emergence of various agents for well-known brands in Iran forming an unorganized mediated relationship between customers and mother companies. A consequence of such complex relationship is aftersales service inefficiency and thus customer dissatisfaction.

Another threatening consequence of multi indirect agents is blockage of bidirectional information flow between companies and the market. A key factor in market development is finding unmet needs and wants in the target market. With the current instability of wants and needs in our changing world, companies that fail to stay in touch with its market and customers will soon lose its market share to the competitors. Now after Iran deal, mother companies can enter themselves which leads to price decrease and customer satisfaction.

Pros:

- Fast market entry
- Delegation of all legal formalities involved in import process, tariff, custom clearance, tax, insurance and labor to agent
- Direct access to the market know-how and knowledge of local customers' needs and wants thorough agents' expertise
- Customized financial and risk management.
- Risk free payment methods such as LC at sight, T/T, or down payment without any currency exchange risk.

Cons:

- The agent expertise and competence become of high importance as its failure in market-entry strategy challenges the brand's first impression and thus reputation
- Market development strategies filtered through agent`s capabilities for implementation Opaqueness of environmental factors could be used as cover story for performance evaluation. Reluctant attitude towards innovative strategies due to tendency for traditional but safe strategies.

3.2.2 Local Distributors or Traders

Unlike agents, distributors usually (Middle East distributors or Iranian traders) don't purchase. They put order and their payments are either on credit or after each sale. In this respect no guarantee, warrantee, and after sales service is required from exporter.

Distributor`s value mostly meet traditional or provincial markets` need (lower price, moderate or low quality, top famous or unknown brands are more profitable) such as Tehran's Grand Bazaar or markets located far from provincial capitals. These distributors are known for trading both general range of products or specific categories of products.

The Iranian bazaar is still the beating heart of the economy, politics, and society and of course, shopping in every city.

While each city has a grand bazaar that is this heart, bigger cities like Tehran, Isfahan, Mashhad and Shiraz have multiple traditional bazaars in various parts of the city that receive most patronage. These are the backbone of distribution networks linking back to the grand bazaar, even for many modern retail establishments. Many Iranians still prefer to conduct their shopping in the bazaar and independent small retailers, though local convenience stores, boutiques and malls.

Pros:

- Fastest way to capture considerable share of Iran market, despite no after sales service it works as a showcase to attract potential agents and to prepare the market for large-scale entry
- High profit-margin products usually have higher sale rates thorough distributors than agents

- No currency exchange risk

Cons:

- Payment are mostly made after sales or by long term payments
- Incessant sale or its continuity is on high risk; distributors have dominantly upper hand in negotiations
- Substitutions are always in the queue to get your share or position in case they promise a more beneficial future for distributor

3.3. B2C E-COMMERCE MODELS

3.3.1 Direct Model

In a Direct Model, your e-Commerce portal is the only place for your products to be sold through and you own a portal dedicated only to your brand and products.

Distraction-Free Buying

Your portal is a place for your brand to shine. It gives you a platform to highlight the value of your offering, to provide answers to questions your customers might have without having to bother them or your back office with phone calls or emails, and to give your customers a seamless experience to order and re-order on their own time.
Your brand as the star of a one-man show means that you are not forced to make pricing and positioning decisions that are specifically driven by a direct comparison to your competitors' offering. It gives you the chance to price your goods at a premium and opens up the opportunity to compete on customer service.

Full Service & Ownership

While in the Direct model you are relying on a third party provider for the hosted e-Commerce portal itself, your brand is fully responsible for serving your customers. This ranges from maintaining the brand experience on your B2C e-Commerce portal itself with the proper marketing assets and product images, processing payments, and fulfillment of all orders.

Personalization

Under the Direct model of B2B e-Commerce, upon logging into your brand's portal, retailers interact with your product line in a way that is tailored specifically for their account, allowing you to implement the following customer-specific settings:

- Set pricing
- Apply discounts and promotions
- Show or hide specific products
- Provide recently ordered items

This granular level of customization allows you to give your customers the exact experience you want them to have and stays consistent to the personal service your sales team delivers. While this can be achieved upon login using some Marketplace models, it is the case that the unknown customer who discovers your brand is unable to benefit from this more tailored experience.

Customer Relationships

While the Marketplace model has advantages in the form of customer acquisition, the direct model is beneficial to strengthen customer relationships and focus on the long term.

Control over the Brand Experience

One of the biggest upsides to adopting the direct model of B2C e-Commerce is that, rather than being forced into the constraints of the marketplace template and help build brand equity for the marketplace provider, the attention is on your brand, your products, and the experience you want to create for your customer.

The brand experience you create really starts from the discovery of your portal. Your customers receive a personal invite or come across your portal from your own website, setting off a brand journey that you are controlling from the start.

The portal itself is not only a permanent showcase for your product line, but it’s a hub in which you can distribute other important market assets which help drive sales and grow your brand. Promotional videos showcase your products in their best light. Instructional videos clarify questions your customers may have on more technical products and allow them to reach for materials that educate them on the value and specific merits of your product over the competition.

3.3.2 The Marketplace Model

A B2C e-Commerce marketplace is exactly what it sounds like; brands sell their products in an online marketplace right alongside their competitors.

Visibility & Competition

There’s often a belief amongst smaller wholesalers that leveraging the Marketplace model will lead to increased visibility for their brand. However, competition in a marketplace tends to favor larger, more well-known brands.

In a marketplace, all brands are stacked up against each other and the ability to stand out in a sea of competitors is limited. In general, when customers are browsing a marketplace to buy, big brands have a major competitive advantage against their smaller competitors simply because of brand recognition.

One strategy small brands try to use is to leverage unique marketing strategies to out position their competitors, but a marketplace’s rigid templates are often unable to accommodate particular font treatments, colors, videos, and other brand-specific assets.

3.3.3 Differences of Models

Visibility

Direct: With your own portal, potential buyers only see your brand. Chances are they didn’t wind up there by accident either. They have interest in your brand at that moment and don’t see anything else unless purposely placed there by you.

Marketplace: Contrary to popular belief, this option will probably gain you less visibility amongst the competition. You’ll find that well-known, established brands gain more visibility.

Scalability

Direct: Depending on your size, this could be a challenge. For larger, more established companies with the means to drive sales and a sophisticated fulfillment method, a direct e-Commerce model can effectively handle higher volumes. A smaller operation may have trouble fulfilling orders and creating a quality user experience without the proper resources.

Marketplace: Smaller brands may find it helpful to make use of the high volume sales methods used by these marketplaces. This option is appealing because the scalability is built in with the solution.

Customer Relationship Management

Direct: With your own portal you have more opportunity to market to customers and potential buyers. There is more opportunity to nurture the relationship and create an experience. With the ability to market to them through related content and provide detailed product descriptions and photos. this option is clearly the winner from a customer relationship perspective.

Marketplace: With a marketplace, there is always competition a click away. Customers here are more likely to be "shopping around" and your relationship with them is more transactional. This is not to say that you can't nurture the relationship. It just takes a bit more work.

Branding

Direct: When using a third party platform to develop your own e-Commerce store, you have immense amounts of control over your branding. You have the ability to brand everything from your logo to your calls-to-action to the site template you use.

Everything is your brand. If you are a smaller company, and just coming to market, having your own store is a good way to develop your brand as well. You are able to track your customer activity, market to them and get to understand how they think and feel about you.

Marketplace: With being a more transactional relationship with your customers, there isn't much interest in your brand, so there isn't much control over you on this platform. Your template and user experience is determined and created by the marketplace you choose.

Ownership and User Experience

Direct: There is complete and total ownership here. You create the experience and maintain it. This is great form a branding perspective, however can be fairly time consuming in the upkeep. Although in many cases you're relying on a third party for hosting your site, you are 100% responsible for your customer's experience so any issues or delays fall completely on you.

Marketplace: As mentioned before, this is an experience that is determined for you already. There is no ownership here. Depending on what you're looking for, this may be a better option for you. It's much faster and very little maintenance. When new trends in user experience emerge, you don't have to make costly and time consuming changes; the marketplace takes care of it for you.

Pricing and Competition

Direct: With your own online store, prices are not directly compared or listed against a competitor. With this, your brand maintains center stage. So your competition is able to click over to another site so it's up to you to keep them engaged. Although price is always a factor when comparing two brands, your store allows your marketing to do a lot of the talking here so a high price isn't as deterring.
Marketplace: Price plays a much bigger role here against the competition since it can be directly compared. You are easily able to win out by lowering your price in most cases, and this can be an easy fix. Before doing this, one must consider total cost to use the marketplace, profit margins, and how the cheaper price will reflect on your brand.

3.4. ONLINE MARKET PLACES IN IRAN

The Iranian e-commerce industry has witnessed a tremendous growth in the past couple of years. Online shopping is becoming more common amongst the various classes of the society. Here are 5 popular online shopping websites (market places) in Iran.

3.4.1 Digikala

Well it is not exactly local and it is more a national wide online retail company in Iran.
Digi stands for Digital and Kala means products in Farsi, it started as a digital product seller website but after scaling up the business, it also added the non-digital products to its shelf too.
Perhaps the most popular internet based company in the country which is now dominating the online market in Iran. Digikala became a success story and the leader of the country's e-commerce by paving the way for the new comers. This e-commerce website owns 85 percent of the market and is estimated to be worth over 300 million dollars. Digikala is considered as the biggest online shop in the Middle East with over 850 thousand visitors per day. The company started by selling electronics and computer devices but it diversified its categories since a couple of years ago. Books, music instruments, footwear, home equipment and cosmetics are some of the other categories that are being sold on Digikala.

Features of Digikala

- There was not that much online retailer in Iran and the major international retailers like amazon did not provide services for Iranians. Services like a portal to pay or services like shipping products to Iran. In this situation, Digikala saw the need for online buying based on the same needs in other countries, and based on successful experience of international retailers, started its journey.
- Digikala was flexible in the payment schemes. In Iran many people still don't trust online websites to pay. What Digikala did was it let people pay cash to the delivery after receiving the product. With this payment method, the Iranian users trusted Digikala and now they even trust it enough to pay online.
- Digikala gives value to people that just surf the net and don't buy. Many online retailers are not providing so many details on products and due to the lack of content; usually users don't use their website as a reference. What Digikala did is that it provided much useful content like product details and product reviews so even if you didn't want to buy and you just want to learn about the prices and so, it would be a place to visit. I have to mention, there is almost no other website with this amount of information on products in Farsi. As we all know, traffic could lead to customers.
- Digikala is user friendly. Usually the Iranian websites don't pay that much attention to user experience and user interface, but Digikala played a different role and gained value by customer centricity, meaning that it cared about the users experience and how they felt in the website so for an Iranian website, Digikala is known to have a wonderful interface.
- Return policy: buyers can return the product within 7 days to Digikala
- Express delivery: delivery is done in same day of request in Tehran and within 2-4 working days in other cities depending of products and city.
- There is free shipping in Tehran for products that their value are more than 1,000,000 IRR (25 Euro) and in other cities it costs less than 2 euro for each delivery.

3.4.2 Bamilo

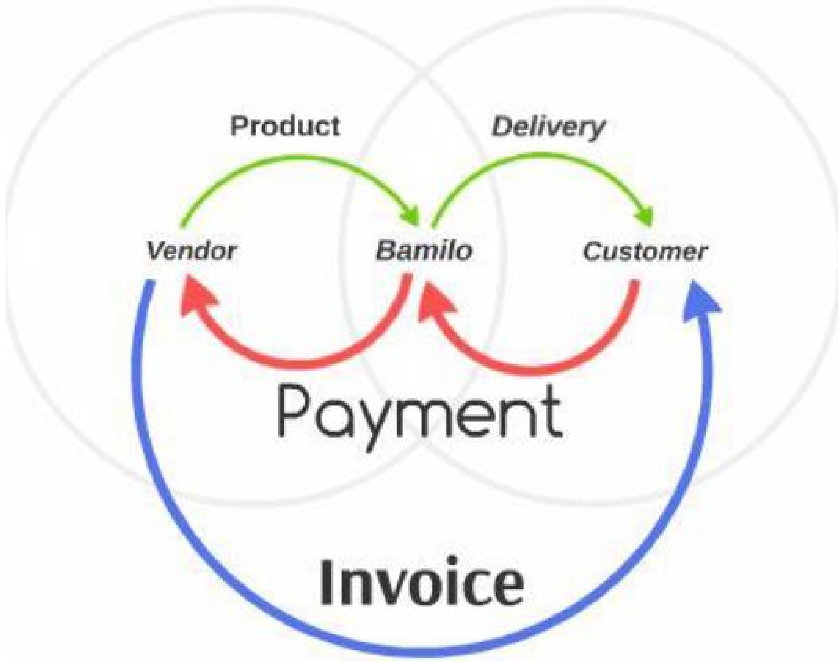
Bamilo is the second largest marketplace website in Iran. Although the market share gap between Digikala and Bamilo is high, the company has attracted many customers thanks to their competitive pricing. Financial support of MTN group also gave a huge boost to the fast growth of this online shop. The website also offers a better variety of items in some categories compared to Digikala. The company is also known for its special sales and deals during different occasions of the year.

Vision: To become number 1 ecommerce company in Iran within 2 years.

Mission:

- connecting vendors and customers with the best experience for both sides
- bring diverse and quality products with great delivery and support to customers to all around the country
- Support and help vendors with their selling and marketing process.

Graph 3.1 Bamilo process



The Iranian market is both very interesting and challenging. Demanding consumers know what they want and expect nothing less than very good customer service. Customers see 24-hour delivery guarantees, 24/7 customer support systems, and extensive 30-day return policies in Iran, which isn't necessarily the case for other developing countries.
Bamilo has a unique approach to e-commerce and follow what is called a Marketplace model: its objective is to provide a simple, convenient, and effective way for vendors to sell online.
It supports its partners with revenue-boosting marketing activities. it also started a fulfillment service with its warehouse and fleet as add-on services to further develop this marketplace ecosystem.
As an e-platform, Bamilo provides innovative solutions for its vendors as it strives to deliver, hand-in-hand, the best online shopping experience to bamilo's customers.
There are some cases that Bamilo prices are below market level. Bamilo is an online marketplace. It works with over 800 suppliers. It is they who decide on the listing price, discounts, promotions, and stock levels of the products they choose to sell through Bamilo's site.
Ultimately, bamilo encourages its vendors to improve their sales by providing the best offers to customers. This is where Bamilo creates value for both customers and vendors.
There's a lot of room for improvement and it has to continue growing its assortment and continue finding important vendors to join marketplace. In the meantime, bamilo is filling the gap by acting as a direct supplier to customers.
Bamilo does engage in exclusive contracts with its suppliers, but only for selected cases, particularly fashion brands. Currently, Bamilo is the biggest e-Commerce shop in fashion and it encourages fashion vendors to do e-Commerce with Bamilo.
One of the reasons behind having exclusive partnerships has to do with the additional specialized/dedicated branding and marketing initiatives (online advertising, retargeting, social media branding, etc.) conducted for these companies.

Its suppliers understand that fruitful partnerships go both ways, and that mutual sense of security must be present from both ends.
Bamilo is excited to contribute to and further grow the e-commerce ecosystem here. It sees this panning out in several ways: by increasing partner suppliers and also its product assortment on-site, connecting with complimentary services 3PLs, and creating more interesting campaigns for both its customers and vendors.
Also looking forward to making its platform even more mobile-friendly – one of big hairy audacious goals is to have the Bamilo's app installed in every mobile device in Iran. It's ramping up efforts this year and that includes growing in-house IT team.
The past 2 years, Bamilo is enabled SMEs to sell to all over Iran. This year, it's hoping to empower them to sell to the Middle East.

3.4.3 Esam

Esam is the local version of eBay for Iranians. The website was launched in 2011 and provides consumer-to-consumer services to users via its platform. Esam also has an auction section and provides a platform for the sellers to set their own online shop page. Registering on Esam, participating in the auctions and building your own marketplace on the platform are free of charge. The commission becomes smaller as the price increases, for products less than 490000 Rials (15 Euro) it's 15percent and for products more than 40,000,000 Rials (1180 euro) it is just 1 percent.
The first priority of Esam is to satisfy buyers. For this plan, when a buyer buys, he/she pays, but Esam keeps the payment in its hand until the confirmation of buyer about receiving the product in good condition as it is presented in site. So if buyer wants to return the product, he can easily get his/her money back.
Esam has no role in shipment and delivery of products and the seller is responsible for that.
As presented by Esam, about 35 billion Rials (1000 million US Dollar) old banknotes, coins and stamps have been sold in the first 3 years of its start.
Esam in social media:
It is obvious they didn't understand social media's power in ecommerce, their activity shows this result. While most of the companies post more than 3 times in a day to be alive in market, Esam's last activity is for a week ago. Absolutely this activity and invest cannot absorb customers to its platform.

3.4.4 Modiseh

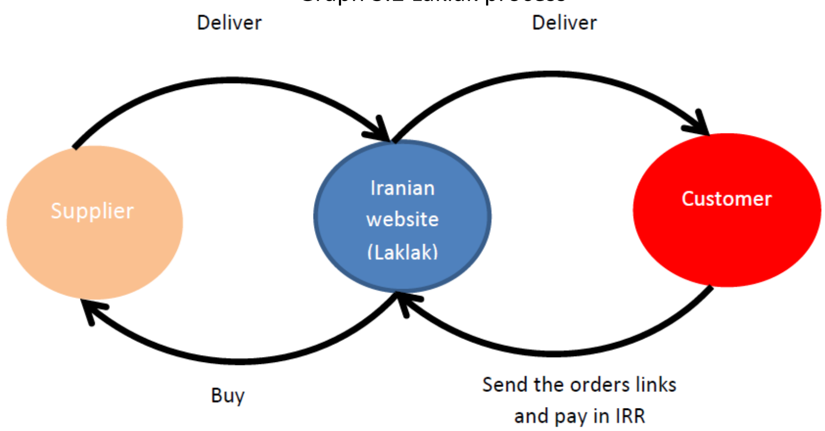
Modiseh is one of the leading fashion online shops in Iran which was founded in 2015.
The website is backed by GBG Group, one of the oldest and prominent holdings in Iran with experience in consumer and non-consumer markets. The website offers a wide variety of local and international products in different categories of clothing, baby products, homecare, food and beverages.
It has 7-day return policy. It has also free shipping for product that its value is more than 25 euro. The lead time is 2-3 working days.

Modiseh in Social media:
Like Esam, Modiseh does not use social media properly; it focuses more on Instagram as the most popular social media in Iran, but their activities is not sufficient. In telegram channel, Modiseh is more active than other social channel. Because of its poor performance, its Alexa ranking is fallen with near 100 levels.

3.4.5 Laklak group

There are many companies that are working in online ecommerce. Their type of activity is different from others. Due to absence of foreigner companies, some companies like laklakgroup.com fill this gap. Their process is following: a customer wants to buy a product from a website, he/she sends its link to this company and company starts shopping instead of customer. It orders and pays in foreign currency and delivers it to customer that paid in Rials. It doesn't seem good choice to shop from foreigner brand but sometimes it's the only one.

Graph 3.2 Laklak process



Some features and limits:
The most important factor that a customer deals with in is the price of product that he/she have to pay. For example, a product with the 50-euro value and a kilo weight will be 100 euro for customer.
Another problems is the delivery time, near 20days are the average delivery time. In compare to other local websites it is a long time.
There is no return policy except for damaged products.

3.5 DISTRIBUTION NETWORKS

A distribution network is an interrelated arrangement of people, storage facilities and transportation systems that moves goods and services from producers to consumers. A distribution network is the system a company uses to get products from the manufacturer to the retailer. A fast and reliable distribution network is essential to a successful business because customers must be able to get products and services when they want them.

Success in national and international competition depends on the competitive advantages that companies enjoy when pursuing their business activities. Only a systematic study of all company

activities and their interdependencies can reveal the reasons for these competitive advantages and their potential. One of the most important activities in the value chain is distribution logistics, which is closely related to customers and therefore able to directly generate competitive advantages. In general, distribution logistics is expected to 'provide the right goods at the right time and place, in the right amount and quality, and at the right price', thereby ensuring the availability of goods and information.
Distribution system is set of processes between production and consumption, including storage, transportation, wholesalers, distribution, retailer, and above all the process management system.
Distribution network is part of the economic system that the country's economic developments are affecting on determination of their function and structure.

The basic elements of the distribution network are:

1. Manufacturers and importers of the product to the network.
2. Intermediaries between manufacturers and retailers.
3. Retailers that deliver goods and services to consumers are final.
4. Consumers who bring the products outside the network and use them.

Graph 3.3 Distribution process

Proper functioning of this network is not only causation of consumer access to goods and service at a transparent and fair price, but also effects on economic balance and improvement of situation in both production and consumption.
Lack of proper function and structure irrational distribution system leads to more expensive prices of goods and services, creating dissatisfaction and the formation of irrational expectations of manufacturers (and consumers) and severe price fluctuations, waste of resources, lack of transparency, reduced purchasing power, disturbance in the functioning of the market and the formation of informal distribution networks in society. Understanding the components of the operation and features of the national distribution network is the first step in providing policy reform.

Now in Iran the wide distribution network exists:

1. Cooperatives (urban, employee, local, free and rural ...).
2. Guilds (distribution, service, manufacturing and technical services)
3. The Government Trading Corporation
4. Chain Stores
5. Stores affiliated entities
6. Fruit and vegetables markets
7. Representation of manufacturing companies

Different goods depended on the type of goods (capital and consumption), product (imported, domestic production, trafficking) and private or public process go through different path in country's distribution network and therefore the operation of the distribution network in various goods differs from each other.
From point of view of a consumer, increasing of awareness, health and safety improvement, promoting consumer's attitudes and creating fair competitive market for consumers are concerned.

Studies indicate that the management system and the present system of distribution network have problems and specific characteristics in Iran that are as follows:

1. Number of units outstanding at the retail level of trade
2. The high costs of goods distribution networks (between producer prices and consumer prices)
3. The absence of sufficient data and statistical distribution of the activities of the Rings
4. Uncertain and unorganized significant portion of the transportation and distribution of the product in the distribution network
5. Lack of interaction between different trades to develop and export market regulation
6. Absence of trade unions in different fields of trade unions areas of the country
7. Monopoly on the market of goods and services
8. Lack of institutional and technical infrastructure development
9. The absence of a common commodity classification system and ID services between the port and the internal distribution network
10. Absence of non-governmental organizations in support of consumer rights
11. The absence of a coherent set of market institutions

Dispersion of distribution companies in one hand and dispersion of retailers and chain store in other hand are some reasons of increasing the distribution costs that can be decreased to one-fifth the cost by merging of these stores and companies.

Important tasks of distribution channels include:

1-gathering and distribution of information relating to market research that is much needed for production planning.

2. Preparation and publication of information 'and advertisements about goods.

3-search and communicate with potential buyers.

4-customized merchandise assortments, including production, grading, assembly and packaging them

5-reaching an agreement on the price and other term of the transaction
6-transportation, physical distribution and storage of goods
7-funding required for product distribution costs.
8-accepting risks associated related to distribution activities.

The concept of distribution channels is not limited only to the distribution of physical goods, service providers and new ideas owners should set their product available to target population. For this reason, it must be used educational systems and health service providers, so special centers and agencies should be created.

3.5.1 International Scorecard

The international score uses six key dimensions to benchmark countries' performance and also displays the derived overall LPI index. The scorecard allows comparisons with the world (with the option to display world's best performer) and with the region or income group (with the option to display the region's or income group's best performer) on the six indicators and the overall LPI index.

The logistics performance (LPI) is the weighted average of the country scores on the six key dimensions:
1) Efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including customs;
2) Quality of trade and transport related infrastructure (e.g., ports, railroads, roads, information technology);
3) Ease of arranging competitively priced shipments;
4) Competence and quality of logistics services (e.g., transport operators, customs brokers);
5) Ability to track and trace consignments;
6) Timeliness of shipments in reaching destination within the scheduled or expected delivery time.

The scorecards demonstrate comparative performance—the dimensions show on a scale (lowest score to highest score) from 1 to 5 relevant to the possible comparison groups—of all countries (world), region and income groups.
The LPI compares national and international logistical performance in terms of cost, lead times, administrative effort, resources and quality.

Table 3.1 Compared LPIs of Iran and Italy

	Iran	Italy
Export time and cost/Port or airport chain		
Distance (kilometers)	1462km	189km
Lead Time (days	7days	1day
Cost (US$)	655US$	647US$
Export time and cost / Land supply chain		

Distance (kilometers)	612km	487km
Lead Time (days	6days	1day
Cost (US$)	1225US$	1316US$
Import time and cost/Port or airport chain		
Distance (kilometers)	775km	179km
Lead Time (days	3days	2day
Cost (US$)	1000US$	647US$
Export time and cost / Land supply chain		
Distance (kilometers)	553km	487km
Lead Time (days	5days	1day
Cost (US$)	1500US$	1456US$
Shipments meeting quality criteria (%)	84.89%	82.52%
Number of agency- export	5	2
Number of agency- import	4	2
Number of documents- export	7	2
Number of documents- import	8	3
Clearance time without physical inspection (days)	3days	1day
Clearance time with physical inspection (days)	6days	2days
Physical inspection (%)	52.49%	4.41%
Multiple inspection (%)	13.69%	1.46%

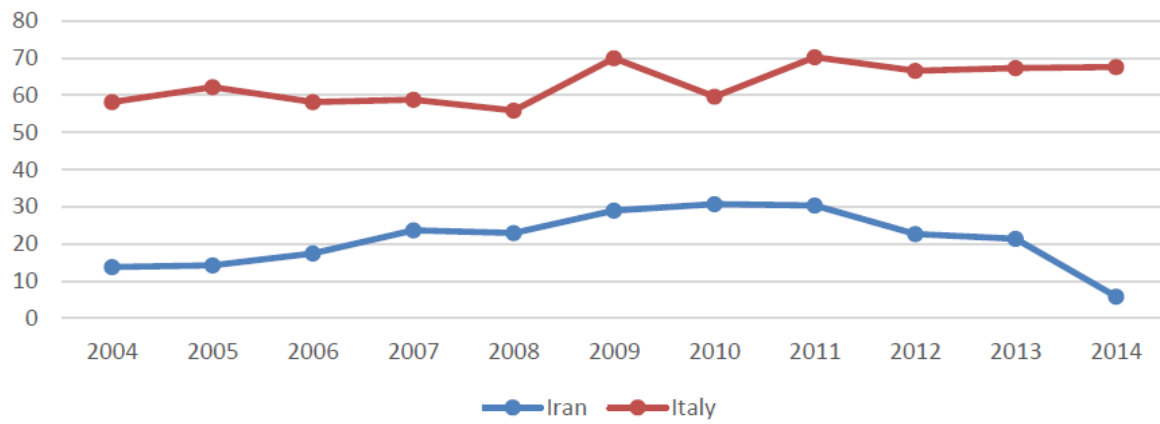
The two indicators of the report relevant to logistics show how legal regulations affect the construction of a simple warehouse and import of a 20-foot container.

3.5.2 Liner Shipping Connectivity Index

The Liner Shipping Connectivity Index captures how well countries are connected to global shipping networks. It is computed by the United Nations Conference on Trade and Development (UNCTAD) based on five components of the maritime transport sector: number of ships, their container-carrying capacity, maximum vessel size, number of services, and number of companies that deploy container ships in a country's ports.

For each component a country's value is divided by the maximum value of each component in 2004, the five components are averaged for each country, and the average is divided by the maximum average for 2004 and multiplied by 100. The index generates a value of 100 for the country with the highest average index in 2004. The underlying data come from Containerization International Online.

Graph 3.4 Liner shipping connectivity index



3.5.3 World Development Indicators

Table 3.2 World development indicators

	Logistics performance index	Burden of customs procedures	Lead time		Documents		Liner shipping connectivity index	Quality of port infrastructure	Freight costs to the United States
			To export	To import	To export	To import			1 kilogram DHL no document air package
	1-5 (worst to best)	1-7 (worst to best)	days	days	number	number	0-100 (low to high)	1-7 (worst to best)	$
	2014	2014	2014	2014	2014	2014	2014	2014	2015
Iran	2.49	3.3	7	3	7	11	5.8	4	174.57
Italy	3.69	4	1	2	3	3	67.6	4.5	126.58
World	2.89	4.1	2.6	3.1	6	7	..	4.1	..
Low income	2.4	3.4	4.2	5	8	10	..	3.1	..
Middle income	2.68	3.7	2.9	3.5	7	8	..	3.6	..
Low & middle income	2.61	3.6	3.1	3.7	7	8	..	3.5	..
Middle East & North Africa	2.5	3.4	2.9	4	6	8	..	3.7	..
High income	3.48	4.8	2	2.2	5	5	..	5.1	..
Euro area	3.58	4.9	1.8	1.7	4	5	..	5.3	..

Logistics performance index: Overall (1=low to 5=high):

Logistics Performance Index overall score reflects perceptions of a country's logistics based on efficiency of customs clearance process, quality of trade- and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time. The index ranges from 1 to 5, with a higher score representing better performance. Data are from Logistics Performance Index surveys conducted by the World Bank in partnership with academic and international institutions and private companies and individuals engaged in international logistics. 2009 round of surveys covered more than 5,000 country assessments by nearly 1,000 international freight forwarders. Respondents evaluate

eight markets on six core dimensions on a scale from 1 (worst) to 5 (best). The markets are chosen based on the most important export and import markets of the respondent's country, random selection, and, for landlocked countries, neighboring countries that connect them with international markets. Scores for the six areas are averaged across all respondents and aggregated to a single score using principal components analysis.
Details of the survey methodology and index construction methodology are in Arvis and others' Connecting to Compete 2010: Trade Logistics in the Global Economy (2010).

Burden of customs procedure, WEF (1=extremely inefficient to 7=extremely efficient):
Burden of Customs Procedure measures business executives' perceptions of their country's efficiency of customs procedures. The rating ranges from 1 to 7, with a higher score indicating greater efficiency. Data are from the World Economic Forum's Executive Opinion Survey, conducted for 30 years in collaboration with 150 partner institutes. The 2009 round included more than 13,000 respondents from 133 countries. Sampling follows a dual stratification based on company size and the sector of activity. Data are collected online or through in-person interviews. Responses are aggregated using sector-weighted averaging. The data for the latest year are combined with the data for the previous year to create a two-year moving average. Respondents evaluated the efficiency of customs procedures in their country. The lowest score (1) rates the customs procedure as extremely inefficient, and the highest score (7) as extremely efficient.

Lead time to export, median case (days):
Lead time to export is the median time (the value for 50 percent of shipments) from shipment point to port of loading. Data are from the Logistics Performance Index survey. Respondents provided separate values for the best case (10 percent of shipments) and the median case (50 percent of shipments). The data are exponentiated averages of the logarithm of single value responses and of midpoint values of range responses for the median case.

Lead time to import, median case (days):
Lead time to import is the median time (the value for 50 percent of shipments) from port of discharge to arrival at the consignee. Data are from the Logistics Performance Index survey. Respondents provided separate values for the best case (10 percent of shipments) and the median case (50 percent of shipments). The data are exponentiated averages of the logarithm of single value responses and of midpoint values of range responses for the median case.

Documents to export/import (number):
All documents required per shipment to export/import goods are recorded. It is assumed that the contract has already been agreed upon and signed by both parties. Documents required for clearance by government ministries, customs authorities, port and container terminal authorities, health and technical control agencies and banks are taken into account. Since payment is by letter of credit, all documents required by banks for the issuance or securing of a letter of credit are also taken into account. Documents that are renewed annually and that do not require renewal per shipment (for example, an annual tax clearance certificate) are not included.

Quality of port infrastructure, WEF (1=extremely underdeveloped to 7=well developed and efficient by international standards):
The Quality of Port Infrastructure measures business executives' perception of their country's port facilities. Data are from the World Economic Forum's Executive Opinion Survey, conducted for 30 years in collaboration with 150 partner institutes. The 2009 round included more than 13,000 respondents from 133 countries. Sampling follows a dual stratification based on company size and the sector of activity. Data are collected online or through in-person interviews. Responses are aggregated using sectorweighted averaging. The data for the latest year are combined with the data for the previous year to create a two-year moving average. Scores range from 1 (port infrastructure considered extremely underdeveloped) to 7 (port infrastructure considered efficient by international standards). Respondents in landlocked countries were asked how accessible are port facilities (1 = extremely inaccessible; 7 = extremely accessible).

Cost to ship 1kg priority express air package through DHL to the United States (current US$):
Cost to ship 1kg priority express air package through DHL to the United States is the DHL international U.S. inbound worldwide priority express rate for a 1 kilogram no document air package. Fuel, assessorial/surcharges, duties, and taxes are excluded.
Rural Access Index (RAI) measures the number of rural people who live within two kilometers of an all-season road as a proportion of the total rural population.
Iran’s RAI and Italy’s is 66 and 98 respectively and people without access to rural transport in Iran are 7.8 million and in Italy 0.4 million.

Today, transportation is a major component of the national economy and having a great effect on the economic growth of the country's infrastructure. This section includes activities extensively in all areas of production, distribution and consumption of goods and services and plays an undeniable role in economic activities. Without transportation, facilities and equipment and optimal fleet, imagine the growth and development of the country seems impossible.
Mainly in development of global economy and trade in current situation and its growth trend, we cannot deny the role of transportation systems in optimizing costs, trip time, speed, safety and provided service level.
Cycle of economic activities in a wide variety without the exchange of goods and materials and the movement of goods, telecommunications, and information is not possible ever.
In fact communication and transportation is the interface between sectors. Since transportation is an important factor in circulation of goods and reaching them to consumers, it effects on the distribution of wealth and its advances cause the development of international trade. Nowadays with the development of communication tools trade and economic relations in the international arena has been expanded.
This has led increasing of goods exchange between different countries and the transport of goods is more important now.
Transportation maybe does in the form of sea, air, rail, road or combination of them. Certainly this fact on the one hand, the diversity of the legal relationships between carriers and operation of transport services, On the other hand, difference in the nature and mode of transport create

special and appropriate rules to manage legal relations. As 90 percent of good are transported by road in Iran now, we are seeking to examine the importance of road transportation on Iran's economy.

3.5.4 Transportation Modes

Each transportation mode has key operational and commercial advantages and properties. However, contemporary demand is influenced by integrated transportation systems that require maximum flexibility in the respective use of each mode. As a result, modal competition exists at various degrees and takes several dimensions. Modes can compete or complement one another in terms of cost, speed, accessibility, frequency, safety, comfort, etc.

Table 3.3 Compare advantages of transportation key factors

Mode	Product Options	Speed	Accessibility	Cost	Capacity	Intermodal Capability
Road	Very broad	Moderate	High	Moderate	Low	Very high
Railway	Broad	Slow	Moderate	Low	Moderate	Very high
Air	Narrow	Fast	Low	Very high	Very low	moderate
Water	Broad	Very slow	Moderate	Very low	Very high	Very high

3.5.4.1 Road Transportation

Road infrastructures are large consumers of space with the lowest level of physical constraints among transportation modes. However, physiographical constraints are significant in road construction with substantial additional costs to overcome features such as rivers or rugged terrain. While historically road transportation was developed to support non-motorized forms of transportation (walking, domestication of animals and cycling at the end of the 19th century), it is motorization that has shaped the most its development since the beginning of the 20th century. Road transportation has an average operational flexibility as vehicles can serve several purposes but are rarely able to move outside roads. Road transport systems have high maintenance costs, both for the vehicles and infrastructures. They are mainly linked to light industries where rapid movements of freight in small batches are the norm. Yet, with containerization, road transportation has become a crucial link in freight distribution.
Due to availability, cheapness and flexibility of road transportation, this method is most used method to transfer passenger and goods in worldwide.
In Iran more than 90 percent of overall transportation is dedicated to road, In Japan 90 percent and in USA more than 50 percent. The most important reason of this matter is availability of this method. In other word, almost all the transportation type, in origin or destination, need the road transportation.
Iran enjoys the highest potentials for increasing the transit of goods and passengers. Thanks to Iran's geopolitics and strategic potentials, the country is considered as a transit crossroads of Asia and Europe.

Iran's border terminals are one of the safest, most secure and most convenient routes in the region and play a pivotal role in connecting the East-West, South-North and other transport corridors.
There are many active companies in road transportation. One of the most important ones is I.R.I Post Company that in last year sent over 600,000,000 packages inside the country. So many other companies are working in this filed. Some of them are just transporting goods without considering the content of goods but some others are distributers of special goods, for example Darupakhsh is active in distributing drugs.

3.5.4.2 Railway Transportation

Rail transportation has been the product of the industrial era. It represented a major improvement in land transport technology and has obviously introduced important of its capacity to carry heavy loads, since maritime transportation excelled at doing so, but because of its higher level of ubiquity and its speed. Rail transport systems dramatically improved travel time as well as the possibility to offer reliable and consistent schedules that could be included in the planning of economic activities such as production and distribution.
Rail transportation, like roads, has an important relationship with space, since it is the transport mode the most constrained by the physiography.
Iran is a huge country with extended arid and desert plains. Settlements are concentrated in areas where abundant water is available, with distances of hundreds of kilometers between the major cities. According to this pattern railway offer mainly long distance connections, with usually at least one overnight train per line and a few daytime connections on some lines. Some relations are not served every day but two or three times a week. All connections are structured to be direct. This means you will not have to change at any station during your travel (and you hardly will find any timetable permitting changes). Local or regional service has been introduced in the last decades but it is available only in few areas. Never expect to take a train to cover a distance of just 50-80 km except in urban regions. On long distances railway is often the fastest available land transport, more comfortable than road connections and of course safer and more environmental friendly.
With up to 500 km of new lines per year Iran's railway has one of the quickest growing networks in the world. Many new destinations have been added since the last years and new services have been introduced on existing lines. By 2020 Iran expects to reach every regional capital by rail.

International Services

Iran has managed to extend railway connections to almost any neighboring country.
Turkey, the Northern neighbors in the Caucasus and Central Asia as well as Pakistan is already connected; new links are under construction to Afghanistan, Azerbaijan and Iraq. In December, 2014 a rail line from Iran opened to Turkmenistan and Kazakhstan.
The opening of the line marks the first direct rail link between Iran, Kazakhstan and China and upon completion of the Marmaray rail project direct rail transport between China and Europe (while avoiding Russia) will be possible.
The Trans-Asia-Express, a weekly through-service from Istanbul to Tehran (limited to Ankara until 2014 due to works on the Turkish high-speed line) and a second weekly train between Van and

Tabriz have been among the most popular long distance rail connections in the Middle East among European travelers. But this service has been suspended since July 2015 following the deteriorating of the security situation in Eastern Turkey. The service between Tehran and Damascus has been suspended due to the civil war in Syria. Hopefully there will be soon the conditions to resume these services.
There are regional trains to the Turkmen borders of Sarakhs and Incheh Boroon as well as to the border with the Azeri exclave of Nahjavan at Jolfa but currently no border crossing passenger trains to these countries. From Khorramshar station the Iraqi border crossing at Shalamcheh is just 15 km away and the city of Basra 30 km.
Twice a Month a train leaves the eastern town of Zahedan to Quetta in Pakistan. This train is on broad gauge and provided by Pakistan Railways. Since 2009 Iran has closed the gap between the European standard gauge network and the rails of the Indian subcontinent by completing the line from Bam to Zahedan. A trip by rail from London to Mumbai is now possible.

3.5.4.3 Air Transportation

Air transport is an important enabler to achieving economic growth and development. Air transport facilitates integration into the global economy and provides vital connectivity on a national, regional, and international scale. It helps generate trade, promote tourism, and create employment opportunities.
Air transportation's share of world trade in goods is only 2% measured by weight but more than 40% by value. For the international operations, freight can account to 45% of the revenue of a regular airline. Typically, air cargo relates to time sensitive, valuable or perishable freight carried over long distances. This is particularly suitable in supporting "just-in-time" production and distribution strategies with low inventory levels. Air cargo has also a niche market for emergency situations where the fast delivery of supplies prevails over cost issues.
As most air corridors between Europe and Southeast Asia and between members of the Commonwealth of Independent States and Persian Gulf pass through Iranian airspace, Iran has an enormous potential to become a passenger and cargo transport hub.
There are more than 20 million domestic passengers a year and six million international passengers on Iranian carriers. We have growth of 6% despite sanctions and if they are lifted we think the increase will be more than 10% for 10 years. Rob Morris, head of consultancy at aviation analysts Flight global expects Iran to acquire as many as 300 new commercial jet aircraft, with an estimated value of around $18 billion, over the next 10 years. Such an overhaul would bring Iran's fleet closer to international standards.
If Iran's airlines are able to replace these older aircraft with newer examples they benefit from reduced operating costs from both a fuel and maintenance perspective. This will drive increased operational efficiencies. In addition to fleet upgrades, Iran's infrastructure will also see massive investment. Pea ford highlights radar, air traffic management, the 300 domestic airports and passenger experience as key opportunity areas for international firms.
The nuclear talks could still disrupt momentum. But as the international business elite set their sights on Iran, the new player is determined to welcome them with a worldclass travel network.

3.5.4.4 Water Transportation

Water transportation, similar to land and air modes, operates on its own space, which is at the same time geographical by its physical attributes, strategic by its control and commercial by its usage.
Because of the physical properties of water buoyancy and limited friction, maritime transportation is the most effective mode to move large quantities of cargo over long distances. Maritime transportation has high terminal costs, since port infrastructures are among the most expensive to build, maintain and improve. High inventory costs also characterize maritime transportation. More than any other mode, maritime transportation is linked to heavy industries, such as steel and petrochemical facilities adjacent to port sites.

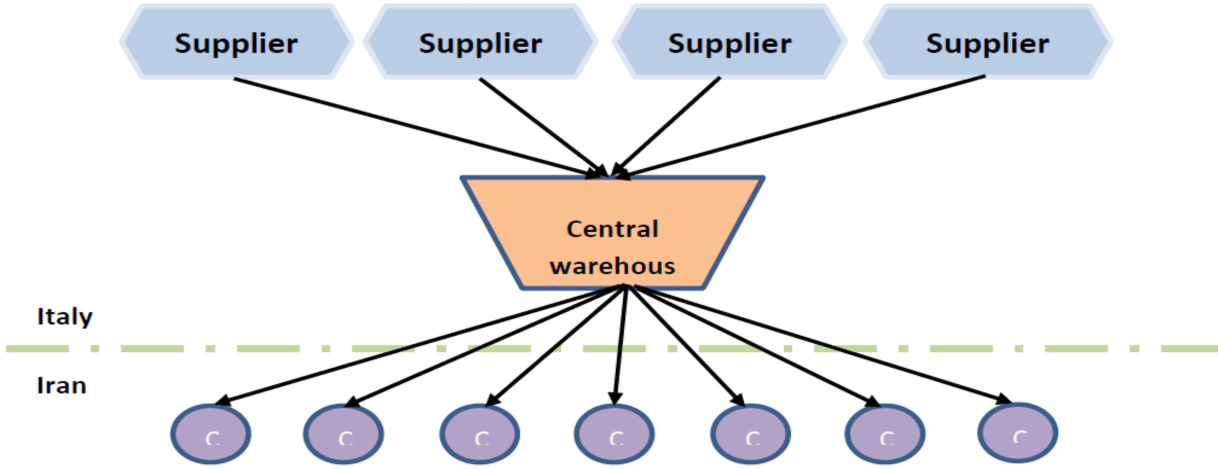
Iran has two main coasts, one alongside the Caspian Sea, and the other running along the Persian Gulf and into the Gulf of Oman. The port of Anzali is the most important lying along the coast of the Caspian Sea. There are 14 ports lying along the coast of the Persian Gulf. Together, these 14 ports have a total of 90 jetties with major expansions under way.

In the past, Iran's lack of adequate port facilities had held up both imports and exports, causing major headaches for shippers to the country. Currently, Iranian ports have sufficient capacity to meet the current flow of incoming and outgoing cargo to and from the country. In recent years, the Ports & Maritime Organization (PMO) has undertaken numerous measures to enhance the operational capacity of the national port network. The country is looking to upgrade its port facilities to not only allow for more freight to be handled, but so as to accept larger sized freight carriers into its ports.
The share of sea transport in total imports and exports was more than 90% in recent years. According to ECO Trade and Development's Iran Country Partnership Strategy 2011-2012 report, the nominal capacity of commercial ports grew to over 150 million tons, marking an increase of 5.6% over the previous period. Leading this growth is Bandar Abbas, Iran's main container port in the country and largest hub in the Persian Gulf.
Due to statistics of Tehran Chamber of Commerce, more than 40 % of export of Italy to Iran enters to the country from Shahid Rajaei port.

3.5.5 Alternatives Distribution Networks

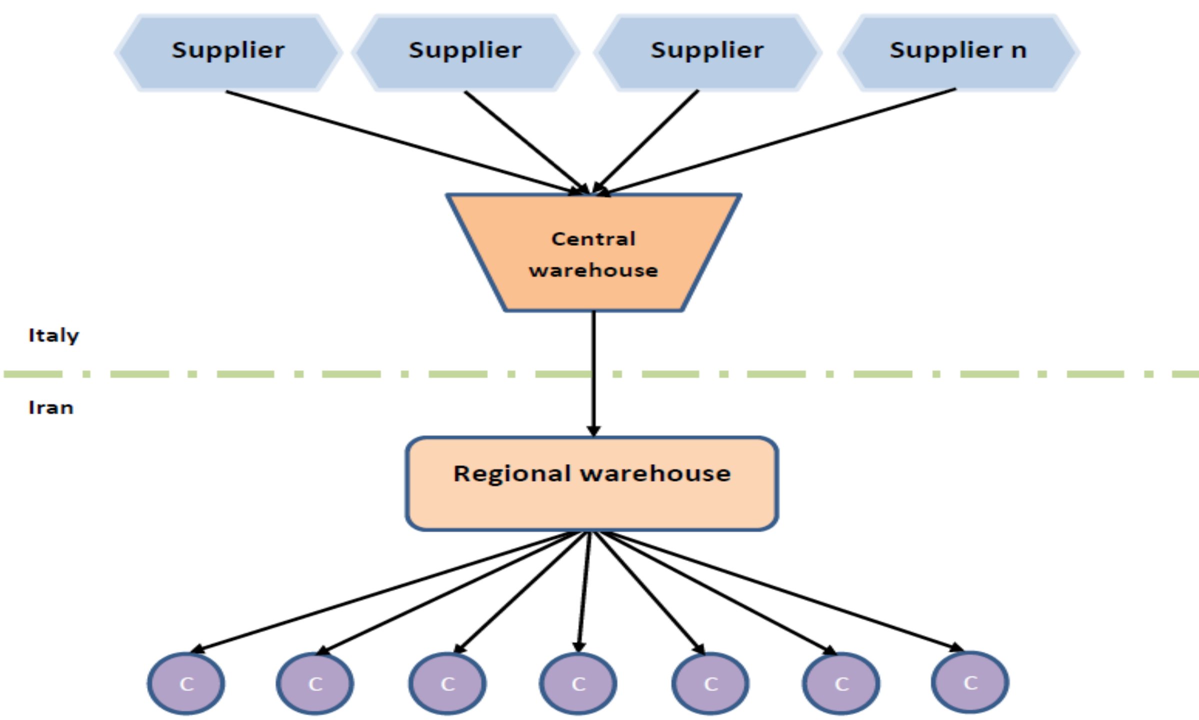
Central warehouse in Italy: It’s a way to reach Iran’s market, but there is the most expensive way, because the shipment and delivery cost is very huge in this case. For each package with a kilo weight in average the delivery cost will be approximately 30 euro/package. The lead time is also too long and near 2 weeks.

Graph 3.5 Central warehouse in Italy



Central warehouse in Iran: depends on the volume of the demands and value of products, the transportation type can be chosen. The best city for the warehouse in Iran is its capital, Tehran due its accessibility to all around the country, national and international airports. Delivery time from this warehouse is too shorter and is 2-3 working days.

Graph 3.6 Central warehouse in Iran



3.6 MARKETING STRATEGIES

Whenever similar need and conditions exist, export can be successful as domestic market. If domestic selling is good, why shouldn't the overseas market be good? The differences between

markets may be climate factors, religious, social and cultural factors, accessibility to raw material, lower salary, availability of foreign currencies (Euro and dollar) and legal factor.
Sometimes products are not new or unique, so the analyze of the market is not difficult, many researches about the availability of products or related ones and also information about their quantities, brand and etc. in that market are exist.
But sometimes products are unique and it's not easy for everybody to create these. In this case competition may not be high, while the demand is high, so this is the good chance to enter to foreign markets.
Sometimes the domestic sales (in Italy) are decreasing, but because Iran is less developed country than Italy, product in Iran may be still has high market share, so a good chance to export.

3.6.1 Online Marketing

Online marketing is just as crucial today for an export business as it is for a national business, since people in most countries have some level of access to the Internet and its benefits, and online shopping is still a growing trend. Online marketing includes online ads, websites and email marketing. Facebook and Google ads are some of the most common online marketing strategies, and people in most countries have access to them. You can purchase advertising on specific websites, but most online ads work through keywords. Your ad appears when a user uses words similar to those from your ad in a search, or navigates to similar sites.
Iran with 79 million inhabitants and more than half (45 millions) of them are online. Furthermore, there are 1.26 mobile phones per person in this Middle Eastern Country. So one might think, these would be ideal conditions for successful Online Marketing endeavors, if it wasn't for that censorship problem. But no reason to give up hope prematurely, Iranians can be reached via local networks, as well as through some western websites.
Most of the Social Networks and western websites are blocked by the Iranian government, including Facebook. This is why half of the "online Iranians", access those networks via VPN connections. But there are also a few local Social Networks that are very popular amongst the population which are perfectly suited for Online Marketing campaigns.
There are also plenty of Iranian websites, count as highly reliable platforms for online advertising among digital agencies like Aparat, Facenama or Tabnak.

These three Social Networks are the most frequented in Iran and should be considered for every Social Media Marketing:
Facenama: With 40 Million members, Facenama is the biggest Iranian Social Network on the web and in the top 10 when it comes to most visited websites in Iran. The platform looks a lot like Facebook, and censorship, might have played a big role in why Facenama got so strong. With 11.674.083 unique visitors per day, this network should definitely be considered for campaigning.
Aparat: Aparat is the Persian version of YouTube. More than 13 million visitors per month make this video sharing platform one of the biggest sites in Iran. It is also one of the few sites that allow you to create a profile and to place ads.
Twitter: It might be a bit of a surprise but, in defiance of censorship, Twitter has a lot of active users in Iran. In fact, because of their tweeting via VPN connection, Iranians hold the 20th place worldwide regarding the output volume. 0.5 % of all Tweets are of Iranian origin.

Social networks such as Instagram or Pinterest are also strongly established marketing tools used by the digital marketer to promote a business or line of products. Businesses in major cities, especially in Tehran are on Instagram along with contact data and their product information included. This is a very common line of communication used by restaurants with a delivery service.
Delivery services might seem unconventional to other countries, but it is still a very effective and smart marketing and advertising idea, especially in a vibrant, fast-paced city like Tehran. While many food franchises in the US or Europe do not have a delivery service, there are in fact some major Iranian food chains that offer their menu and service phone number via Instagram. The job gets done with motorcycles to override heavy traffic areas (esp. in Tehran) and a food-box to keep the delivery warm. This great marketing technique is one of few examples of the Persian knack for improvisation.

3.6.2 Traditional Marketing

Traditional marketing strategies can be just as effective in promoting your products in other countries as they are in your own country. Banners, billboards, pamphlets, print advertising, word-of-mouth and business cards are some of the most common forms of traditional marketing. A key difference is that to apply this type of marketing strategy to an export business, you must study the culture of your target market, and tailor your message to the market. Your marketing strategies are only as effective as they are relevant to your consumers' lives.

3.6.3 Main Misconceptions About Iran Market Entry

According to my very recent experiences, the most prevailing reasons of failures in establishing cooperation or developing business in Iran Market for both Iranian and Non-Iranian companies, might be rooted in imparity of preferences and definitions from both sides. These reasons, evidently, are valid across any form of entry approach toward Iran Market. The main conceptions of each side listed here, followed by a summary of suggested solutions that are aimed at leveraging the values and strength of both sides and realizing the bilateral benefits.

a) Non-Iranian corporates misconceptions

Traditional approach toward Iran market

Foreign corporations look at Iran market through traditional lens, inherited from the period precedent to the sanctions. These approaches had typically consisted of direct exportation and were realized through representatives and agencies for years. However, due to sanction limitations, Iranian companies have practiced the inland value cocreation model with overseas partners, instead of direct importation, and developed propensity and competence for such practices.

Imparity of accessible financial solution

In Iran, financial solution is limited to number of basic services like commercial loans or letter of credit to name a few. Therefore, innovative financial services by non-Iranian parties could lead to competitive advantage or unlock financial barriers in this market. This describes the rationale behind the requests from Iranian companies in the context of financial cooperation.

Governmental policies

Post sanction era has introduced new initiatives that favor inland value creation in the form of commercial and financial policies and preferences by government. Some premium brands had found it in advance and revised their business model to capitalize on consequential emerging opportunities raised by the revised regulations.

Underestimation of Iranian capabilities

Although Iranian companies have some imperfections in providing informed proposals, but their undeniable unique capabilities in managing commercial, financial and political crisis have been practiced and proved during sanctions.

b) Iranian corporates misconceptions

Differences in business language

Iranian companies, mostly, depict cooperation potential through their strengths and market opportunities while industry dynamic, market and environmental analysis besides weakness and threats or uncertainties are left unchecked or underestimated. However, such approach, often, mislead or disappoint or even deter the strategic decisions by the foreign parties whose decisions are based on the up-and-bottom line measurements or strategic analysis.

Deficiency or imperfection in proposal articulation

Iranian proposals are mostly lacking scenario planning on the basis of uncertainties, market life cycle and market entry strategy analysis, but instead the pivot on the heel of optimistic predictions.

Financial section also stands in need of value chain or real option analysis. It heightens the ambiguity about the non-Iranian partner’s share of value creation and also the gains he might realize on each point.

Branding concerns and protection policy besides the brand image and the message to attract customers in long term are failed to be addressed as well.

Focus on tangible assets

Iranian companies usually present their strengths and capabilities in form of tangible assets, the history of success through profitable sales, or the market share. However, intangible assets and intellectual properties capture at least 60% of the business benefits and non-Iranian parties need to assess these parameters to find out the quality of the core, supplement and enabling capabilities from intellectual capitals to estimate whether they are in line with value proposition and brand image.

3.7 PAYMENT SYSTEMS

According to data collected by ECM (Enterprise Content Management), as of now only 3% of all transactions are online and 6% in terms of value amount that is transacted yearly. The growth of this number through the years is somewhat interesting. There has been 25% of growth in total number of transactions compared to 2014. What is clear at the moment is that Iran is at in an infant stage when it comes to online transactions. However, the strong local banking system and the high amount of debit card access (92%) have provided the basis for growth. The current online payment and transaction at this stage indicates a great opportunity for banks, finTech startups and financial institutes to take advantage of this market and invest on finTech and online payment solutions.

Debit cards in Iran are the key source for almost every day to day transaction. Because of the sanctions and the absence of credit cards, debit cards are the only payment cards in Iranian hands. Also SMS banking became one of the most relevant methods of transaction, when it comes to paying monthly bills, cross account money transferring and buying mobile credits. USSD codes boomed before it got legally band because of lack of security by CBI (Central bank of Iran). USSD codes introduced by the banks provided instant transactions and money transferring to any account. Mobile apps provided by the banks also used this technology for money transferring before it was switched to online portals. Tosan's Shaparak payment portals is still the most used online payment portal used by banks and companies for B2C payment.

Director of Iran's Central Bank Payment System said that connecting to online international payment systems is their priority for the current New Year. 30% of the payment terminals in shops have the necessary capability to accept international payment systems.
After Iran's nuclear deal agreement and lifting of the nuclear-related sanctions, many are waiting to see what might happen next. In Central Bank of Iran, series of talks have started with two international payment systems, JCB from Japan and UPI from China. These two companies have a good penetration rate in Asia, Europe and especially southeast Asia. Central Bank of Iran would always pay attention to two key factors. First is that these payment systems should be low cost for Iranian customers. The second key factor is that the process of transactions should be done via our local payment systems. Last year local automated payments system Shetab (Interbank Information Transfer Network) had processed 13.5 Billion transactions worth 19,450,000 Billion Rials (Nearly 230 Billion Dollars). This number represents 1.5 times of Iran's GDP. Also, SATNA (Realtime Gross Settlement Systems) system processed 8 Million transactions which worth 55,000,000 Billion Rials (Nearly 1.6 Trillion Dollars). Last year in comparison to the year before that, Shetab, PAYA, SATNA, and Shaparak had 25% of average growth rates in term of numbers of transaction and 17% in average in terms of money transfer.

Iran is participating with private sectors to distribute products from foreign e-commerce websites. Right now a private company has signed a deal with eBay, and Iranians will be able to buy products from them. Another company has also signed a deal with Alibaba and Amazon, for now, they're working with a website called Yaataa. Yaataa is on its beta version right now and will officially launch by mid-October2016. Some products that are available on eBay are selectively on Yaataa's website. Users can see the original price of items and the shipping price in dollars and Rials.

After four years SWIFT is open but Iran's banks are working with the brokers to start over their relationships with the foreign bank. Following the lifting of economic sanctions last month under the nuclear deal with world powers, Iran's Central Bank and 15 other banks have restored access to Swift.

It's not just online stores though. ZarinPal, the Iranian PayPal alternative, is trying to bring security and convenience to Iranian shoppers. Just like PayPal, they sit between the customer and the bank in order to give customers and shop owner's peace of mind. ZarinPal processed 2M transactions last year alone. They just launched their own debit card. Mobile payment and possible collaboration with PayPal is coming soon as well.
Thanks to ZarinPal, Iranian stores soon can accept payments in Dollars, Euros and Pounds Sterling. This means that all those startups can trade internationally. ZarinPal is the product of a company called Saman Systems, a lean company with just 8 employees. With nuclear sanctions lifted from Iran, Paymentwall integrated Shetab (interbank information transfer network system). Though the integration is complete, Paymentwall will ensure first that it complies with the most up-to-date regulations from the U.S. Department of the Treasury before it moves forward with Shetab. By integrating Shetab, Paymentwall wants to allow foreign businesses to bring digital content to Iran and process payments there. It wants to be the first company to help Iranian startups go global.

Merchants around the world can start establishing their business in Iran with Shetab. They will be able to start accepting credit card payments in Iranian Rials (IRR). By using the local banking system and the local currency, merchants will be able to provide their customers with the most comfortable way to pay for their online transactions. As a result, they can easily gain a foothold in the local market, and grow their businesses quickly in Iran.

Paymentwall is the leading global payment platform for a wide range of digital goods and online services. Paymentwall has partnerships with 140 payment method providers worldwide to offer global payments coverage for users in more than 200 countries and territories with credit and debit cards, mobile payments, e-wallets, bank transfers, prepaid cards and many others. Paymentwall is headquartered in San Francisco, USA with 11 more offices worldwide.
Banks, credit institutions and payment companies such as China Union Pay, JCB Japan, Iyzico Turkey and Paymentwall already have done the necessary steps towards full deployment in Iran. There have been unofficial talks with Iran's central bank, but stories about the tendency of some companies such as Visa Card, MasterCard, Union Pay and JCB Japan. Reifeisen bank in Austria also among the first foreign banks has showed its interest for the establishment of a branch in Iran.
According to Mehr News Agency, requests from India, Japan, South Korea, China and Kazakhstan to enter Iran has been received. South Korea's Woori Bank and National Bank of Kazakhstan has opened an office in Iran in this regard, a contract is signed.

3.7.1 Letter of Credit

One of the most common payment methods in export process to Iran is Letter of credit (LC). A letter of credit is a document; typically, from a bank (Issuing Bank), assuring that a seller (Beneficiary) will receive payment up to the amount of the letter of credit, as long as certain documentary delivery conditions have been met. In the event that the buyer (Applicant) is unable to make payment on the purchase, the Beneficiary may make a demand for payment on the bank.

3.7.2 Preferential Rate of Dollar

One the most important issues in importing goods to Iran, is assigning the preferential rate of dollars to some goods.

Iran's government has divided all goods imported to the country in 10 groups by priority of import. The first group is the essential goods must be imported and the last one is luxury and non-essential ones, by the law from group 1 to 9, importer can use the preferential rate of dollar that is 14% cheaper than real rate of dollars in market.

Chapter 4:

Iran's Nuclear Program, and the Nuclear Related Sanctions

4.1 BEFORE SANCTIONS

Italy was Iran's first economic and trade partner before the sanctions. In addition, Italy and Iran are among the most ancient cultures in the world. They both have much in common, from family relations and rich literature to deep sense of history.
Their trade stood at €3.852 Billion in 2003. In 2005, Italy was the third largest trading partner of Iran with 7.5% of all exports to Iran. It was also the top trading partner of Iran in the European Union in early 2006.
In total, between 2000 and 2013, Iran imported goods worth around €38 billion on average per year. Italy has an average market share of 4.6%. In the pre-sanctions period (2000-2005), Iran's imports from Italy grew at a faster rate than its global imports (23.5% compared with 17.8%), with a resulting increase in Italy's market share (6.9% on average in 2000-2005).

4.2. Nuclear Related Sanctions

From 2006 onwards, the USA, the UN and the EU, adopted a series of restrictive measures against Iran that were aimed at discouraging the country's nuclear program. Between 2008 and 2012 these measures became increasingly harsh: the first sanctions included an asset freeze on several Iranian companies and restrictions on certain financial and commercial transactions (mainly linked to the oil and gas sector).
In 2012, the EU imposed a ban on the transfer of funds between EU banks and Iranian credit and financial institutions, while the USA extended trade restrictions to the automotive sector (the main sector for local employment after oil and gas) and the naval sector, as well as extending the financial restrictions to include banks carrying out transactions in Iranian Rials.

Iranian trade has been impacted by the sanctions. With the first wave in 2006, Iran's imports continued to expand, but at a slower rate. In 2013, the contraction reached double figures compared with the previous year.
During the sequential rounds of nuclear talks with Iran, the idea that Iran might not actually aimed at weapon zing its nuclear program but moves toward the nuclear threshold, was raised among policymakers in Washington. In the given situation, Iran could have all the benefits being known as a nuclear weapon capable state, with little expense to pay if weapons were made. This scenario also was not acceptable to Washington and the West, and was considered substantially in contrast to American national interests. Regarding Washington's policy to prevent Iran moving towards the threshold and despite Obama's commitment to give diplomacy a chance, he found himself determined to constrain and contain Iran's alleged nuclear ambitions. The Obama administration drafted a two-way track strategy; consisting of economic pressure through sanctions while continuing nuclear talks, and sanctions would be lifted in reciprocate for an agreement. Large American firms do not have very high interests in Iran since 1979 Islamic

Revolution, so it was quite facile for US legislators to tighten imposed sanctions on Iran. The US government in accord with its European allies was successful to pass international sanctions at UNSC (United Nations Security Council) beside their own strict unilateral and multilateral embargoes on Iran.

The aim of these sanctions was to curb Iran's energy sector to contain alleged strategic threat from Tehran. Petroleum sector generates around 20% of Iran's GDP, 80% of its foreign exchange earnings and 50% of the governmental revenue. The sanctionable items, which are related to Iran's energy sector are as follows:

- Iran is dependent on imports for 40% of its gasoline needs. Thus, according to these acts, sale of gasoline and related aviation and other fuels to Iran, which are valued over $1million or $5 million in a one-year period, are banned.

- Sanctions on transactions like transporting regarding purchase of Iran's crude oil. However, this sanction does not concern countries that have received exemptions.

- Providing underwriting services, insurance or reinsurance activates that are related to shipping oil, gasoline or other goods for the energy, shipping or shipbuilding sectors in Iran.

- Banks and other financial institutions that provide capital or services for energy investment, refining and gasoline procurement activities.

In 2011, some legislators arrived to the belief that a mechanism is needed to cut off Iran's access to hard currencies that are used to pay for oil price. The idea was that Iran's Central Bank helps other Iranian banks to circumvent the UN and US banking pressure. Given this order, foreign banks that deal with Iran's Central Bank would be sanctioned.
According to Environmental Impact Assessment (EIA) reports in 2012, the Obama administration concludes that there was an adequate supply of oil worldwide and it is possible for countries to reduce their oil purchased from Iran. An exemption being considered for those countries that have significant reduction of 18% in their purchased oil based on total price paid and not just the volume. The US administration has offered exemptions several times to some countries that had reduced their oil purchased about 20% in each case, consisting of: India, South Korea, Turkey, Malaysia, South Africa, Sri Lanka and Taiwan. Moreover, money which owed to Iran regarding the oil purchases, should be kept in an account in the country, and compel Tehran to buy the products of the oil customer countries. It is important to mention that the EU embargoes on purchase of Iranian oil started by July 2012 which is second wave of sanctions.

4.3. ITALY REACTIONS RELATED SANCTIONS

As a part of the European Union, Italy has supported all sanctions against Iran and has stated that it would support further sanctions if Iran does not comply with the IAEA (International Atomic Energy Agency) and its Nuclear Non-Proliferation Treaty obligations. Italy's Foreign Minister, Massimo D'Alema, said in 2007 that, "the prospect of Iran ... acquiring nuclear weapons is unacceptable for the international community. Italy has implemented the sanctions, the resolutions as well as restrictions decided by the European Union and we'll continue to do our part, convinced as we are that it's indispensable to preserve the cohesion of the international community."

In March 2009, Italian Foreign Minister, Franco Frattini, stated that the international community should strengthen its stance regarding Iran's nuclear program, however warned of significant negative consequences if military action were taken against Iran; Frattini also said that Italy, through its leadership of Group of Eight (G8), would increase attention to the issue of Iran's nuclear program.

In late June 2010, during G-8 talks when world leaders met in Ontario, the leaders of Italy, Germany, France, Britain, Canada, Japan, Russia, and the United States issued a statement concerning Iran's nuclear program: "We are profoundly concerned by Iran's continued lack of transparency regarding its nuclear activities and its stated intention to continue and expand enriching uranium, including to nearly 20 percent." Italian Prime Minister Silvio Berlusconi stated, "Iran is not guaranteeing a peaceful production of nuclear power so the members of the G-8 are worried and believe absolutely that Israel will probably react preemptively."
In early February 2010, Franco Frattini said that Rome has taken a firm stance on blocking new oil and gas investments in Iran, going so far as to suspend export credit guarantees for companies investing in Iran. Frattini said "we are absolutely firm about blocking new investments in the oil and gas sector. We have already blocked insurance by the Italian Export Credit Agency for anyone investing in Iran. This is a completely correct measure." Also in February, Italian Prime Minister Silvio Berlusconi stated in a speech to Knesset, the Israeli parliament, "we cannot accept the nuclearization of a country whose leaders have explicitly expressed their desire to destroy Israel, have denied the Holocaust and delegitimized the Jewish state." Berlusconi also called on the international community to pursue stronger sanctions against Iran.

4.4 IRANIAN FOREIGN RELATIONS

Foreign relations of Iran refer to inter-governmental relationships between Iran and other countries. Geography is a very significant factor in informing Iran's foreign policy.
Iran's National Export Day was marked in a ceremony held in Tehran on 21Oct2017:
The event was attended by First Vice President Es'haq Jahangiri, Industries Minister Mohammad Shariatmadari, Chairman of Iran Chamber of Commerce, Industries, Mines and Agriculture, Gholamhossein Shafei, the head of Trade Promotion Organization of Iran Mojtaba Khosrotaj as well as other governmental officials and representatives from Iran's private sector.
"Given the country's capacities and capabilities, including educated young people, engineers, technicians, skilled labor force, abundant mineral reserves, unique geopolitical situation, vast sea borders and access to free waters, it is not far off the mark to say Iran's share of world trade should stand at 1% per year at least. As such, the government plans to increase exports to reach $180 billion by 2025," Shariatmadari was quoted as saying by Mehr News Agency.

At present, Iran accounts for 0.34% (oil included) and 0.24% (exclusive of oil) of the world annual trade.

According to Shariatmadari, the value of 10 goods topping the list of Iran's exports last year (2016) amounted to $23.8 billion and exports to our top 10 customers stand at $35.8 billion. Over the last three decades, he said, there have been no significant change in the variety of Iran's exported products, nor in the number of export destinations.
"Despite everything that has been done, our foreign trade amounted to around $45 billion in the first six months of the current Iranian year (March 21-Sept. 22). This shows that our economic share is still small. This renders us incapable of expanding the size of our market or increasing our production," he said.
"The problem with our trade today is the lack of a belief in and a national determination in both business owners and laymen for embarking on exports as a solution to our economic problems. Then comes the fact that 95% of our production units are not export-oriented. Finally, there's the problem of the National Development Fund whose board members do not prioritize expansion of businesses' working capitals or new investments in export-oriented production."
Non-oil exports during the period hit 58.63 million tons worth $20.54 billion, indicating a 3.2% decline year-on-year.

4.5 ITALIAN FOREIGN RELATIONS

Italy has been considered a major Western power since its unification in 1861. Its main allies are the NATO countries, the EU states and the G7 nations, three entities of which Italy is a founding member.
Italy has a particular role within the Christian world because Rome is the seat of the Pope and the center of the Catholic Church. Italy acts as a mediator in the Israeli-Palestinian conflict and has many troops deployed in the Middle East, and all over the world for peacekeeping missions, and for combating organized crime, illegal drug trade, human trafficking, pieacy and terrorism. Italy is currently commanding various multinational forces. The country plays also a significant role in former colonies and territories of the Italian Empire and is considered a key palyer in the Mediterranean region.

Italy was top trading partner of Iran in the European Union followed by Germany, France and the Netherlands according to the figures for the first ten months of 2006 released by Eurostat, the EU's statistical office.

4.6 AFTER SANCTION: POTENTIAL NEW START

Companies, ministers and industrial associations have been publishing forecasts and statements on what is expected to be a Persian-style business after sanctions. Italy is no exception. According to what Ms Guidi said, the agreement with Iran offers a way back into a market that today has almost eighty million potential consumers, adding that the deal is a crucial step towards stability in the area.

This part is mainly from [15]

Though Italy ranked second in the EU in trading with Iran, after Germany, the value remains much lower than Italy-Iran trade volume exchange of over 5 billion euros before the sanctions.
According to export credit guarantee group, SACE, “the lifting of sanctions could lead to an increase in Italian exports to Iran of almost €3 billion in the 2015-2018.” If Italian exports could repeat growth like that in the pre-sanctions period (2000-2005), the level of exports could exceed € 2.5 billion in 2018, returning to a level more than the pre-sanctions peak reached in 2005. However, that “recouping market share will not be easy. Competitors like China, India, Russia and Brazil have faced fewer restrictions in recent years and have secured a significant position in Iran”.

The Iran-Italy Business Forum was held in Tehran in late November2015. It was attended by Italian deputy minister for economic development, Carlo Calenda, who headed a 370-strong delegation, including representatives of 178 Italian companies, 20 associations and 12 banking groups.
The mission spent two days in Tehran and held 700 meetings with Iranian officials and firms to spur cooperation on different fronts and explore joint trade investment opportunities.
Matteo Renzi was the first European leader who hosted Iranian president Hassan Rouhani (the current president of Iran) in his first state visit to Europe in almost two decades following the lifting of sanctions against this country. "Italy has a special place among Iranians. Its companies and its industry are appreciated here," Rouhani said at a joint press conference after signing provisional agreements on energy, tourism and infrastructure. "Italy is at the forefront among EU countries wanting to develop relations with Iran," he added.
"Some European governments and companies come to Iran to negotiate, but the results of these discussions aren't tangible," Iran's supreme leader Ayatollah Ali Khamenei was quoted.
When Rouhani visited Rome, the two countries agreed initial terms on long-term contracts that could be valued as high as $19.4 billion, including deals in the oil, transport and shipping sectors. Iran has said it wants European help to modernise and expand its rail, road and air networks, as well as seeking investment to boost its manufacturing base, notably in the automobile industry. All were severely damaged by sanctions.

Tuesday's rail agreement between Italy's state railways and its Iranian counterpart will see a new line built between Tehran and Hamedan, in the northwest of the Islamic republic.
A second line between Qom, south of Tehran, to Arak in the north will also be constructed. No details on the value of the agreement or the date of completion were immediately given.

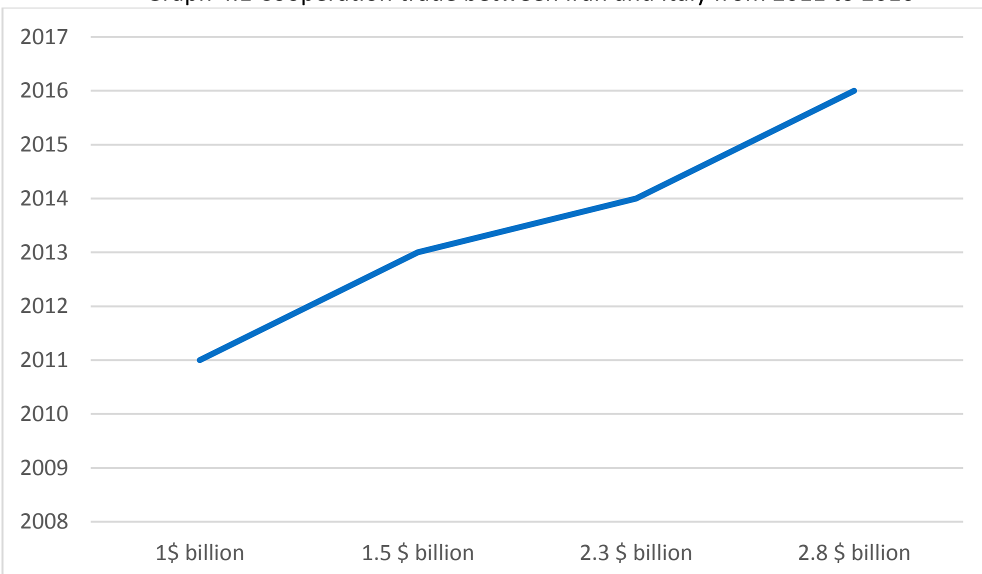
Tehran said it will buy 114 Airbus planes to revitalize flag carrier Iran Air's ageing fleet - the first major commercial deal since sanctions were lifted - and the deal is expected to be signed during the Paris leg of the visit.
The JCPOA (joint comprehensive plan of action) opened the door for many Italian firms to tap into the Iranian market. Iran has a relatively untapped market of 79 million people and a USD 400 billion economy.

Italy is dealing with financial crisis and increasing exports to this new market can be a means to overcome the crisis and perhaps to achieve economic growth. According to SACE (the Italian state-owned credit rating agency), the opening up of the Iranian market could spur Italy's export for a total of EUR 3 billion within the next four years.
Italy and Iran also share cultural similarities that can help the process of political and economic negotiations. Both countries represent ancient civilizations have long been interested in the each other from a historical, literary, and archeological point of view.
Besides all these factors, the level of trust between Iran and Italy, a shift in Europe's stance on Iran and less need to balance act between engaging with Iran and the interests of regional allies, has given Italy greater political space to take bold measures regarding Tehran.
President Hassan Rouhani made an official state visit to Italy. The political background, economic and cultural ties between the two countries underpin why Rouhani picked Rome as his starting destination for an outreach campaign in Europe. The last time an Iranian president met with the pope was 16 years ago in 1999 when former President Mohammad Khatami met with Pope John Paul II at the Vatican.

So long as there is continued progress in the implementation of the nuclear deal, Rouhani is likely to be invited to more European capitals in the near future. This marks a shift in Europe's stance on Iran away from a policy of containment towards engagement. Intensified and non-nuclear centric dialogue between Iran and Europe will be critical not only in areas of shared interests, but also on contentious matters that are imposing grave costs for both sides, such as how best to de-escalate and avoid a contagion of conflicts in the Middle East.

Italian Sacchetti Insurance Group has been active in facilitating economic cooperation between Italian and other Italian companies and by issuing export insurance and guaranteeing facilities provided by Italian banks to Italian exporters, the field of exporting various types of machinery and goods Providing technical and engineering services.
The cooperation between the two countries increased by more than $ 1 billion in 2011 and reached $ 1.5 billion in 2013. Trade relations between Iran and Italy improved in 2014, reaching more than $ 2 billion. The statistics show that the trade between the two countries in 2016 was $ 2.8 billion, which is a growing trend.

Graph 4.1 Cooperation trade between Iran and Italy from 2011 to 2016



Contract concluded between Iran and Italy:

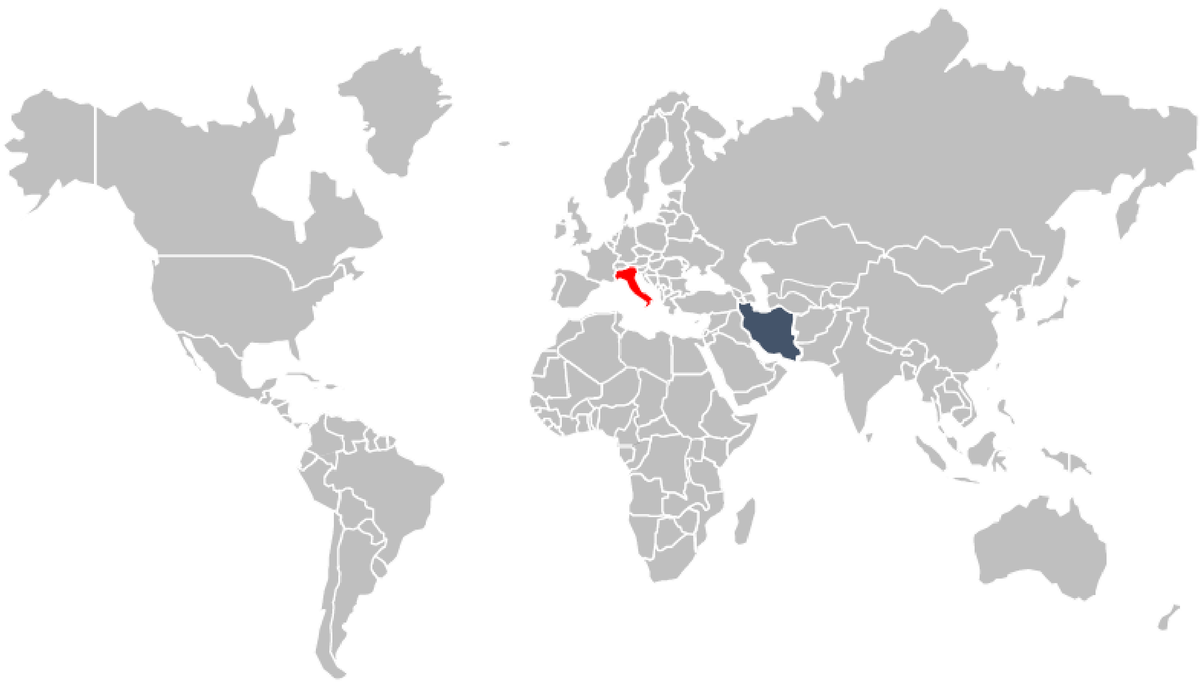
1. Italian companies worth $ 18.4 billion worth of energy, infrastructure, steel and shipbuilding with Iran have signed.
2. Contracts between the two countries closed the pipeline with Saipem's oil services company in Italy at $ 4 billion to $ 5 billion.
3. 14 documents signed by senior Iranian and Italian officials in transportation, rail and rail sectors, medical and educational cooperation, trade, safety, port collaboration, agriculture, quarantine and plant protection, medicine and medicine.
4. Investing 5 billion euros in Italy in Iran's mineral industry and finalizing a $ 2 billion steel deal The new trade delegation of Iran was unveiled at Rome's Rouge President's visit.

POLITECNICO DI TORINO

Chapter 5:

Economic relation between Iran and Italy

5.1. INTRODUCTION



The traditionally Italy has been major commercial partner of Iran. Evaluation of business relation between Iran and Italy is not possible without consider effect of sanctions. As we already said starting in 2006, the United Nations, the United States and the European Union have adopted restrictive measures in the confrontation with Iran, aimed at discouraging the country's nuclear program. 2012 saw a further tightening of sanctions by the United States and the European Union. In particular, in 2012 The European Union has imposed a ban on the transfer of funds between EU banks and Iranians credit and financial institutions. Moreover, since July 1, 2012, the EU has tightened its sanctions including oil, as we saw earlier so precious for Iranian exports. Although, the US has extended trade restrictions, including also the automotive and naval sectors.

According to the first official statements for Iran, the benefits of the agreement today are potentially enormous. Will be defrosted assets held abroad for over $ 100 billion, the embargo on the oil implemented by the European Union and sanctions restrictive of movements and activities of the Iranian banks.

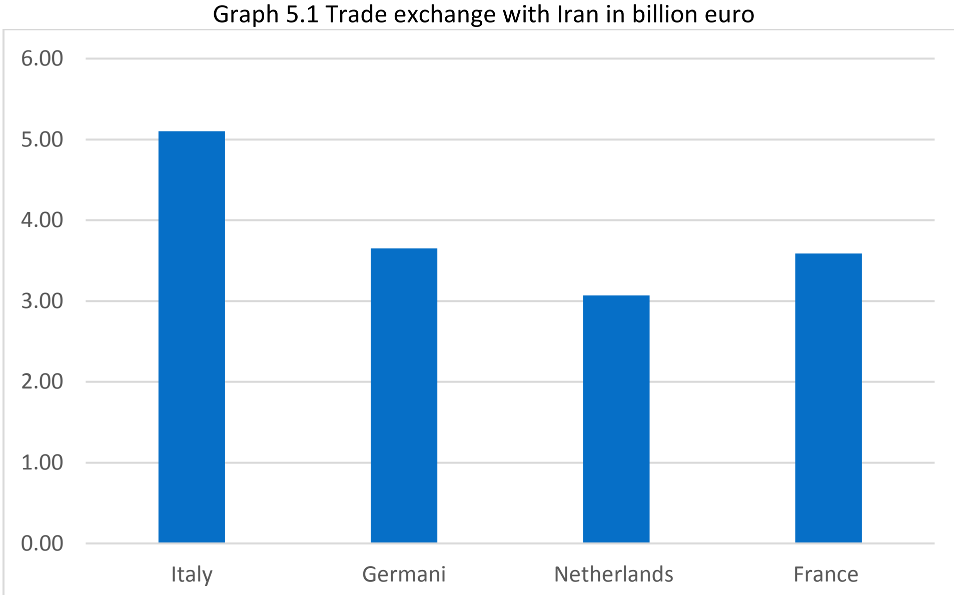
However, according to diplomatic sources, the agreement foresees the maintenance of the arms embargo for others 5 years and the continuation, up to a maximum of 8 years, of the restrictions approved by the UN on the transfer of useful technology for the construction of ballistic missiles.

5.2. EFFECT OF SANCTIONS IN IRAN AND ITALY TURNOVER

Figures for the whole year of 2005 show that Italy also held the first place with trade exchanges with Iran valued at 5.20 billion euro, followed by Germany 4.78 billion euro, France 4.16 billion euro and the Netherlands 2.98 billion euro.

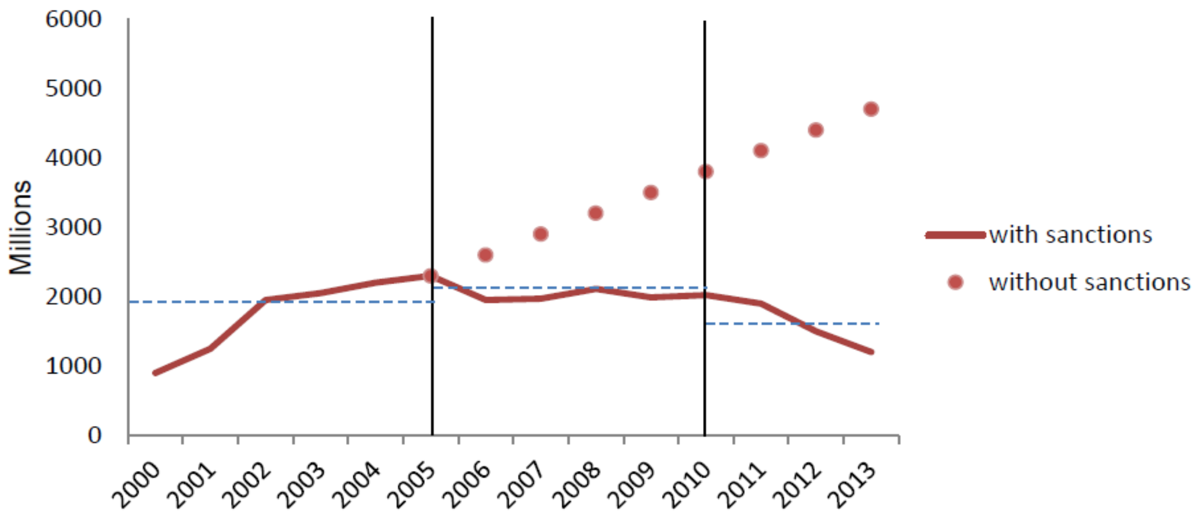
Trade exchanges between Rome and Tehran for the period January to October 2006, totaled 5.10 billion euro, followed by Germany 3.65 billion euro, France 3.59 billion euro and the Netherlands 3,07 billion euro.

Graph 5.1 Trade exchange with Iran in billion euro



Italian exports suffered negative impacts from the first phase of the sanctions process. In 2006, exports fell by more than 19%. Until 2010, there was a fluctuating but positive trend in sales. Italian exports then began to fall from 2011, reaching contraction rates of 25% in 2012 and 2013. The sanctions have cost Italy more than €15 billion in lost exports since 2006, with more than 60% of this loss occurring in the 2011-2013 period alone. This estimate is obtained by assuming an average export growth rate of 10% per year, half the rate seen in the 2000-2005 pre-sanctions period (taking into account the global economic crisis).

Graph 5.2 Italian exports to Iran, Actual and trend growth

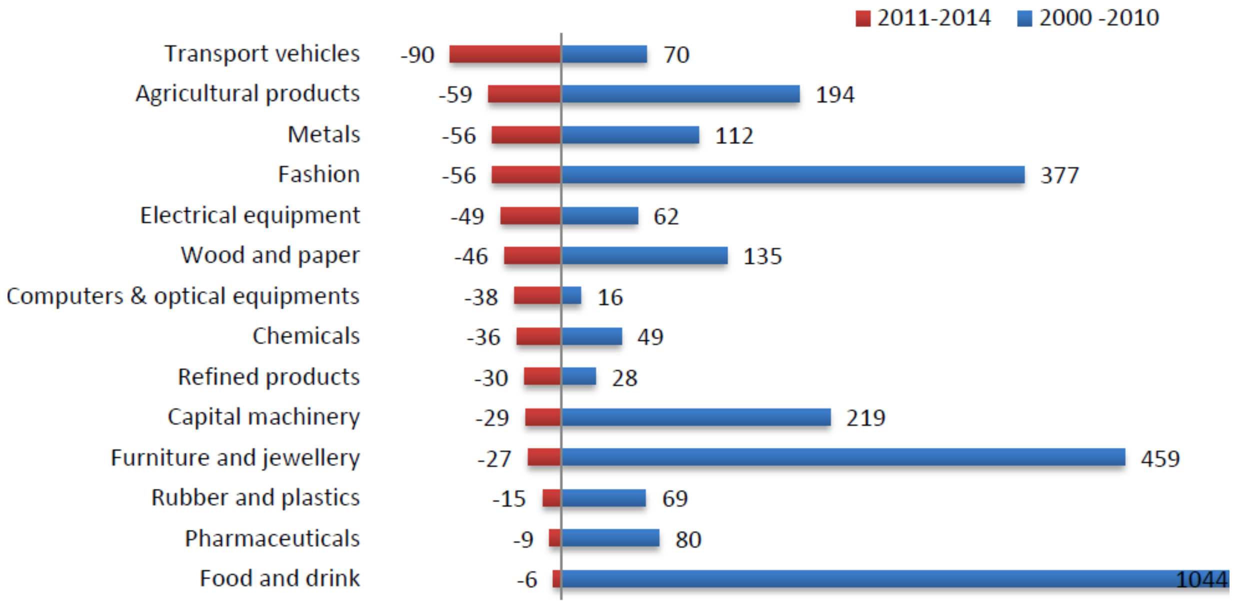


The grey dash lines indicate the average levels of exports in the three periods considered:
2000-2005: without sanctions
2006-2010: first round of sanctions
2011-2013: second round of sanctions

Mechanical engineering is the hardest-hit sector: the annual value of goods sold was halved from € 1.3 billion in 2010 to less than € 700 million todays. In any case, all the principal sectors of Italian exports showed sharp declines over the past five years:
transport vehicles, and agricultural and metallurgical products are those that have suffered the heaviest reductions. The food sector abruptly halted the strong growth trend it had registered in the pre-sanctions period.

This section is mainly from [26]

Graph 5.3 Italian export to Iran by sector (%change)

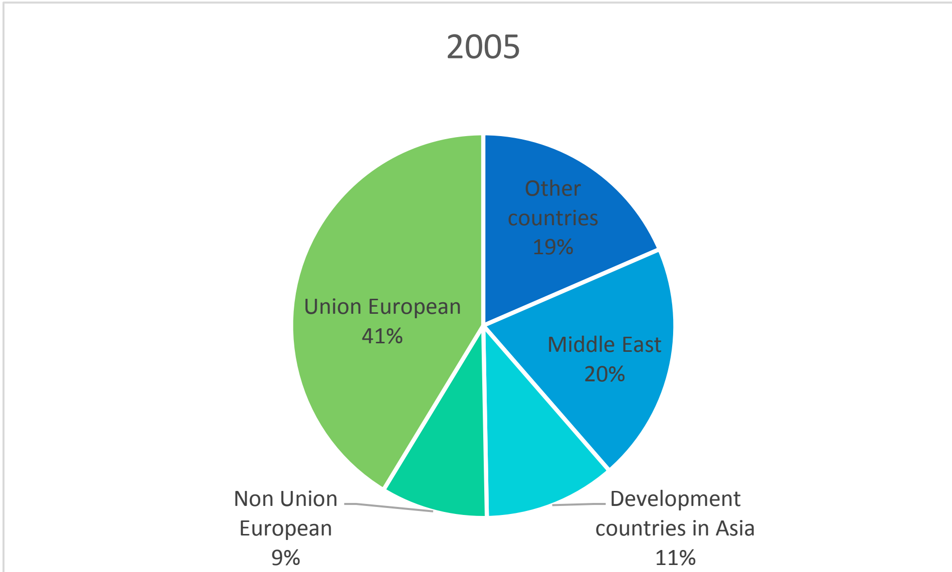


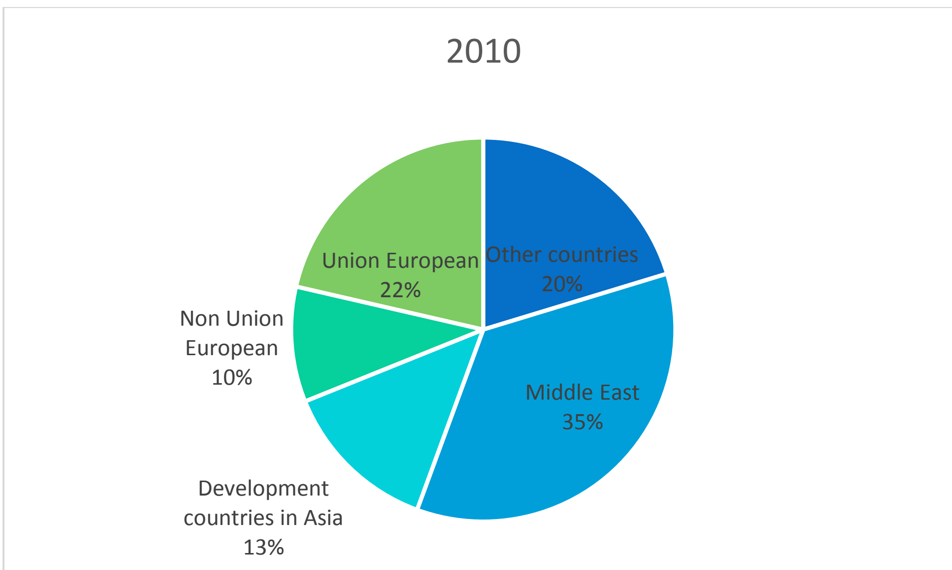
5.3. IMPORTS FROM THE WORLD TO IRAN

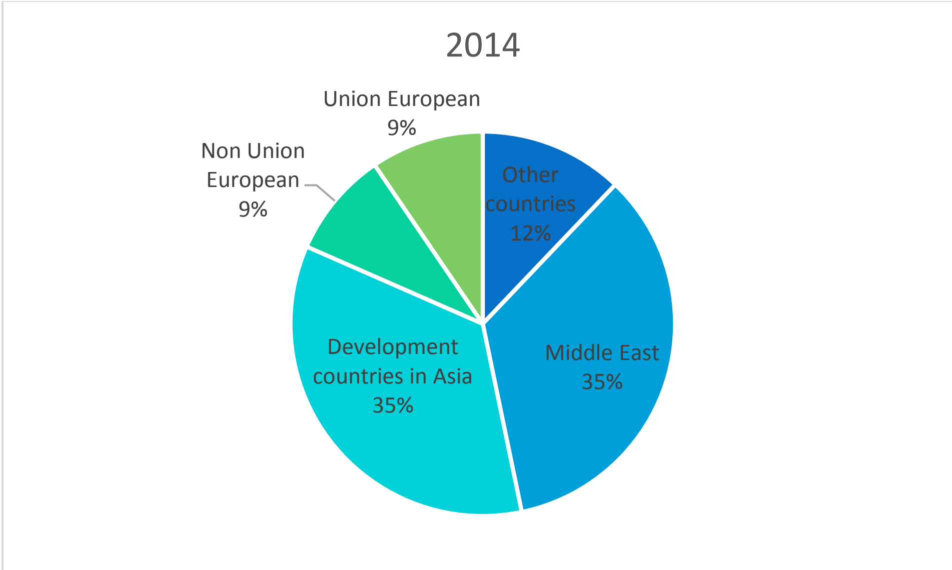
Despite the restrictive measures, imports from the world continued to expand from 2006 upwards in 2011, when they reached the peak of 96 billion dollars.

Turning to the impact of sanctions on the geographical distribution of Iranian imports, a clear geographical composition in 2014 compared to 2005. In 2005, the European Union represented over 40% Iranian imports but its weight has been decreasing to 9.5% in 2014, in favor of the countries of the Middle East and the emerging countries of Asia (which together have provided over 70% of supplies in 2014).

Graph 5.4 World import to Iran (2005-2010-2014)







Non-oil imports amounted to 17.19 million tons worth $23.59 billion, up 15.37% YOY (year over year).

Petrochemicals ($7 billion), followed by gas condensates ($3.52 billion), polyethylene ($750 million), liquefied propane ($686 million), light crude oil, excluding gasoline ($638 million), and methanol ($593 million) were the main exported commodities.

Imports mainly included rice ($996 million), field corn ($799 million), vehicles of engine displacement between 1500 cc and 2000 cc ($582 million), auto parts ($551 million) and soybean ($456 million).

China was the main customer of Iranian products during the six-month period, as Iran exported $4.31 billion worth of goods to the Asian country, 7% more than the corresponding period of last year.

Other major export destinations included Iraq with $3.18 billion, the UAE ($2.95 billion), South Korea ($2.06 billion) and India ($1.33 billion). Exports to Iraq and South Korea rose by 5.47% and 12.86 respectively compared to last year.

Major exporters to Iran included China ($5.69 billion), the UAE ($4 billion), Turkey ($1.67 billion), South Korea ($1.51 billion) and India ($1.35 billion).

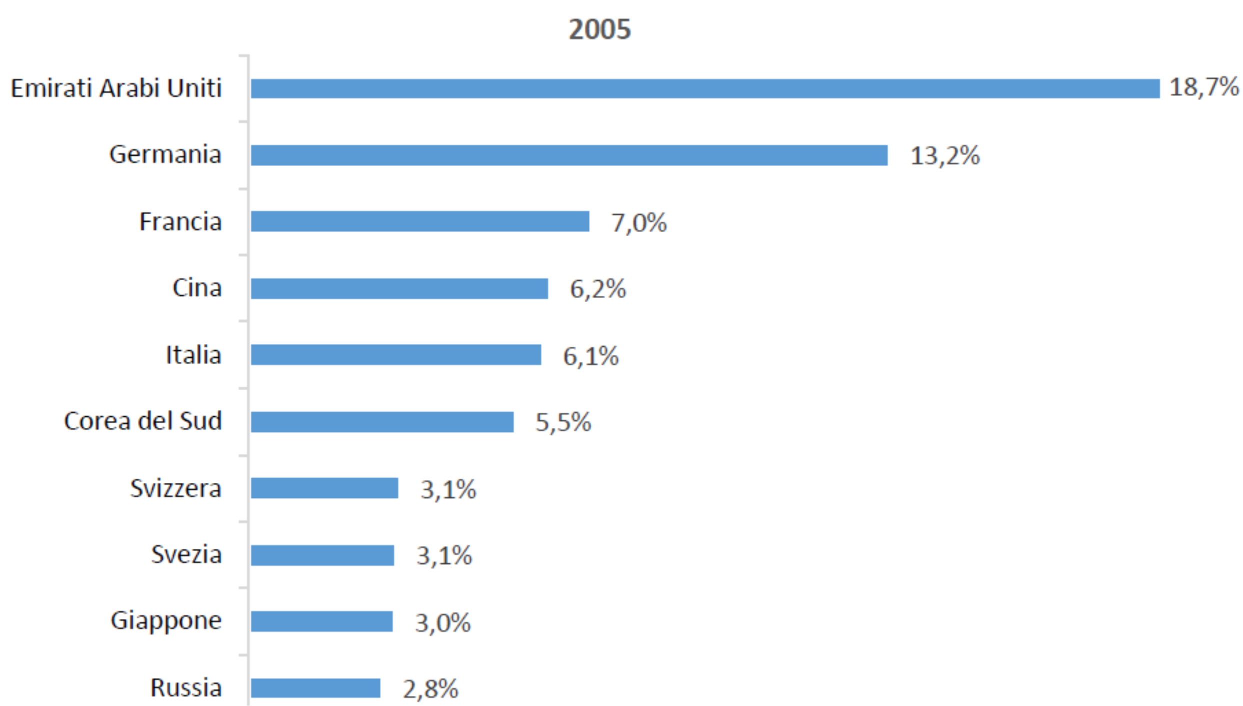
Iraq topped the list of neighboring countries' imports from Iran during the period, with $3.2 billion. The UAE and Afghanistan followed with $3 billion and $1.26 billion worth of imports from Iran respectively. Among the neighbors, Qatar and Russia saw the highest growth in imports from Iran (71% and 70%, respectively).

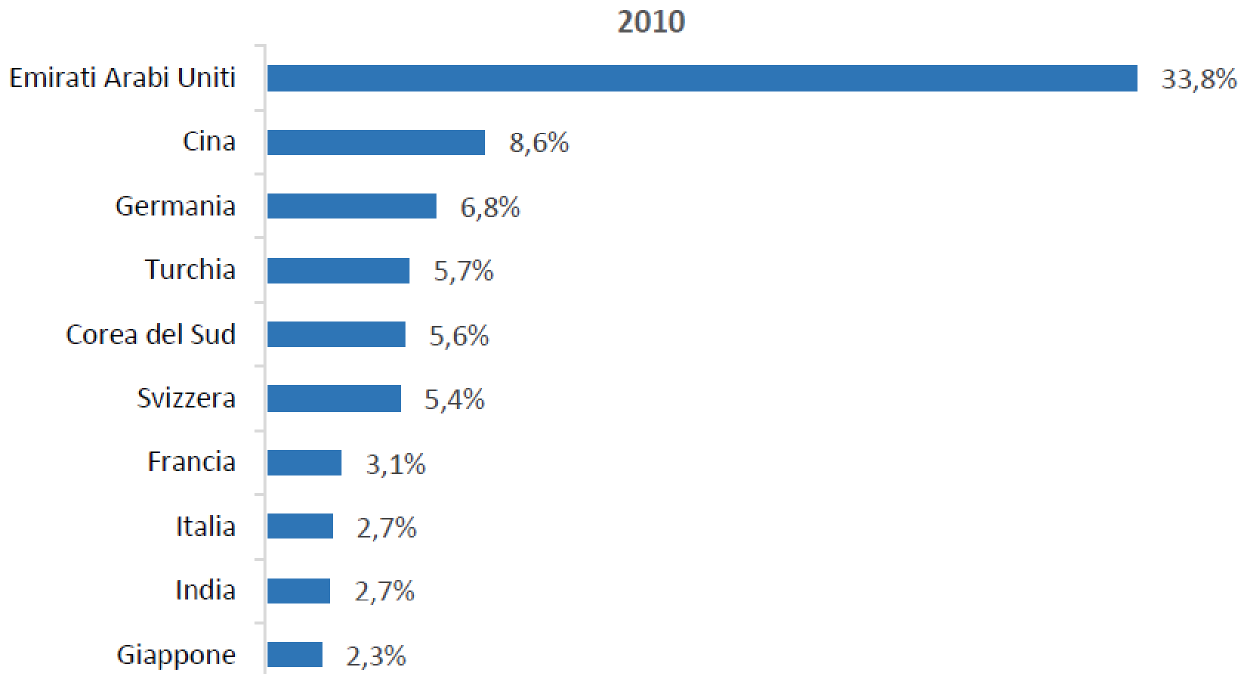
Qatar's imports from Iran stood at $91 million during the period under review. Iran's exports to Russia amounted to $123.6 million in the same period. Notably, Iran's exports to EU's 28 nations during the first half of 2017 exceeded $5 billion, indicating a 227% rise year-on-year, according to Eurostat.

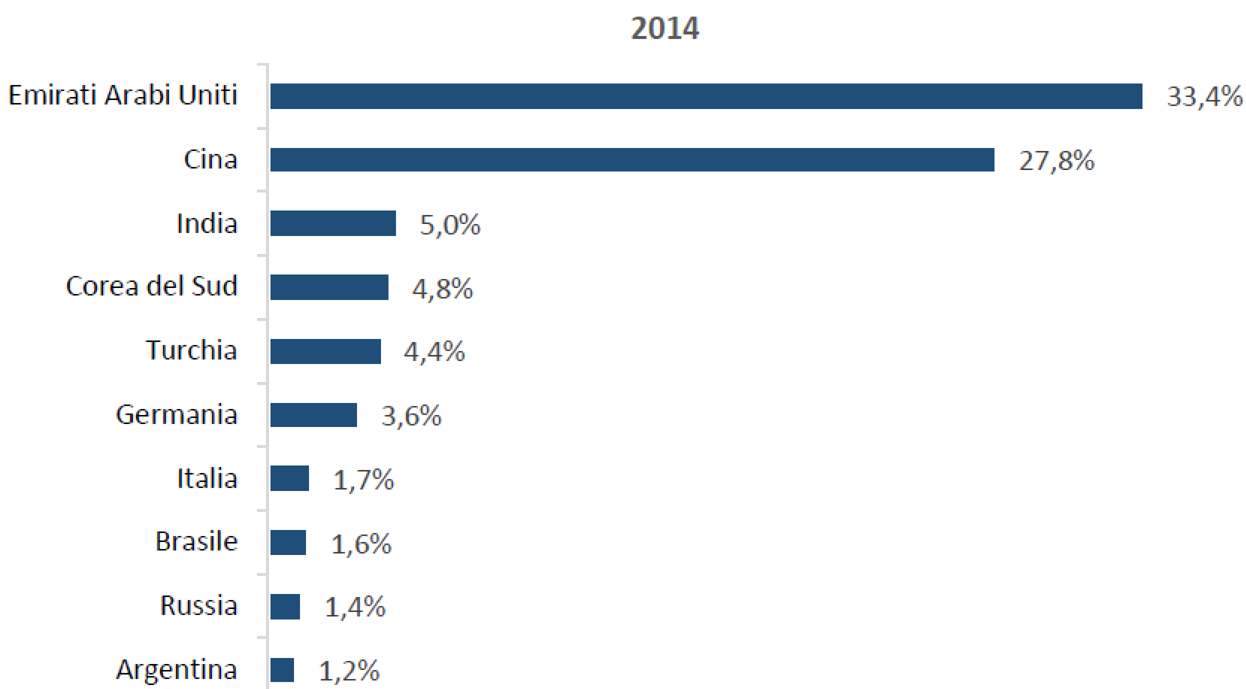
Petroleum products and related materials accounted for a majority of Iran's exports to the EU during the period, with a total value of €4.4 billion. Italy was the biggest importer from Iran among all the European states, as it bought €1.54 billion worth of Iranian goods during the period.

France, Greece and Spain followed with €1.26 billion, €638.5 million and €609.4 million worth of imports respectively.
Iran imported €4.94 billion worth of commodities from the European Union during the same period, recording a %38.5 YOY rise. The imports mainly included manufactured goods and chemicals. Germany topped the list of exporters to Iran, shipping €1.39 billion worth of goods to the Islamic Republic. Italy came second with €849.6 million and France followed with €763.7 million.
According to the European Commission, the European bloc imported €5.5 billion worth of goods from Iran in 2016, up 344.8% YOY. The imports were mainly energy-related, including mineral fuels (€4.2 billion), manufactured goods (€0.4 billion) and food (€0.3 billion).
The EU exported over €8.2 billion worth of goods to Iran in 2016, up 27.8% YOY. The exports mainly included machinery and transport equipment (€3.8 billion, 46.2%), chemicals (€1.8 billion, 22.2%) and manufactured goods (€0.7 billion, 8.8%).

Graph 5.5Main supplier countries of Iran (2005-2010-2015)




2010
Emirati Arabi Uniti 33,8%
Cina 8,6%
Germania 6,8%
Turchia 5,7%
Corea del Sud 5,6%
Svizzera 5,4%
Francia 3,1%
Italia 2,7%
India 2,7%
Giappone 2,3%


2014
Emirati Arabi Uniti 33,4%
Cina 27,8%
India 5,0%
Corea del Sud 4,8%
Turchia 4,4%
Germania 3,6%
Italia 1,7%
Brasile 1,6%
Russia 1,4%
Argentina 1,2%

In detail, UAE and China alone represent over 50% of Iranian imports in 2014. The role of the UAE is due to the role of transit for goods directed to Iran, mainly due to the presence of special economic zones.

China has registered significant progress especially in the last 4 years, until it reaches the share of 27.8% in 2014.
As for other countries, India's progression is reported (2.7% in 2010, 5% in 2014). The advancement of Asian economies has mainly occurred at the expense of European countries, in particular Germany and Italy, which, despite their retreat, are the only European countries a resist in the ranking of the top 10 partners, while France and Switzerland are out (2014 ranking).

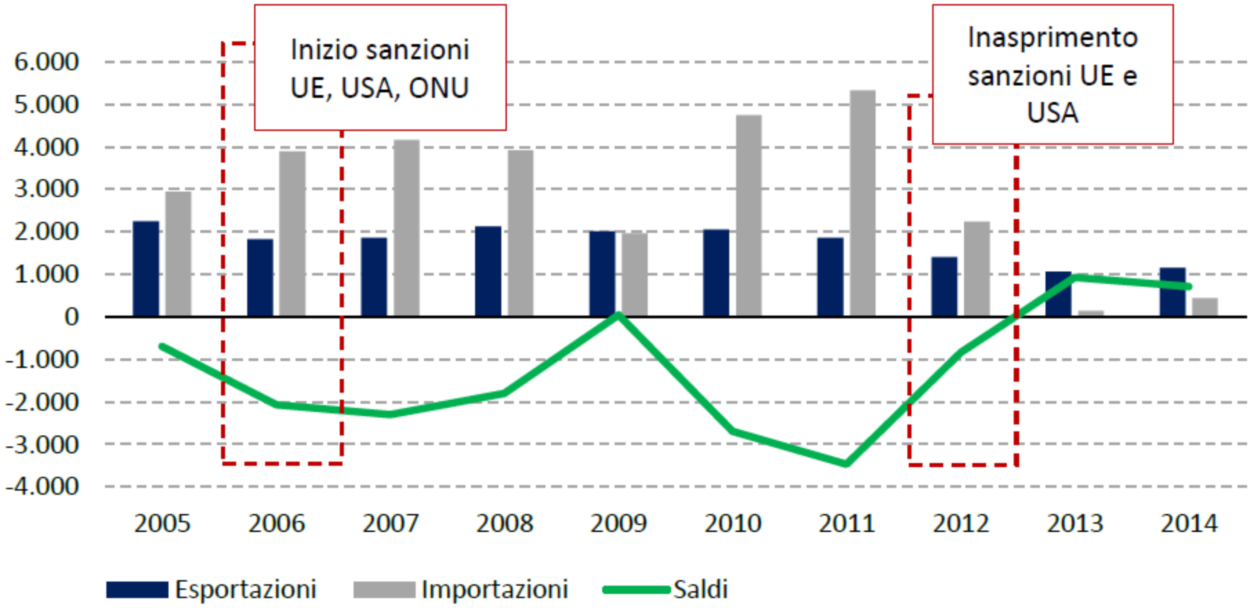
The Italian share in Iran declined from 6.1% in 2005 to 1.7% in 2014. Trade relations between Italy and Iran suffered from the restrictive measures applied to the country, in particular with the second wave of sanctions.

The geographical composition of the import can in part be traced back to the fact that the Iranian operators, to compensate for the lack of foreign currency due to the lack of proceeds from the sale of hydrocarbons to sanctioning countries and to the exclusion from the international payments circuit (and therefore in general to the penalties), use as much as possible the credits accrued from the sale of oil to non-sanctioning countries, including China, South Korea and India. Iran would then use the proceeds from the sale of oil to them countries to purchase goods and services in local currency.

5.3. ITALY-IRAN TRADE EXCHANGE

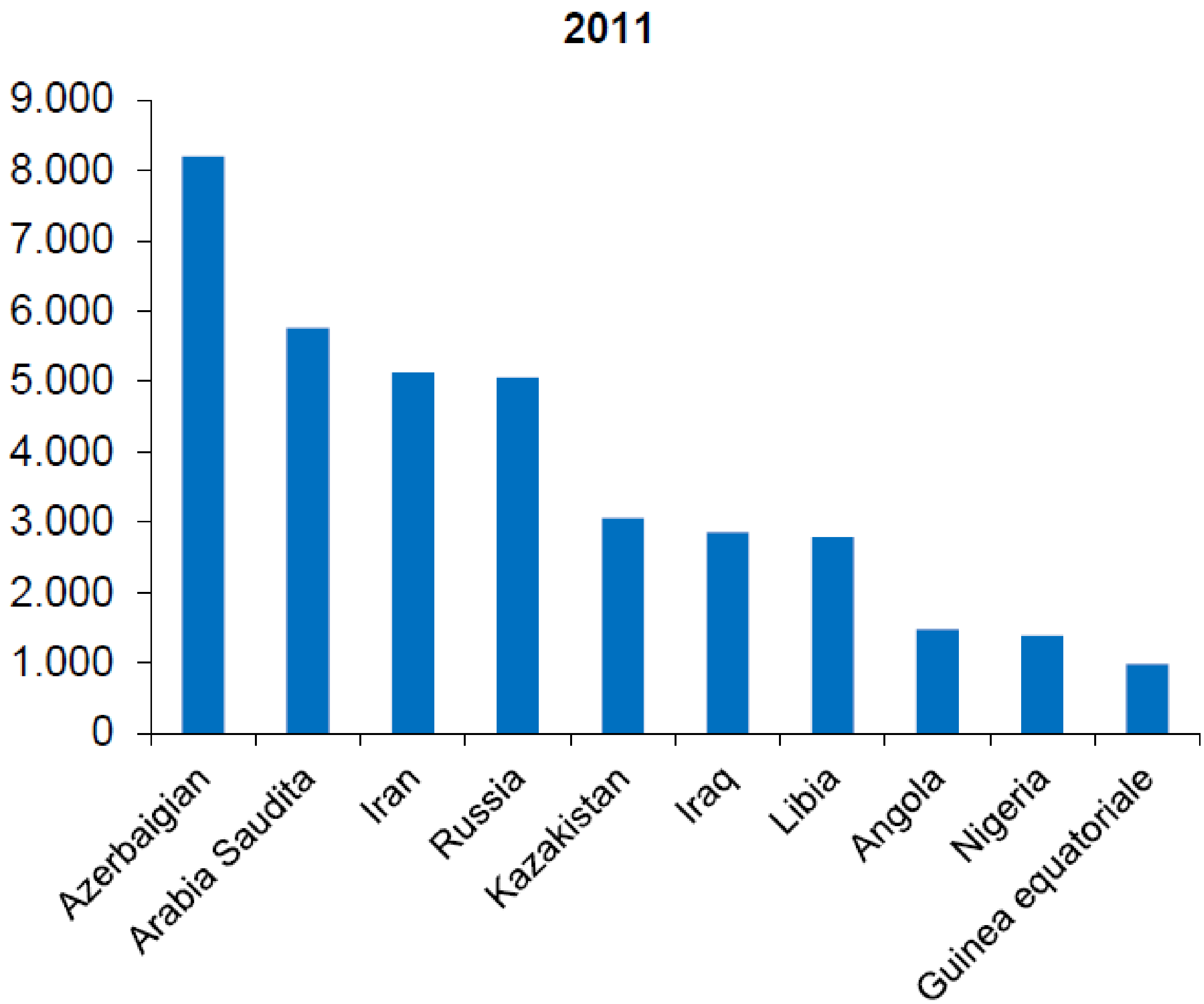
Trade relations between Italy and Iran have been affected by the sanctions applied to the country, in particular with the second wave of sanctions.

Graph 5.6 Trade between Italy and Iran (value in millions of euros)

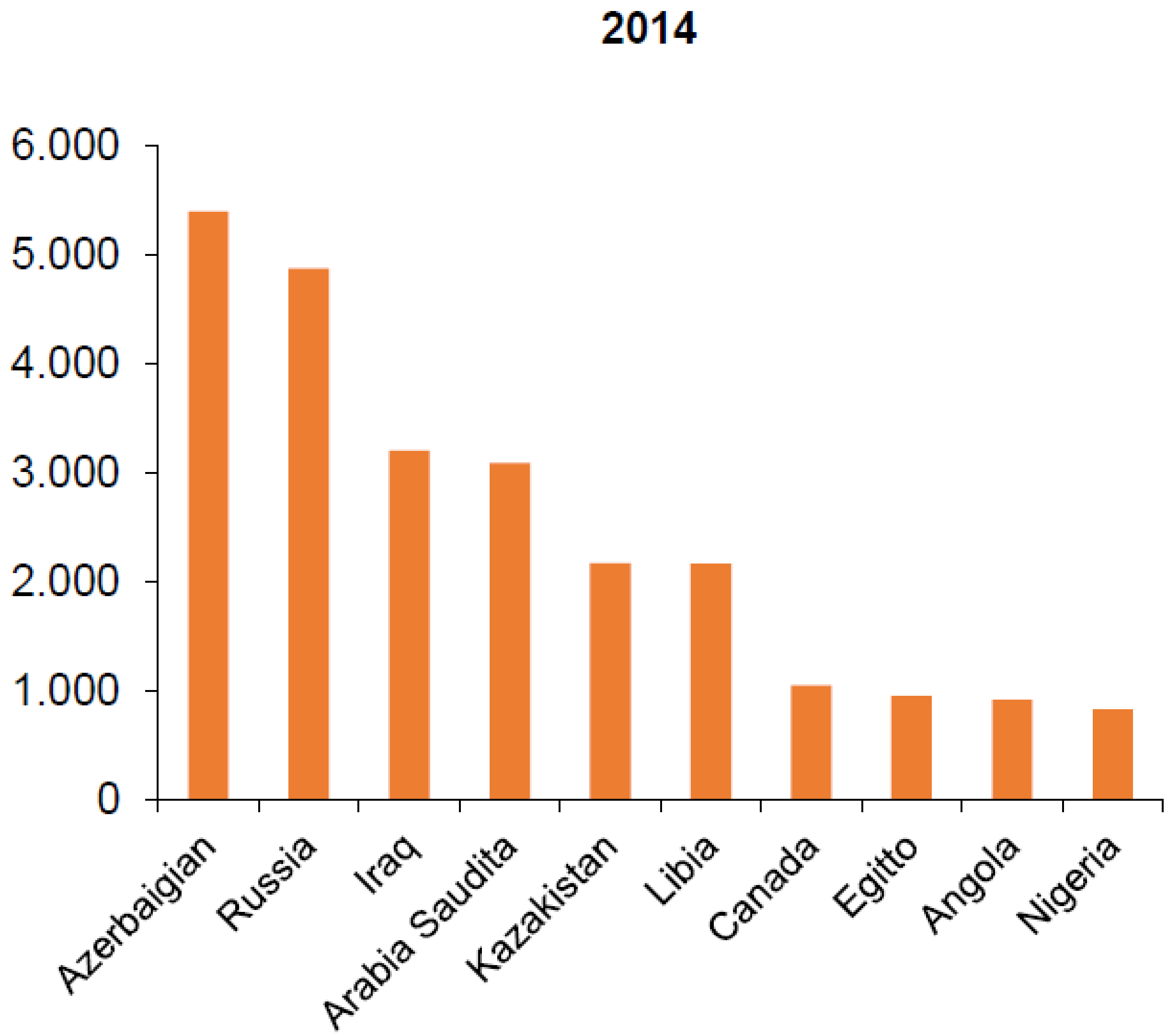


On the import side, until 2011 Iran was third major oil supplier crude oil for Italy, with a value of € 5.1 billion. This value has undergone a reduction of over 60 percent in 2012 and then almost cancel out in the subsequence two years. This, combined with geopolitical tensions in North Africa and in some Middle Eastern countries, it has ensured that Italian supplies of crude oil have undergone a geographic reorientation in favor of Eastern European countries (in particular Azerbaijan and Kazakhstan).

Graph 5.7 Main suppliers of crude oil to Italy 2011 (value in millions of euros)



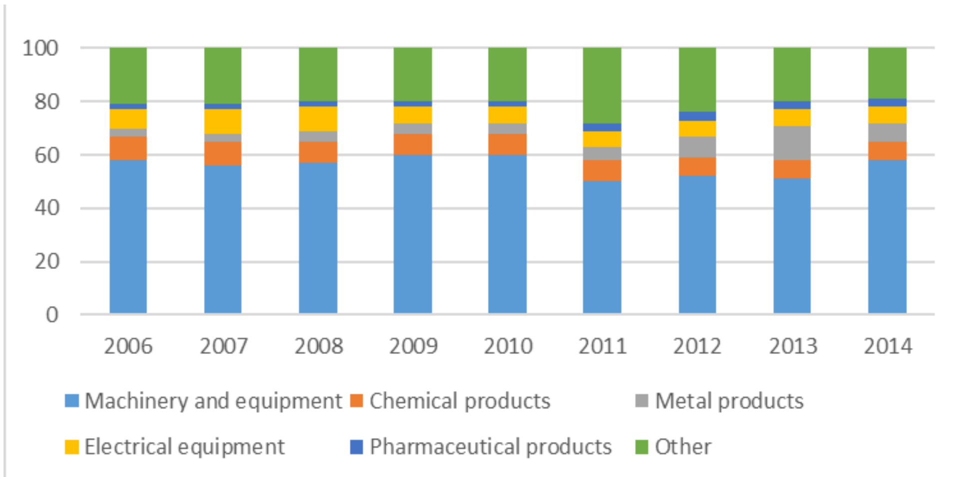
Graph 5.8 Main suppliers of crude oil to Italy 2014 (value in millions of euros)



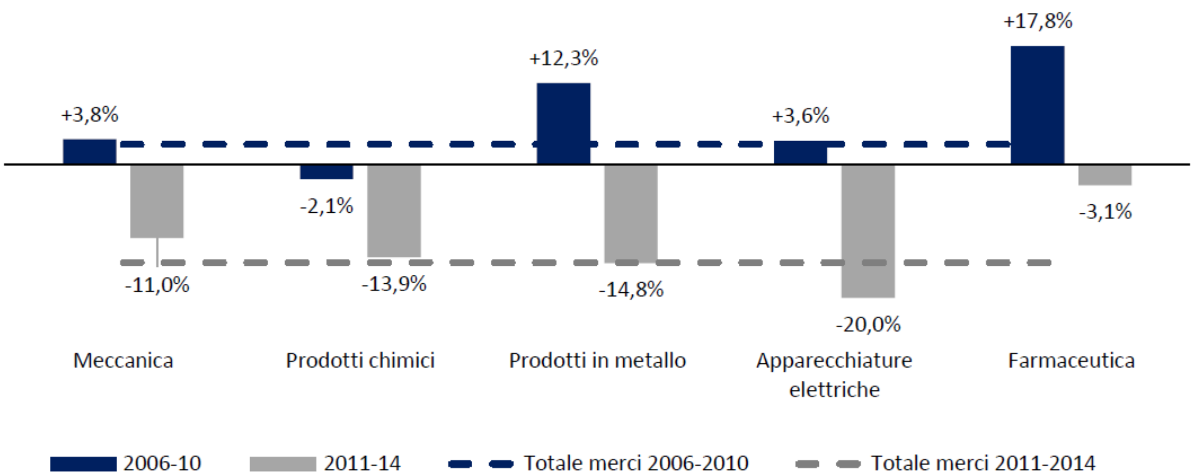
On the export side, these started to contract as early as 2011 (-9.5%) for further decrease in the following two years (-24% in both 2012 and 2013). 2014 showed signs of recovery with a rebound of 8.7% compared to the previous year.

The mechanics represents more than 50 percent of the export destined for the Iranian market. In the period 2006-2010 the sector grew by 3.8 percent, at a faster pace than the total average of goods, while between 2011 and 2014 it contracted by 11 percent. 2014 showed signs of recovery, with an increase of 26 percent.

Graph 5.9 Main sectors of Italian exports to Iran (percentage values)



Graph 5.10 Top 5 Italian export sectors in Iran, pre and post crisis dynamics
(average annual growth rates, % change)



It should be noted that Iran, to cope with the shortage of foreign currency arising from the non-sale of hydrocarbons, has introduced a system of prioritization of imports that assigns top priority to basic necessities (cereals and foodstuffs), medicines and basic materials for industrial and agricultural productions, while capital goods, industrial machinery and durable goods have residual priority. This system could have affected the decline in mechanical exports from Italy to Iran.

In fact, mechanics represents almost 50 percent of the export destined for the Iranian market. In period 2006-2010 the sector grew by 3.8 percent, with a higher rate than the total average of goods, while between 2011 and 2014 it contracted by 11 percent. 2014 showed signs of recovery, with an increase of 26 percent. With reference to the other sectors, metal products have gained a growing weight in Italian exports to Iran, going from 5.3% in 2010 to 13.3% of 2014.

Progress towards the conclusion of an agreement pushed the interchange that in the first few months of 2015 seems to have regained new vigor for both flows. Compared to the corresponding period of 2014, in fact, exports grew by 32.5% while imports, driven by the chemical and product sectors of mines and quarries, has increased by over 120%.

Table 5.1 Italy-Iran trade interchange by sectors in the first quarter of 2015
(Values in thousands of euros)

	Export from Italy			Export from Iran				
Settori	Esportazioni			Importazioni			Saldi	
	2014 I trim	2015 I trim	Var % 14/15	2014 I trim	2015 I trim	Var % 14/15	2014 I trim	2015 I trim
Prodotti dell'agricoltura, pesca e silvicoltura	1.211	1.347	11,2	7.522	7.969	5,9	-6.311	-6.622
Prodotti delle miniere e delle cave	369	26	-93	2.181	30.996	1321,2	-1.812	-30.970
Prodotti alimentari	3.113	4.365	40,2	9.983	5.938	-40,5	-6.870	-1.574
Bevande	0	14	.	.	.	.	..	14
Tabacco	.	1	.	.	.	.	..	1
Prodotti tessili	1.375	911	-33,8	1.643	585	-64,4	-268	325
Articoli di abbigliamento (anche in pelle e in pelliccia)	1.301	2.970	128,3	1	.	.	1.300	2.970
Articoli in pelle (escluso abbigliamento) e simili	668	1.119	67,4	519	705	35,8	149	414
Legno e prodotti in legno e sughero (esclusi i mobili)	333	701	110,8	.	.	.	333	701
Carta e prodotti di carta	2.516	2.696	7,1	3	.	.	2.513	2.696
Prodotti della stampa e della riproduzione di supporti registrati	132	21	-84,4	.	.	.	132	21
Coke e prodotti derivanti dalla raffinazione del petrolio	364	643	76,6	.	.	.	364	643
Prodotti chimici	19.902	20.569	3,4	2.470	15.107	511,7	17.433	5.462
Prodotti farmaceutici di base e preparati farmaceutici	10.814	12.440	15	.	4	.	10.814	12.437
Articoli in gomma e materie plastiche	4.579	6.436	40,6	20	8	-61,9	4.559	6.428
Altri prodotti della lavorazione di minerali non metalliferi	7.097	9.907	39,6	187	192	2,6	6.910	9.716
Prodotti della metallurgia	3.004	2.126	-29,2	26.300	61.811	135	-23.296	-59.685
Prodotti in metallo, esclusi macchinari e attrezzature	21.596	18.543	-14,1	4.737	4.672	-1,4	16.859	13.872
Computer e prodotti di elettronica e ottica	6.375	10.153	59,3	282	42	-85,3	6.092	10.112
Apparecchiature elettriche e apparecchiature per uso domestico non elettriche	12.905	18.930	46,7	984	1.768	79,6	11.921	17.162
Macchinari e apparecchiature nca	103.248	147.584	42,9	565	520	-7,9	102.684	147.064
Autoveicoli, rimorchi e semirimorchi	1.956	4.707	140,7	1.887	536	-71,6	69	4.171
Altri mezzi di trasporto	595	117	-80,4	.	.	.	595	117
Mobili	1.007	2.743	172,4	.	.	.	1.007	2.743
Prodotti delle altre industrie manifatturiere	4.397	7.703	75,2	.	30	.	4.397	7.673
Energia elettrica, gas, vapore e aria condizionata	.	.	.	.	.	.	..	.
Altri prodotti e attività	64	64	0,2	160	43	-73,5	-96	22
Totale	**208.920**	**276.838**	**32,5**	**59.443**	**130.924**	**120,3**	**149.477**	**145.913**

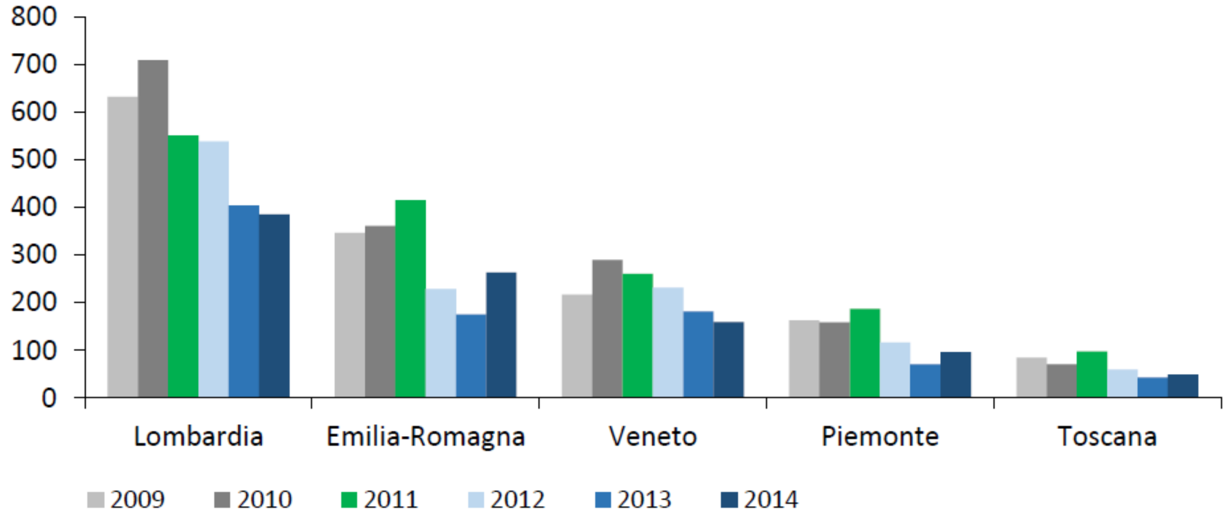
Much of Italy’s trade with Iran comes from investments made by Italy’s energy company, Eni, in Iran’s oil and gas reserves. Beyond cooperation over hydrocarbon extraction, Italy and Iran have cooperated in the commercial industry. Italy’s Fiat has agreed to begin manufacturing its Siena four-door sedans in Iran after signing an agreement with the Iranian car manufacturing company PIDF in July 2008. In addition, Iran has expressed interest in increasing its cooperation with Italy's banking sector, though extensive UN Security Council and EU sanctions would hamper any potential banking cooperation between the two. Despite extensive sanctions against Iran's nuclear program, many of which Italy has voted in favor of both in the UN and the European Union, Italy continues to be a strong bilateral trade partner of the Islamic Republic. As of 2009, bilateral trade exceeds $8 billion. In March 2009, Italian Ambassador to Tehran Alberto Bradanini called on Iran and Italy to expand economic cooperation; Bradanini noted that the Persian Gulf Mining and Metal Industries Special Zone was a major possible center of future foreign investment. In April 2009, Iranian Oil Minister Gholam Hossein Nozari announced the beginning of studies on the construction of a new gas pipeline between Iran and Europe, which would Link Iran to Italy and Greece.

In July 2009, Iran's Mehr News Agency reported that Iran's oil ministry signed an agreement with an unnamed Italian firm to aid in Phase 12 of the development of the South Pars gas field. While the agency failed to name the Italian company, it did note that the contract was worth more than $1.5 billion.

In November 2009, Iran's government said that it would use Italy to launch a communications satellite sometime after March 2011 after waiting years for Russia to do the job; however, Italy's Carlo Gavazzi Space Company said that no launch is planned or even possible at the moment. The Italian Economic Development Ministry confirmed that it never released an export license for the satellite. Later that month, Iranian Managing Director of the Petropars Oil and Gas Company, Gholam Reza Manouchehri, announced that Iran signed a $4 billion contract with Italy and South Korea on the development of the second part of phase 12 of development of the South Pars gas field, adding that another contract has also been signed with Italian Company Tecnimont and Iranian companies Nargan, Dorriz, and Gamma for the development of the third part of the same phase which is worth around $2 billion.

The main regions involved in the exchange are Lombardy, Emilia Romagna and Veneto and all have affected by the effects of the second wave of sanctions.

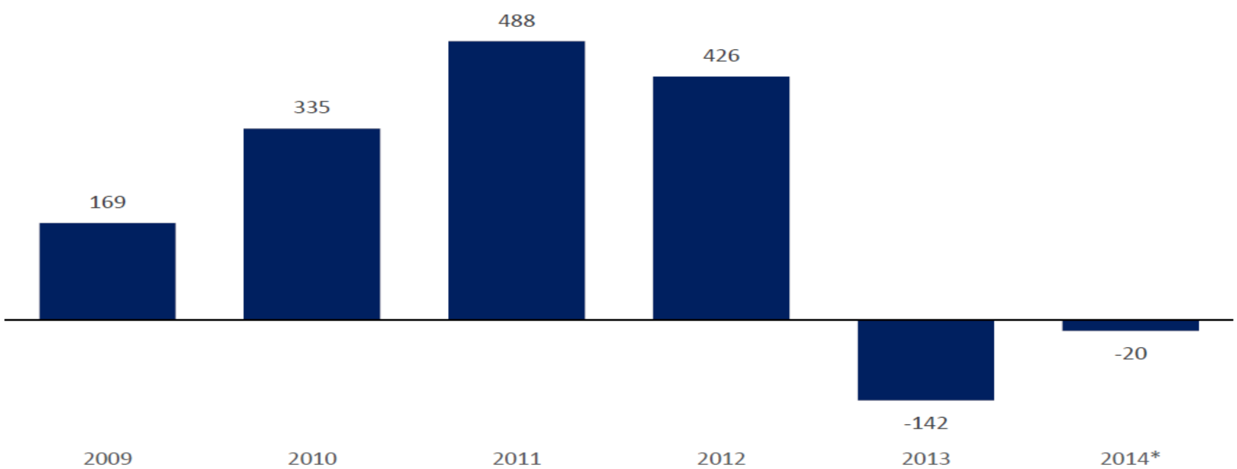
Graph 5.11 Exports of the main Italian regions to Iran
(millions of euros)



5.4 FOREIGN DIRECT INVESTMENTS AND FOREIGN HOLDINGS

Over the years the tightening of sanctions against Iran has limited the flow of direct investments coming out of Italy.

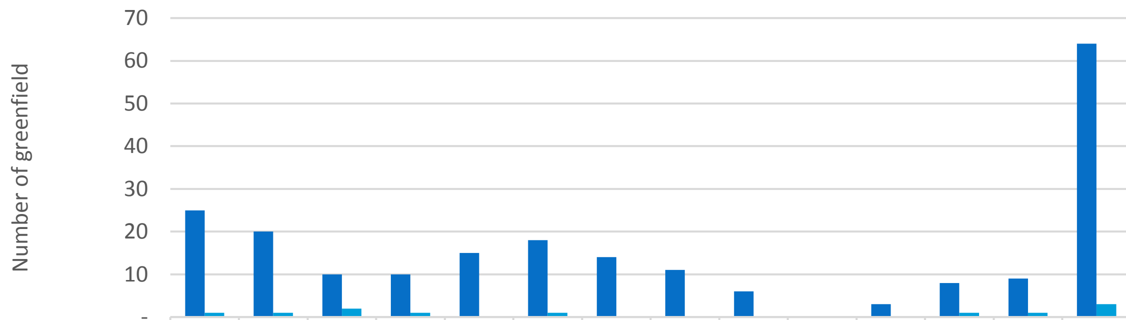
Graph 5.12 Foreign Direct Investment Flows leaving Italy to Iran
(millions of euros)



However, in terms of Italian holdings in Iran, these do not seem to have been affected by the measures restrictive. Their number, although still small, has continued to grow throughout the course of the sanctions.

Next graph compare number of greenfield FDI projects in Iran from Italy and all around the world. As we can see Italy has 5% of total in terms of FDI.

Graph 5.13 Compare number of greenfield FDI projects between Italy and all other countries in Iran, 2003-2016



	2003		2005		2007		2009		2011		2013		2015	
all countries	25	20	10	10	15	18	14	11	6	-	3	8	9	64
Italy	1	1	2	1	-	1	-	-	-	-	-	1	1	3

Year

5.5 CONCLUSION

Our goal was look at economic relation between Iran and Italy. This aim cannot satisfy without consider Iran nuclear program and sanctions period. Italy has always been one of largest trade partners of Iran. In 2005, Italy was the third largest trading partner of Iran with 7.5% of all exports to Iran. It was also the top trading partner of Iran in the European Union in early 2006. From 2006 onwards, a series of restrictive measures and sanctions was enacted against Iran aimed at discouraging Iran's nuclear program. As a consequence, not only Iran but also its main partners suffered a lot during this period. The sanctions have cost Italy more than €15 billion in lost exports since 2006 with more than 60% of this loss occurring in the 2011-2013.
From previous analysis of the characteristic issues firstly Iran is one of the largest economies in Middle East and has great potential for investing. After lifting all sanction related to Iran's nuclear activities, it's expected that Iran's economy will improve and many investors decide to enter in this market. Secondly, by the increase of penetration rate of internet and mobile devices among Iranian people and especially young people, ecommerce as become in an interesting field for both Iranian investors and foreigners.

Many startup companies have been formed recently and still there are great opportunities for new comers. Cost of import, especially transporting cost, is the most effective matter for foreigners to enter Iran's market.

To have a warehouse in Iran is an important factor the fact it decreases the cost of distribution network by more than 90%. And delivery time from more than 2 weeks to just 2 or 3 working days, thereby increasing leads customer satisfaction.
How to transport the products from central warehouse to regional warehouse in Iran is important for any company. According to cost analyzing, the best and cheapest option is using road transportation method.

Another issue for foreigners is payment method because of lack of international bank and credit cards in Iran, although it should be solved in future months due to Iran Deal.

Furthermore, not only there is no legal issue or problem to enter Iran's market for foreigner investors but also there are many supportive activities done by government to attract investors. By considering and analyzing these important items, entering Iran's market especially in ecommerce is highly recommended to any company.