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POTENTIAL FOR ENHANCING INDIA'S TRADE WITH IRAN : A BRIEF ANALYSIS

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Executive Summary

Introduction

Iran's economy is characterized by a large hydrocarbon sector (the country has an abundance of energy resources with substantial oil reserves and natural gas reserves which are second in the world after Russia), small scale agriculture and services sectors, and a noticeable state presence in manufacturing and financial services. Services sector dominates Iran's economy with a share of 50.3 percent of GDP, followed by industry (40.7 percent) and agriculture (9.1 percent).

Iranian authorities have adopted a comprehensive strategy encompassing market-based reforms as reflected in the government's 20-year vision document and Iran's fifth Five-Year Development Plan (FYDP, 2011–15). The Iranian state continues to play a key role in the economy, however, owning large public and quasi-public enterprises which partly dominate the manufacturing and commercial sectors. The financial sector is also dominated by public banks.

Macroeconomic Snapshot of Iran

Iran emerged from a two-year sanctions-related recession during 2014, with real GDP growing by 3 percent, supported by improvement in economic policy making, combined with relief from the two interim agreements . The recovery was also driven by a rebound in public investment and modest growth in exports, mostly condensates (which are exempt from sanctions) and non hydrocarbon exports. Dependence on oil revenue in Iran has been reduced from an average of 51 percent of total revenue during 2008-2013 to 30 percent in 2014.

Iran has experienced high inflation in recent years, owing to domestic policy, including subsidy reform, related cash handouts and expansionary funding of populist housing schemes, as well as the impact of international sanctions, which have resulted in disrupted supply chains and higher operating costs. The latter caused inflation to accelerate in 2013, as the official and unofficial exchange rates weakened sharply and trade restrictions prompted shortages. However, prudent policy making together with the interim nuclear deal as well as weak global prices have helped inflation ease sharply in 2014.

Historically, hydrocarbon earnings have resulted in Iran running a current account surplus as well as fiscal surplus. However, in recent years hydrocarbon exports have moderated resulting from lower production, increased domestic usage and international sanctions, which have taken a hit on the current account surplus as well as fiscal revenue. With a view to improving the prospects for the economy, the Iranian government has announced several measures including, raising the productive capacity of the non-oil segment of the economy, giving greater autonomy to the Central Bank, broadening the tax base, stabilizing and unifying the domestic currency in the market, reinstating the Management and Planning Organization which was in charge of drafting the government budget and the country's five year development plans, and opening up the oil sector to foreign companies for investment and technical assistance. The economic outlook has improved since last year in line with the interim measures adopted by Iran and the P5+1 group (US, UK, France, Russia, China and Germany) under the Joint Plan of Action.

The official currency of Iran is the Iranian rial (IR). On July 2, 2013, the Central Bank of Iran (Bank Markazi) replaced the official rate of IR 12,260: US$1 by a new reference rate, with a large devaluation taking the rate to IR 27,300: US$ 1. Since then it has drifted to around IR 26,675: US$1. The previous official rate was only available to importers of essential foodstuffs and medicines, but the new rate is more widely available. The transaction rate, which was previously set at 20 percent below the free-market rate, was used by most importers but was only available at the state-run currency trade centre. The free-market rate on the other hand has no restrictions or regulations. Prior to the sanctions regime, hydrocarbon earnings allowed the government to artificially maintain its exchange rate. However, with access to foreign earnings being cut by sanctions on the financial sector, the government is no longer able to maintain parity between the official rate and the black market rate. In recent years, the depreciation of the exchange rate has improved the competitiveness of the agriculture, manufacturing, and non-oil export sectors, as well as of the hydrocarbon industry.

Iran's failure to comply with the United Nations (UN) resolutions requiring it to suspend its nuclear enrichment activities has resulted in a series of international sanctions, led by the US (which had imposed sanctions on Iran prior to the nuclear issue), supported by the European Union (EU). Additionally, in 2006 the UN Security Council approved sanctions against Iran's nuclear sector, which have since been strengthened on a number of occasions. Nevertheless it is the US and EU sanctions that have had the most impact by targeting the strategically-vital hydrocarbon sector (without specifically banning oil or gas exports) and the financial sector with the aim of curtailing trade and investment flows.

International Trade of Iran

Iran's exports are highly reliant on crude oil which generates around 80 percent of export revenues. As a result, exports are subject to vulnerability in the price of oil in the international market. Between 2005 to 2008, Iran's total merchandise trade (exports + imports) increased close to two-fold, rising from US$ 98.7 billion in 2005 to a high of US$ 178 billion in 2008, resulting from a rise in price of oil. Exports moved in tune with oil price, and were seen peaking at US$ 130.5 billion during 2011.

Mineral fuels and oils are Iran's most important exports, accounting for 80.2 percent of Iran's total exports in 2014. Other key exports of Iran include plastics, organic chemicals, ores, and fruits. In 2014, Iran's exports were directed primarily to China (42.8 percent of total exports), India (17.5 percent), Turkey (15.3 percent), Japan (9.6 percent), and South Korea (7.1 percent).

Machinery and instruments make up around 14.6 percent of Iranian imports, followed by electrical, electronic equipment (9.6 percent), and cereals (8.8 percent), among others. The oil sector is a major consumer of machinery and iron and steel, much of which have to be imported due to Iran's underdeveloped industrial capacity. The primary sources of Iran's global imports in 2014 were China (43.8 percent of total imports), India (7.9 percent), South Korea (7.5 percent), Turkey (7 percent), and Germany (5.7 percent).

Foreign Investments in Iran

Inflows to Iran focus mostly on oil exploration and production, and economic sanctions have had negative effects on those inflows, which declined by about one third in 2013, to US$ 3 billion.

Stocks of FDI continued to increase in 2013 to US$ 40.9 billion, rising by 8 percent from levels seen in 2012, driven by Chinese, Indian, Turkish and Middle Eastern companies, particularly in the upstream and downstream hydrocarbon sector, as they replace Western companies.

The other major sectors of FDI inflows into Iran include petrochemicals, copper mining and pharmaceuticals. Asian countries such as UAE, Singapore, Indonesia and Oman are among the major investors in Iran. Investment flows from many countries have virtually halted, but Chinese, Indian and Turkish companies remain willing to invest in the potentially-lucrative Iranian market.

Regardless of the sanctions regime, the business environment remains challenging. The World Bank's Ease of Doing Business 2015 report ranks Iran at 130 out of 189 countries, up two places from the previous year. Of the ten areas scored, four fall into the bottom quartile: dealing with construction permits (172), registering property (161), protecting investors (154) and trading across borders (148), while only three come into the top half of the rankings: starting a business (62), enforcing contracts (66) and getting credit (89).

According to World Economic Forum's Global Competitiveness Index Ranking 2014-15, Iran was ranked 83 out of 145 countries. This Index measures the ability of a country to provide high levels of prosperity to its citizens based on the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity.

India's Bilateral Relations with Iran

Trade relations between India and Iran have witnessed a significant rise during the last decade, with India's trade (exports + imports) with Iran rising more than nine-fold, from US$ 1.7 billion in 2005 to US$ 15.7 billion in 2014. This buoyant trend has been supported by rise in India's exports to and imports from Iran, with India's imports from Iran surpassing India's exports. India normally maintains a trade deficit with Iran which rose from US$ 4.3 billion in 2006 to US$ 10.8 billion in 2012, before contracting to US$ 6.8 billion in 2014.

During 2014, Iran was India's twenty-fourth largest export destination, accounting for 1.4 percent of India's global exports. Iran was also the fifteenth largest source of India's imports, accounting for a share of 2.4 percent of India's global imports. The economic sanctions imposed on Iran have had an adverse effect on the bilateral trade as the international banking channels have gradually become non-existent.

India's exports to Iran include rice, machinery & instruments, metals, primary and semi finished iron & steel, pharmaceuticals and fine chemicals, processed minerals, manmade yarn & fabrics, tea, organic/inorganic/agro chemicals, rubber manufactured products, etc.

India's imports from Iran are dominated by crude oil, accounting for 85.9 percent of India's total imports from Iran. In 2014, India was the second largest market for Iran's exports of crude oil. On the other hand, during the same year, Iran was India's sixth largest supplier of crude oil. India has steadily cut imports from Iran as the sanctions from US and other Western countries blocked payment channels and crippled shipping routes. Since February 2013, when the US blocked payment channels to Iran for its nuclear programme, India has been paying 45 per cent of its Iran oil bill in rupees through an arrangement with UCO Bank .

During April 1996 to March 2015, the cumulative approved Indian FDI in joint ventures and wholly owned subsidiaries (FDI outflow) in Iran stood at US$ 183.4 million. Indian companies such as ESSAR, OVL, Tata Steel, Persia Rohit Mines & Industries Company, etc have presence in Iran. The State Bank of India (SBI) has a representative office in Tehran.

During April 2000 to March 2015, India's total foreign direct investment inflows from Iran amounted to US$ 0.6 million. Joint Ventures between India and Iran include the Irano-Hind Shipping Company, the Madras Fertilizer Company, and the Chennai Refinery.

The two countries have signed a Bilateral Investment Promotion and Protection Agreement (BIPPA), and are in the process of finalizing a Double Taxation Avoidance Agreement (DTAA).

Potential for Enhancing Bilateral Trade Relations with Iran

To enhance bilateral trade relations, as also to address the high trade deficit, strategy to boost trade relations with Iran would entail identification of potential items of India's exports, which would be based on the following analysis:

- Identification of major items in Iran's import basket, and share of India in each product line (based on HS-Code)
- Selection of potential items, based on low share of India in Iran's import basket of major commodities, keeping in view India's export capability in the global market. This would entail identification of potential export items under each product category, up to 6-digit HS Commodity Code

Based on the above criterion, as also on India's global export capability, potential items of export to Iran would include:

- Machinery and instruments (HS-84)
- Electrical, electronic equipment (HS-85)
- Vehicles other than railway, tramway (HS-87)
- Plastics and articles (HS-39)
- Optical, photo and technical apparatus (HS-90)
- Pharmaceutical products (HS- 30)
- Animal vegetable fats and oil (HS-15)
- Ceramic products (HS-69)
- Pearls, precious stones (HS-71)
- Articles of leather (HS-42)

1. Economic Overview of Iran

Introduction

Iran's economy is characterized by a large hydrocarbon sector (the country has an abundance of energy resources with substantial oil reserves and natural gas reserves which are second in the world after Russia), small scale agriculture and services sectors, and a noticeable state presence in manufacturing and financial services. Services sector dominates Iran's economy with a share of 50.3 percent of GDP, followed by industry (40.7 percent) and agriculture (9.1 percent).

Iranian authorities have adopted a comprehensive strategy encompassing market-based reforms as reflected in the government's 20-year vision document and Iran's fifth Five-Year Development Plan (FYDP, 2011–15). The Iranian state continues to play a key role in the economy, however, owning large public and quasi-public enterprises which partly dominate the manufacturing and commercial sectors. The financial sector is also dominated by public banks.

Macroeconomic Environment

Iran emerged from a two-year sanctions-related recession during 2014, with real GDP growing by 3 percent, supported by improvement in economic policy making, combined with relief from the two interim agreements (**Table 1.1**). The recovery was also driven by a rebound in public investment and modest growth in exports, mostly condensates (which are exempt from sanctions) and non hydrocarbon exports. Dependence on oil revenue in Iran has been reduced from an average of 51 percent of total revenue during 2008-2013 to 30 percent in 2014.

Table 1.1: Macroeconomic Snapshot of Iran

Indicator	2010	2011	2012	2013	2014	2015[f]	2016[f]
Nominal GDP (US$ bn)	464.0	564.5	418.9	380.3	404.1	393.5	404.5
Real GDP (%)	6.6	3.8	-6.6	-1.9	3.0	0.6	1.3
GDP, per capita (US$)	6241.3	7511.1	5512.0	4941.0	5183.2	4982.7	5056.5
Consumer price inflation (%, average)	12.4	21.5	30.5	34.7	15.5	16.5	17.0
Population (mn)	74.3	75.2	76.0	77.0	78.0	79.0	80.0
Fiscal balance (% of GDP)	-1.1	-0.8	-0.6	-0.9	-0.8	-2.8	-1.9
Public debt (% of GDP)	12.2	8.9	11.2	11.1	12.2	11.9	11.9
Current account balance (% of GDP)	5.9	10.5	6.3	7.4	3.8	0.8	1.2
International reserves (US$ bn)	71.1	92.4	104.6	107.9	108.9	93.9	103.9
Exchange rate (IR: US$, average)	10,254	10,616	12,176	18,414	25,912	28,944	29,812

Note: [f]: Forecasts
Source: International Monetary Fund (IMF); Economist Intelligence Unit (EIU)

Iran has experienced high inflation in recent years, owing to domestic policy, including subsidy reform, related cash handouts and expansionary funding of populist housing schemes, as well as the impact of international sanctions, which have resulted in disrupted supply chains and higher operating costs. The latter caused inflation to accelerate in 2013, as the official and unofficial exchange rates weakened sharply and trade restrictions prompted shortages. However, prudent policy making together with the interim nuclear deal as well as weak global prices have helped inflation ease sharply in 2014.

Historically, hydrocarbon earnings have resulted in Iran running a current account surplus as well as fiscal surplus. However, in recent years hydrocarbon exports have moderated resulting from lower production, increased domestic usage and international sanctions, which have taken a hit on the current account surplus as well as fiscal revenue. With a view to improving the prospects for the economy, the Iranian government has announced several measures including, raising the productive capacity of the non-oil segment of the economy, giving greater autonomy to the Central Bank, broadening the tax base, stabilizing and unifying the domestic currency in the market, reinstating the Management and Planning Organization which was in charge of drafting the government budget and the country's five year development plans, and opening up the oil sector to foreign companies for investment and technical assistance. The economic outlook has improved since last year in line with the interim measures adopted by Iran and the P5+1 group (US, UK, France, Russia, China and Germany) under the Joint Plan of Action.

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Iran's failure to comply with the United Nations (UN) resolutions requiring it to suspend its nuclear enrichment activities has resulted in a series of international sanctions, led by the US (which had imposed sanctions on Iran prior to the nuclear issue), supported by the European Union (EU). Additionally, in 2006 the UN Security Council approved sanctions against Iran's nuclear sector, which have since been strengthened on a number of occasions. Nevertheless it is the US and EU sanctions that have had the most impact by targeting the strategically-vital hydrocarbon sector (without specifically banning oil or gas exports) and the financial sector with the aim of curtailing trade and investment flows.

I. Sanctions Against Iran

Since Iran's nuclear programme became public in 2002, the UN, EU and several individual countries have imposed sanctions in an attempt to prevent it from developing military nuclear capability. Iran insists its nuclear activities are exclusively peaceful, but the world's nuclear watchdog has been unable to verify this.

Several rounds of sanctions in recent years have targeted Iran's key energy and financial sectors, crippling its economy.

The four rounds of UN sanctions included:

- A ban of supply of heavy weapons and nuclear related technology to Iran
- A block on arms export
- An asset freeze on individuals and companies

The EU has also imposed its own sanctions, which include among others,

- Restrictions on trade equipment which could be used for uranium enrichment
- An asset freeze on a list of individuals and organizations that the EU believed were helping advance the nuclear programme, and a ban on them entering the EU
- A ban on any transactions with Iranian banks and financial institutions
- Ban on import and transport of Iranian crude oil and natural gas- The EU had previously accounted for 20 percent of Iran's oil exports. European companies were also stopped from insuring Iranian oil shipments

Australia, Canada, Japan, and South Korea have also imposed sanctions similar to those of the EU.

The US has imposed successive rounds of sanctions since the 1979 Tehran hostage crisis, citing what it says is Iran's support for international terrorism, human rights violations and refusal to co-operate with the International Atomic Energy Agency (IAEA). The US sanctions prohibit almost all trade with Iran, making some exceptions only for activity "intended to benefit the Iranian people", including the export of medical and agricultural equipment, humanitarian assistance and trade in "informational" materials such as films.

As a result of the EU embargo and the US sanctions targeting other major importers, Iran's oil exports had fallen to 700,000 barrels per day (bpd) in 2013, compared with an average 2.2 million bpd in 2011. In January 2013, Iran's oil minister acknowledged for the first time that the fall in exports was costing the country between US$ 4 billion and US$ 8 billion (£2.5 billion-£5 billion) each month. Iran is believed to have suffered a loss of about US$ 26 billion (£16 billion) in oil revenue in 2012 from a total of US$ 95 billion (£59 million) in 2011. The loss of oil revenue, which accounted for half of government expenditure, and isolation from the international banking system, resulted in Iran's currency losing two-thirds of its value against the US dollar and caused inflation to rise, with prices of basic foodstuffs and fuel soaring.

The financial system has also been adversely impacted by the sanctions. Banks are highly undercapitalized, poorly regulated, and nonperforming loans have soared to 14.4 percent of total loans, reflecting acute cash flow problems in the corporate sector. Most businesses are facing difficulties in accessing loans due to limited liquidity and the cautious lending stance by financial institutions as credit conditions have deteriorated. There is a severe shortage of hard currency.

Iran and the six world powers (P5+1, including the US, China, Russia, France, Germany, and UK) agreed an interim deal in 2013 which saw it gain around US$ 7 billion in sanctions relief in return for curbing uranium enrichment and giving the UN better access to its facilities. World powers also committed to facilitate Iran's access to US$ 4.2 billion in restricted funds.

Though Iran and the six world powers have reached a tentative framework agreement over the nuclear program in April 2015, the economic and financial sanctions will not begin to be lifted until at least four months after a final deal is signed in June 2015, and once the IAEA can confirm that Iran has taken the necessary steps to curb its nuclear advances. The economic implications of lifting the sanctions would be enormous but would take about a year to be felt in full. Growth could accelerate, driven by a surge in exports and private investment, the fiscal deficit would narrow, the large spread between the official and the black market rates could be eliminated, and the authorities could press ahead with reforms to improve the business environment. Iran will be able to rejoin the Society for World-wide Interbank Financial Telecommunication (SWIFT) international transactions network, which is critical to making electronic transfers. Lifting the sanctions will also allow the Iranian authorities to use more of their foreign exchange reserves (estimated at US$ 109 billion), half of which have been frozen abroad.

Source: EIU; IMF; Institute of International Finance (IIF)

2. International Trade of Iran

Introduction

Iran is a founding member of the Economic Cooperation Organisation (ECO) and Organization of the Petroleum Exporting Countries (OPEC). However, international sanctions and political barriers prevented Iran from joining the World Trade Organisation (WTO).

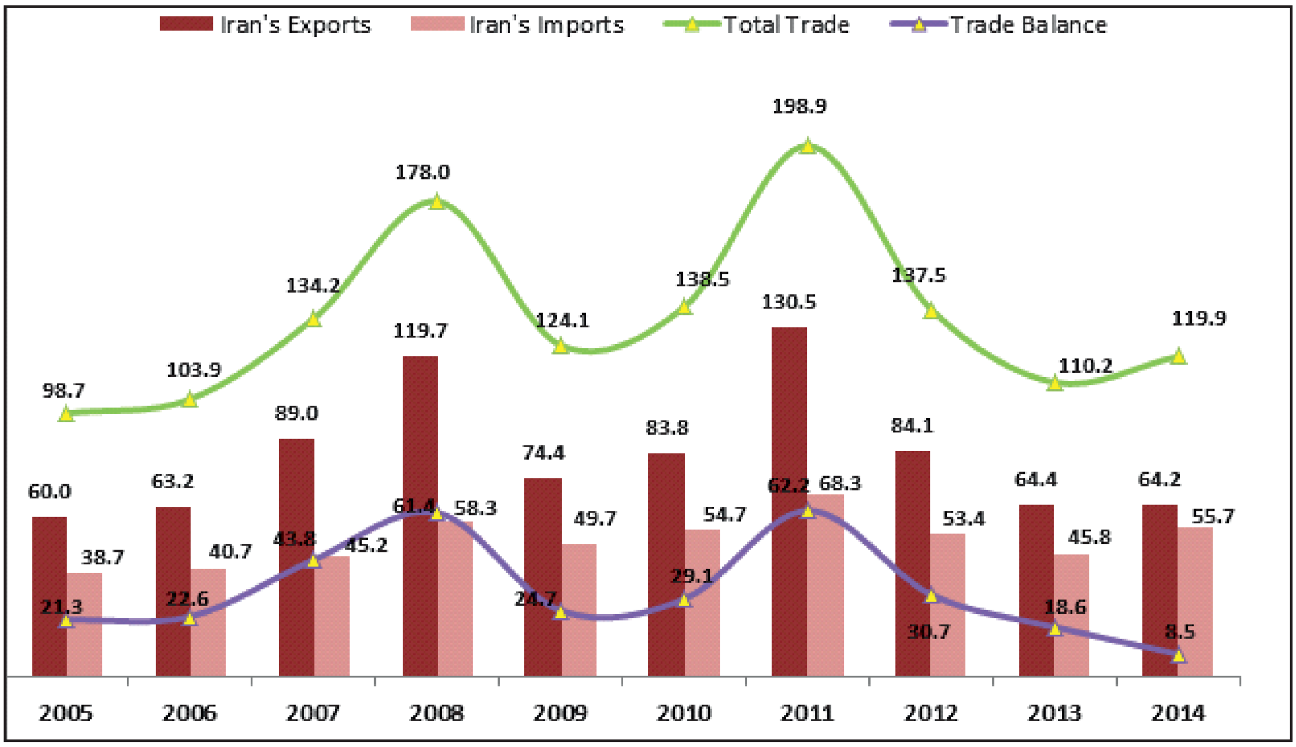
Iran's exports are highly reliant on crude oil which generates around 80 percent of export revenue. As a result, exports are subject to vulnerability in the price of oil in the international market. Between 2005 to 2008, Iran's total merchandise trade (exports + imports) increased close to two-fold, rising from US$ 98.7 billion in 2005 to a high of US$ 178 billion in 2008, resulting from a rise

Table 2.1: International Trade of Iran, 2005-2014 (US$ bn)

Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Iran's Global Exports	60.0	63.2	89.0	119.7	74.4	83.8	130.5	84.1	64.4	64.2
Iran's Global Imports	38.7	40.7	45.2	58.3	49.7	54.7	68.3	53.4	45.8	55.7
Total Trade	98.7	103.9	134.2	178.0	124.1	138.5	198.9	137.5	110.2	119.9
Trade Balance	21.3	22.6	43.8	61.4	24.7	29.1	62.2	30.7	18.6	8.5

Source: Trade Map, ITC Geneva

Chart 2.1: International Trade of Iran, 2005-2014 (US$ bn)



Note: data for 2007, 2008 and 2008 are sourced from DOTS, IMF
Source: Trade Map, ITC Geneva; Dots, IMF

in price of oil (**Table 2.1** and **Chart 2.1**). Exports moved in tune with oil price, and were seen peaking at US$ 130.5 billion during 2011.

In 2012, Iran's external balances were weakened by sanctions, with exports of crude oil declining sharply, which continued into 2013 as well. At the same time, imports of, primarily consumer and capital goods have also shown a decline. Iran's external balances have suffered because of sanctions but have made adjustments to the more difficult trading conditions.

Major Export Items

Mineral fuels and oils are Iran's most important exports, accounting for 80.2 percent of Iran's total exports in 2014 (**Table 2.2**). Other key exports of Iran include plastics, organic chemicals, ores, and fruits. In 2014, Iran's exports were directed primarily to China (42.8 percent of total exports), India (17.5 percent), Turkey (15.3 percent), Japan (9.6 percent), and South Korea (7.1 percent).

Mineral fuels and oils are mostly exported to China, Turkey, India, Japan, South Korea and Taiwan. Crude petroleum oil is the key exported item under this category accounting for over of 93 percent total mineral fuels and oils.

As regards exports of plastics and articles, the major markets are China, Turkey, India, Belgium, and Taiwan. For Iran's exports of organic chemicals, China is the largest export market followed by India, Taiwan, Turkey, and Russia. Acyclic alcohol and their derivatives are the major exports under this category, followed by cyclic and acyclic hydrocarbons.

As regards ores, slag and ash, China was Iran's main export market, followed by Philippines, Azerbaijan, Qatar and Pakistan. Iron ore and concentrates accounted for 88 percent of total exports under this group.

In case of edible fruits and nuts, Russia was Iran's largest export market, accounting for as much as 19 percent of Iran's total exports, followed by Germany, India, Ukraine and Spain.

Export Incentives

Export incentives include reduced freight rates, refund of customs duty and commercial-benefit tax on re-exports. In addition, to encourage non-oil exports, the export of handicrafts, agricultural goods and certain manufactured items is permitted without restrictions on the resulting foreign-exchange proceeds. Income derived from the export of agricultural and finished industrial goods are tax exempt. Similarly, the tax exemption also applies to 50 percent of the income earned from exporting other non-oil goods.

Export Zones

Iran has 16 Special Economic Zones (SEZs) that are important destinations for warehousing and shipping goods. These SEZs include better facilities to load and unload goods, with adequate warehousing and distribution. The intended material advantages of conducting business in the SEZs include streamlined bureaucratic procedures and more liberal business regulations, such as laws on labour relations and the protection of investments. Several SEZs are near international borders with easy access to road, rail and air transport. Customs duties do not apply on goods and merchandise shipped overseas are from these SEZ sites:

- Arg-e-Jadid Development (central Iran)
- Bandar Amirabad Shipping (northern Iran, bordering the Caspian Sea)

Table 2.2: Iran's Exports of Major Commodities, US$ billion

HS Code	Commodities	2005	2010	2011	2012	2013	2014
	All products	**60.0**	**83.8**	**130.5**	**84.1**	**64.4**	**64.2**
27	Mineral fuels, oils, distillation products, etc	52.0	62.6	106.7	68.9	49.8	50.7
39	Plastics and articles	0.4	2.8	3.2	2.6	3.0	3.2
29	Organic chemicals	0.7	3.0	3.6	3.2	2.9	2.3
26	Ores, slag and ash	0.2	1.2	1.0	2.5	2.7	2.2
08	Edible fruit, nuts, peel of citrus fruit, melons	1.3	2.3	2.0	1.1	1.1	1.3
72	Iron and steel	1.0	0.6	0.8	0.4	0.7	0.6
25	Salt, sulphur, earth, stone,	0.2	0.8	0.9	0.6	0.6	0.6
28	Inorganic chemicals, precious metal compound	0.2	0.6	0.8	0.5	0.3	0.5
31	Fertilizers	0.0	0.3	1.0	1.1	0.8	0.4
74	Copper and articles	0.1	0.6	0.9	0.5	0.3	0.3
07	Edible vegetables	0.1	0.7	0.6	0.1	0.2	0.2
76	Aluminium and articles	0.3	0.4	0.5	0.3	0.3	0.2
57	Carpets and other textile floor coverings	0.6	0.9	0.9	0.2	0.2	0.2
79	Zinc and articles	0.1	0.1	0.3	0.2	0.1	0.1
09	Coffee, tea, mate and spices	0.1	0.4	0.3	0.1	0.1	0.1
01	Live animals	0.1	0.0	0.0	0.1	0.1	0.1
41	Raw hides and skins	0.1	0.2	0.2	0.1	0.1	0.1
05	Products of animal origin	0.1	0.1	0.1	0.1	0.1	0.1
84	Machinery and instruments	0.2	0.6	0.7	0.1	0.1	0.1
70	Glass and glassware	0.1	0.1	0.2	0.0	0.1	0.1
20	Vegetable, fruit, nut	0.1	0.3	0.3	0.1	0.1	0.1

Source: Trade Map, ITC Geneva

- Bandar Bushehr Shipping (southern Iran, bordering the Gulf)
- Bandar Shahid Raja'ee Shipping (southern Iran, the Gulf)
- Bushehr Development (southern Iran, bordering the Gulf)
- Mines and Metals (central Iran)
- Pars Energy (southern Iran, bordering the Gulf
- Payam Aviation (central Iran, near Tehran)
- Persian Gulf Ship Building (southern Iran)
- Petrochemical (south-western Iran
- Salafchegan (central Iran)
- Sang-e Lorestan Industrial (central Iran)
- Sarakhs (north-eastern Iran, bordering Turkmenistan)
- Shiraz Electronics (central Iran)
- Sirjan Development (central Iran)
- Yazd Textile Industries (central Iran)

The Free Trade Zones (FTZs) operate under a law passed in 1993, known as the Law Pertaining to the Establishment of Free-Trade/Industrial Zones in the Islamic Republic of Iran. Foreign-investment codes were passed in the following year in the Regulations Governing Capital Investment in the Free-Trade/Industrial Zones in the Islamic Republic of Iran. These codes permit 100 percent ownership of capital (though not of land), guarantee the free repatriation of profit and capital and offer a 20-year tax holiday for business operations in the FTZs. They also provide for greater flexibility in labour—allowing employers to lay off workers after paying them compensation-and social-security requirements. However, the FTZs are hundreds of kilometres from Iran's main population centres in the north, and they have not proved to be a popular base of operations for most investors. The FTZ in Iran include:

- Anzali (northern Iran)
- Aras (north-western Iran)
- Arvand (south-western Iran)
- Chabahar (south-eastern Iran, near the border with Pakistan)
- Kish (southern Iran, an island in the Gulf)
- Makou (north-western Iran, near the border with Turkey)
- Qeshm (southern Iran, an island in the Gulf)

Major Import Items

Trends in Iran's imports of major commodities have been presented in **Table 2.3**. Machinery and instruments make up around 14.6 percent of Iranian imports, followed by electrical, electronic equipment (9.6 percent), and cereals (8.8 percent), among others. The oil sector is a major consumer of machinery and iron and steel, much of which have to be imported due to Iran's underdeveloped industrial capacity. The primary sources of Iran's global imports in 2014 were China (43.8 percent of total imports), India (7.9 percent), South Korea (7.5 percent), Turkey (7 percent), and Germany (5.7 percent).

In 2014, China was the primary source for Iran's imports of machinery, accounting for 36.5 percent of total imports of the product, followed by South Korea, Italy, Germany, Turkey and India.

Table 2.3: Iran's Imports of Major Commodities, US$ billion

HS Code	Commodities	2005	2010	2011	2012	2013	2014
	All products	**38.7**	**54.7**	**68.3**	**53.4**	**45.8**	**55.7**
84	Machinery and instruments	9.5	11.6	11.6	8.1	6.2	8.1
85	Electrical, electronic equipment	2.8	3.0	3.8	3.6	3.8	5.4
10	Cereals	1.0	2.3	2.5	4.4	4.9	4.9
87	Vehicles other than railway, tramway	1.1	2.5	2.9	2.6	1.5	3.1
72	Iron and steel	4.1	7.7	8.1	3.7	2.3	3.1
39	Plastics and articles	1.4	2.2	2.7	2.1	1.9	2.5
73	Articles of iron or steel	1.2	1.8	1.4	2.4	1.5	2.0
94	Furniture, lighting,	0.1	0.2	0.2	0.4	0.8	1.7
90	Optical, photo, technical apparatus	0.7	1.4	1.5	1.5	1.4	1.5
48	Paper and paperboard	0.7	1.1	1.3	0.9	1.3	1.4
30	Pharmaceutical products	0.6	1.3	1.5	1.1	1.3	1.2
23	Residues, wastes of food industry	0.1	0.8	1.0	1.0	1.6	1.2
15	Animal,vegetable fats and oils	0.7	1.1	1.7	1.8	1.9	1.2
69	Ceramic products	0.1	0.1	0.2	0.2	0.4	1.0
29	Organic chemicals	0.7	1.1	1.3	0.9	0.9	1.0
71	Pearls, precious stones, metals, coins, etc	0.1	0.5	0.0	6.6	1.7	0.9
40	Rubber and articles	0.4	0.8	1.0	0.8	0.7	0.9
27	Mineral fuels, oils, distillation products, etc	3.8	1.5	11.0	0.4	0.4	0.8
83	Miscellaneous articles of base metal	0.1	0.1	0.2	0.2	0.4	0.7
38	Miscellaneous chemical products	0.5	0.7	0.7	0.6	0.5	0.6

Source: Trade Map, ITC Geneva

With regard to electrical, electronic equipment, China, South Korea, India, Germany and Turkey were the main sources.

As far as import of cereals is concerned, India was the primary source, accounting for 46.9 percent of Iran's total imports of the product. Brazil, Ukraine, Germany and Russia were the other suppliers. Rice was the primary commodity imported, accounting for 50.1 percent of total imports of cereals, followed by wheat (26 percent), and maize (19 percent).

In 2014, South Korea and China were the primary suppliers of iron and steel to Iran, together accounting for 45 percent of Iran's total imports. Iran has raised duties on certain steel imports to between 10 and 20 percent, which will apply to products such as billet, hot rolled coil, wire rod and rebar, which are in line with Iran's ambitious 2025 vision plan to quadruple its steel output, as well as to diversify the country's economy away from oil, make it more self-sufficient.

Tariff and non-tariff barriers for imports in Iran are high (**Table 2.4**). Import regulations, which are reviewed annually, are issued by the Ministry of Commerce. The regulations distinguish between authorised, conditional and prohibited goods. Authorised goods can be imported without restriction but still require approval from the appropriate ministry. Conditional goods can be imported under certain conditions with due consideration for the regulations, including permission from the appropriate ministry or ministries. The importation of goods for commercial purposes require a commercial card, which is issued by the Iran Chamber of Commerce, Industries and Mines and approved by the ministry of commerce.

Table 2.4: MFN Tariffs (%)

All goods	26.6
Agricultural goods	30.4
Non-Agricultural goods	26.1
Non ad-valorem duties (% of total tariff lines)	0.2

Source: World Trade Organization (WTO)

As regards reserves cover for imports, import cover of Iran is particularly strong at over 23 months at the end of 2014, significantly above the 3-month minimum recommended by the IMF for emerging economies.

3. Foreign Investments in Iran

Recent Trends

Inflows to Iran focus mostly on oil exploration and production, and economic sanctions have had negative effects on those inflows, which declined by about one third in 2013, to US$ 3 billion (**Table 3.1**). Stocks of FDI continued to increase in 2013 to US$ 40.9 billion, rising by 8 percent from levels seen in 2012, driven by Chinese, Indian, Turkish and Middle Eastern companies, particularly in the upstream and downstream hydrocarbon sector, as they replace Western companies (**Table 3.2**).[1]

The other major sectors of FDI inflows into Iran include petrochemicals, copper mining and pharmaceuticals. Asian countries such as UAE, Singapore, Indonesia and Oman are among the major investors in Iran. Investment flows from many countries have virtually halted, but Chinese, Indian and Turkish companies remain willing to invest in the potentially-lucrative Iranian market.

Regardless of the sanctions regime, the business environment remains challenging. The World Bank's Ease of Doing Business 2015 report ranks Iran at 130 out of 189 countries, up two places from the previous year. Of the ten areas scored, four fall into the bottom quartile: dealing with construction permits (172), registering property (161), protecting investors (154) and trading across borders (148), while only three come into the top half of the rankings: starting a business (62), enforcing contracts (66) and getting credit (89).

According to World Economic Forum's Global Competitiveness Index Ranking 2014-15, Iran was ranked 83 out of 145 countries. This Index

Table 3.1: FDI Flows in Iran, 2008-2013 (US$ mn)

	2008	2009	2010	2011	2012	2013
FDI Inflows	1980	2983	3649	4277	4662	3050
FDI Outflows	380	356	346	360	430	380

Source: UNCTAD World Investment Report, 2014

Table 3.2: FDI Inward Stock in Iran, 1990, 2000, 2013 (US$ mn)

	1990	2000	2013
FDI Inward Stock	2039	2597	40941
FDI Outward Stock	-	572	3725

'-' denotes not available

Source: UNCTAD World Investment Report, 2014

[1]D&B Report on Iran, January 2015

measures the ability of a country to provide high levels of prosperity to its citizens based on the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity.

Investment Law, Regulations and Incentives-Highlights[2]

The government ratified the Foreign Investment Promotion and Protection Act (FIPPA) in October 2002. FIPPA overhauled and consolidated various older laws that had loosely regulated foreign investment. Though technically implemented in late 2002, most FIPPA regulations were not common public knowledge or used until late 2003. Despite the enactment of the FIPPA, political instability and on-going international sanctions against Iran continued to deter foreign investment.

The 26-article FIPPA streamlined procedures for foreign investors while setting certain limits. It allows for international arbitration in legal disputes, a major issue for foreign investors unwilling to subject themselves to Iranian judicial system. Iran had previously allowed equity participation in companies, but the FIPPA formally provides the first legal framework for foreign investment under contracts such as build-operate-transfer (BOT), buy-back (under which foreign oil companies operate) and civil partnerships. The legislation states that foreign investment will be guaranteed compensation in the event of nationalisation.

Iran's constitution prohibits granting oil concessions to foreign investors; instead, the Ministry of Petroleum may grant "buy-back" contracts to foreign investors. These contracts are a hybrid service contract/production-sharing agreement, through which foreign companies invest in and develop oilfields and then transfer the completed facility to the National Iranian Oil Company (NIOC). Then they recoup their investments from the proceeds of oil and gas sales; the amount is based on an agreed profit, and it is paid in the form of an allocation of a share of NIOC's production. Under the regulations addressing "Conditions of Non-Oil Buy-Back Contracts", which the Council of Ministers ratified in January 2001, buy-back contracts were extended to non-oil goods.

According to the Foreign Investment Law 1988, nine sectors of the economy are opened for foreign investment. These include:

- Agriculture
- Mining
- Industry
  - Food and beverage
  - Textile, clothing
  - Cellulosic print and publication
  - Chemicals, oil derivatives, rubber and plastics
  - Non-metallic minerals other than coal and oil
  - Basic metals
  - Machinery and equipments
  - Medical, optical and precision instruments
  - Electrical and electronic machinery & equipments
- Electricity, Gas supply
- Construction
- Transport and Communications

[2] http://www.iran-investment.org/fippaen.pdf

- Services
  - Financial Services
  - Tourism
  - Public Affairs
  - Urban Services
  - Education and research
  - Other services (engineering & design)

Restrictions

The Foreign Investment Promotion and Protection Act (FIPPA) of 2002 prohibit foreign dominance in Iranian industry. Article 2 (d) states that the foreign share of the market may not exceed 25 percent in any one sector or 35 percent in an individual industry. However, these ratios do not apply to foreign investment for the production of goods and services for export purposes, other than for crude oil. The Council of Ministers determines the fields and extent of investment in each case.

Forms of Foreign Investments

Foreign investments are admitted under two categories:

- In areas where the activity of private sector is permitted

- Foreign investment in all sectors within the framework of "Civil Partnership", "Buy Back" and BOT schemes where the return of capital and profits accrued is solely emanated from the economic performance of the project in which the investment is made, and such return of capital and shall not be dependent upon a guarantee by the Government or government companies and /or banks.

Taxation

According to Article 3 of the Law Concerning the Attraction and Protection of Foreign Investment, all capital invested in Iran and the profits that accrue there from shall be subject to government protection. All rights, tax exemptions, and facilities accorded to domestic and private productive enterprises are also available to foreign capital and corporations.

Branches and agencies of foreign companies which have been registered according to the relevant regulations in Iran, and by virtue of their articles of association are not authorized to engage in profitable activities but can do marketing and collect economic Information, are not liable to any taxation on the sums received from the mother company as a revolving fund. However, if it is proven that the said branches and agencies are engaged in profitable activities in Iran and are acquiring an income therefrom, the sums earned shall be subject to taxation according to the respective regulations.

Articles 132 of the law of Direct Taxation specify the major tax exemptions are as follows:

- Income earned by productive enterprise and mining units which have obtained an establishment license, or an identification card from the Ministry of Industry, Ministry of Mines and Metals or the Ministry of Jihad-e-Sazandegi, shall be exempt from taxation for a period of eight, six, or four years from the commencement date of their operation.

- If such units are developed in deprived regions of Iran, an equivalent of half of the aforementioned periods of tax exemptions shall be added to their legal period of tax exemption.

- In addition, 20 percent of taxable income earned from manufacturing, mining which have or will receive an operating license from the said ministries, are exempt from taxation.

- 100 percent of income earned through the export of finished industrial goods, and 50percent of income gained from the export of other items and goods, shall be exempt from taxation.

- Income earned from all agricultural activities, farming, animal husbandry, fisheries and the like are also exempt from taxation.

- In addition to the above cases, other exemptions and tax breaks have been outlined in the Law of Direct Taxation. Ministries, governmental organizations, municipalities, some public utility institutions, cultural, religious and scientific foundations are also exempt from taxation.

- Taxable income of foreign contractors in Iran, active in areas such as construction, technical installations, transportation, designing plans for buildings and installations, topographical surveying, drawing, supervision and technical calculations, is a flat rate of 12 percent of their annual receipts in all instances.

- Foreign insurance companies which earn their profit through reinsurance may be subject to a tax at the rate of 2 percent of the premium collected and the interest accrued from their deposits in Iran. In cases where Iranian insurance companies acting in the country of citizenship of the foreign reinsurance company, are exempt from payment of taxes on reinsurance activities, the foreign establishments shall also be exempted from payment of taxes to the Iranian government.

4. India’s Bilateral Relations with Iran

Introduction

Trade relations between India and Iran have witnessed a significant rise during the last decade, with India’s trade (exports + imports) with Iran rising more than nine-fold, from US$ 1.7 billion in 2005 to US$ 15.7 billion in 2014 (**Table 4.1** and **Chart 4.1**). This buoyant trend has been supported by rise in India’s exports to and imports from Iran, with India’s imports from Iran surpassing India’s exports. India normally maintains a trade deficit with Iran which rose from US$ 4.3 billion in 2006 to US$ 10.8 billion in 2012, before contracting to US$ 6.8 billion in 2014.

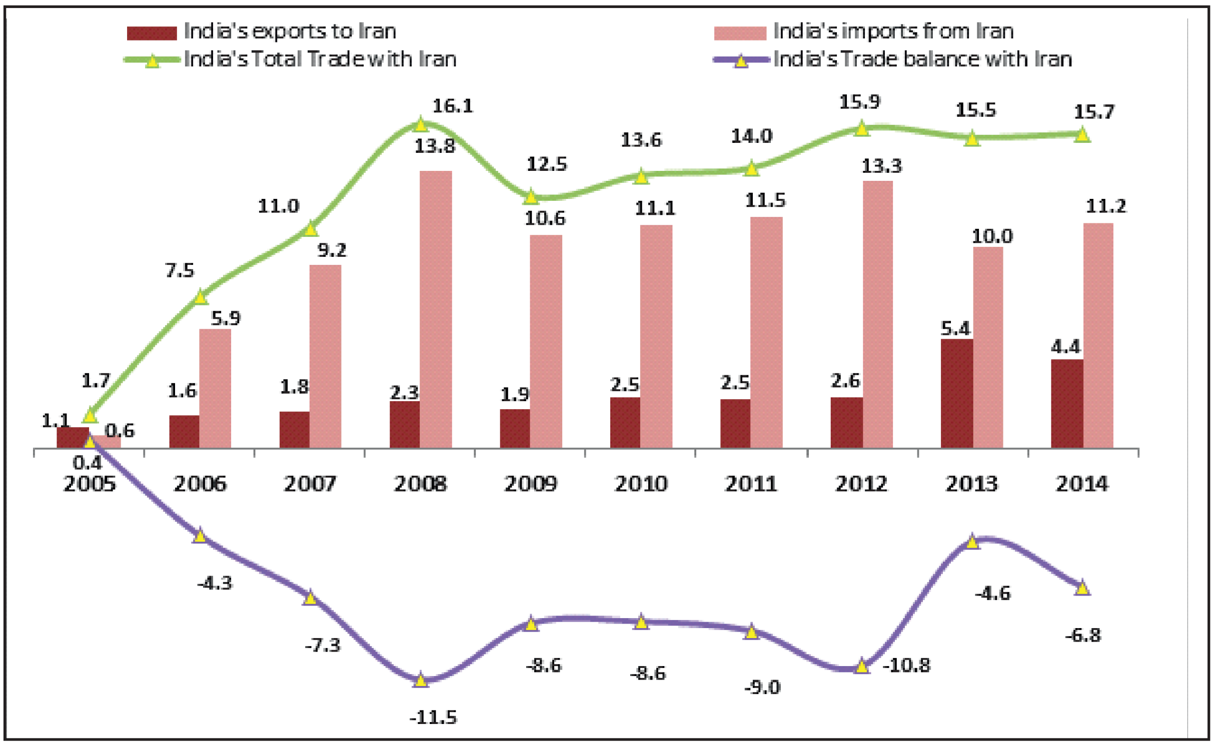
During 2014, Iran was India’s twenty-fourth largest export destination, accounting for 1.4 percent of India’s global exports. Iran was also the fifteenth

Table 4.1: India’s Trade with Iran, 2005-2014 (US$ bn)

Items	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
India’s exports to Iran	1.1	1.6	1.8	2.3	1.9	2.5	2.5	2.6	5.4	4.4
India’s imports from Iran	0.6	5.9	9.2	13.8	10.6	11.1	11.5	13.3	10.0	11.2
India’s Total Trade with Iran	1.7	7.5	11.0	16.1	12.5	13.6	14.0	15.9	15.5	15.7
India’s Trade balance with Iran	0.4	-4.3	-7.3	-11.5	-8.6	-8.6	-9.0	-10.8	-4.6	-6.8

Source: Trade Map, ITC Geneva

Chart 4.1: India’s Trade with Iran, 2005-2014 (US$ bn)



Source: Trade Map, ITC Geneva

Table 4.2: India's Exports to Iran, 2005-2014 (US$ mn)

HS Code	Commodity	2005	2007	2008	2010	2011	2012	2013	2014
	All products	**1073.0**	**1845.3**	**2335.9**	**2509.3**	**2462.3**	**2572.1**	**5433.9**	**4404.3**
10	Cereals	1.5	3.7	95.2	369.0	584.8	909.6	2317.5	1359.6
72	Iron and steel	149.7	180.1	180.3	192.0	208.6	125.0	245.2	556.4
23	Residues, wastes of food industry	0.5	14.4	16.3	20.3	63.6	158.2	835.0	286.3
29	Organic chemicals	54.7	91.1	91.9	90.9	97.0	102.1	198.9	224.5
84	Machinery and instruments	68.8	78.4	144.3	140.7	139.9	126.6	153.1	200.5
17	Sugars and sugar confectionery	0.2	28.3	48.9	6.8	43.1	98.1	63.4	181.8
85	Electrical, electronic equipment	29.9	71.8	73.4	90.4	86.0	116.5	264.5	180.0
55	Manmade staple fibres	10.0	20.1	18.8	67.1	103.2	58.1	95.9	118.1
73	Articles of iron or steel	104.0	94.7	123.1	435.8	138.5	16.2	53.0	111.5
09	Coffee, tea, mate and spices	20.4	41.2	57.0	76.4	74.3	71.9	134.8	102.5
38	Miscellaneous chemical products	24.3	35.9	48.0	36.4	49.0	42.5	88.4	94.2
28	Inorganic chemicals	33.3	33.2	86.7	465.7	168.1	123.3	74.9	92.0
87	Vehicles other than railway, tramway	18.3	23.0	26.9	42.1	33.5	11.6	27.0	91.0
48	Paper and paperboard	6.6	11.2	13.9	17.5	21.7	26.5	69.0	70.3
30	Pharmaceutical products	26.4	22.4	37.6	54.1	37.3	56.7	76.8	65.4
26	Ores, slag and ash	0.9	0.3	1.5	1.3	1.4	2.8	31.3	58.4
27	Mineral fuels, oils, distillation products, etc	337.0	870.6	983.1	31.7	42.8	23.3	48.3	53.5
52	Cotton	3.7	6.8	18.1	19.4	31.8	5.6	52.7	48.2
02	Meat and edible meat offal	14.6	20.6	26.2	44.1	77.7	132.4	133.2	45.9
39	Plastics and articles	19.8	22.2	33.9	19.7	26.5	19.4	52.6	45.5

Source: Trade Map, ITC Geneva

Table 4.3: India's Imports from Iran, 2005-2014 (US$ mn)

HS Code	Commodity	2005	2007	2008	2010	2011	2012	2013	2014
	All products	**644.2**	**9165.6**	**13791.5**	**11078.3**	**11488.1**	**13349.3**	**10031.6**	**11246.3**
27	Mineral fuels, oils, distillation products, etc	7.1	8368.2	12627.1	9530.3	9620.8	11357.3	8101.2	9655.9
29	Organic chemicals	141.0	205.6	294.2	384.5	348.0	498.6	501.8	585.5
28	Inorganic chemicals	47.0	35.9	231.5	166.1	378.8	314.1	271.4	421.6
31	Fertilizers	2.7	0.1	1.5	174.7	672.8	683.7	716.8	204.8
39	Plastics and articles	4.2	8.6	11.0	141.1	81.2	132.9	139.7	117.6
08	Edible fruit	53.8	69.5	51.9	44.2	50.9	50.8	78.0	89.6
38	Miscellaneous chemical products	2.6	16.2	25.8	30.5	67.1	28.0	66.4	45.1
72	Iron and steel	152.1	90.2	9.2	36.9	2.8	77.7	74.0	34.4
41	Raw hides and skins	8.0	11.2	15.3	6.9	6.1	8.5	11.5	17.5
25	Salt, sulphur, earth, stone, plaster	40.7	41.2	156.3	63.0	115.3	129.3	18.4	14.8
09	Coffee, tea, mate and spices	2.5	4.0	2.5	7.1	8.2	6.8	8.6	10.7
79	Zinc and articles	42.7	52.3	31.2	33.2	3.9	5.4	1.3	10.3
15	Animal,vegetable fats and oils	0.0	0.0	0.0	0.0	0.0	1.1	0.0	10.1
70	Glass and glassware	2.3	3.0	2.5	1.8	1.5	0.8	1.9	8.6
34	Soaps, lubricants, waxes, candles	0.3	0.2	0.5	2.7	4.2	5.5	4.0	3.9
71	Pearls, precious stones	0.0	0.0	0.0	0.0	0.0	3.7	0.0	3.5
40	Rubber and articles	5.5	5.8	11.3	8.8	13.3	17.6	3.7	2.7
78	Lead and articles	2.4	20.0	17.5	10.4	2.0	2.1	1.0	2.5
13	Lac, gums, resins, vegetable saps	1.6	0.9	1.7	0.7	1.5	1.2	1.4	1.8
51	Wool, animal hair, horsehair yarn	1.9	2.4	0.8	0.8	0.4	1.2	1.0	1.6

Source: Trade Map, ITC Geneva

largest source of India’s imports, accounting for a share of 2.4 percent of India’s global imports. The economic sanctions imposed on Iran have had an adverse effect on the bilateral trade as the international banking channels have gradually become non-existent.

India’s Trade with Iran

India’s exports to Iran include rice, machinery & instruments, metals, primary and semi finished iron & steel, pharmaceuticals and fine chemicals, processed minerals, manmade yarn & fabrics, tea, organic/inorganic/agro chemicals, rubber manufactured products, etc (**Table 4.2**).

India’s imports from Iran are dominated by crude oil, accounting for 85.9 percent of India’s total imports from Iran (**Table 4.3**). In 2014, India was the second largest market for Iran’s exports of crude oil. On the other hand, during the same year, Iran was India’s sixth largest supplier of crude oil. India has steadily cut imports from Iran as the sanctions from US and other Western countries blocked payment channels and crippled shipping routes. Since February 2013, when the US blocked payment channels to Iran for its nuclear programme, India has been paying 45 per cent of its Iran oil bill in rupees through an arrangement with UCO Bank .

India’s Investment Relations with Iran

During April 1996 to March 2015, the cumulative approved Indian FDI in joint ventures and wholly owned subsidiaries (FDI outflow) in Iran stood at US$ 183.4 million. Indian companies such as ESSAR, OVL, Tata Steel, Persia Rohit Mines & Industries Company, etc have presence in Iran. The State Bank of India (SBI) has a representative office in Tehran.

During April 2000 to March 2015, India’s total foreign direct investment inflows from Iran amounted to US$ 0.6 million. Joint Ventures between India and Iran include the Irano-Hind Shipping Company, the Madras Fertilizer Company, and the Chennai Refinery.

The two countries have signed a Bilateral Investment Promotion and Protection Agreement (BIPPA), and are in the process of finalizing a Double Taxation Avoidance Agreement (DTAA).

Other Areas of Co-operation

- India and Iran hold regular bilateral talks on economic and trade issues at the Indo-Iran Joint Commission Meeting (JCM). The 16th JCM was held in Tehran during May 2013.
- Regular meetings of the Joint Consular Committee are held to discuss consular and other related issues aimed at facilitating people to people exchanges between the two countries and addressing the concerns of Indians resident in Iran and Iranians resident in India. The latest round of Consular Committee meeting was held in New Delhi in May 2012.
- India and Iran are in discussions for the setting up of a number of projects such as the IPI gas pipeline project, a long term annual supply of 5 million tons of LNG; development of the Farsi oil and gas blocks; South Pars gas field and LNG project; Chahbahar container terminal project; Chahbahar-Zaranj railway project; etc. Both countries have set up joint ventures such as the Madras Fertilizer Company and the Chennai Refinery.
- Bilateral Agreements between India and Iran include
    - Air Services Agreement

II. India Pact with Iran for Chabahar Port

In 2003, India and Iran had agreed to execute the Chabahar project, but the venture made slow progress due to Western curbs. In October 2014, India had approved the framework of an inter-governmental Memorandum of Understanding (MOU) for setting a joint venture firm for equipping two fully-constructed berths at Chahbahar port. As per the framework, an Indian joint venture company would lease two fully constructed berths in Chahbahar port's Phase-I project for a period of ten years, which could be renewed by "mutual agreement". The port will be developed through a special purpose vehicle (SPV) which will invest US$ 85.21 million to convert the berths into a container terminal and a multi-purpose cargo terminal. The Indian side will transfer ownership of the equipment to be provided through the investment to Iran's Port and Maritime Organisation (P&MO) without any payment at the end of the tenth year. The Cabinet had given nod for constituting a joint venture or other appropriate SPV comprising the Jawaharlal Nehru Port Trust and the Kandla Port Trust. Approval was also given for incurring annual revenue expenditure of US$ 22.95 million to support operational activities of the Indian joint venture.

In April 2015, the Chinese President Xi Jinping's two-day visit to Pakistan has triggered renewed Indian interest in the port, with Bejing announcing a network of roads, railway, optical fibre cables and pipelines linking the Xinjiang province to Gwadar via the Karakoram highway (Pakistan's Gwadar Port, around 72 km east of Chabahar, was developed by China Harbour Engineering Company, with the Port of Singapore Authority as a minority partner). India is poised to counter this recently announced expansion of China's strategic footprint in Pakistan with a foothold on the Iranian coast. The project's strategic nature is illustrated by its location along the coast from the Chinese-funded Gwadar port in Baluchistan.

In May 2015, India inked MOU with Iran for development of the strategically important Chabahar port which will give India sea-land access route to Afghanistan bypassing Pakistan. The agreement was signed by Road Transport and Highways Minister Nitin Gadkari Gadkari and Iran's Minister for Transport and Urban Development Dr Abbas Ahmad Akhoundi, taking into account the international obligations that arise out of Tehran's nuclear programme. The port is expected to be operational by December 2016.

Officially designated as a free trade and industrial zone by the Iranian government, Chabahar has acquired increased significance in terms of an international trade hub. Poised to connect business growth centres in South Asia, the Middle East and Afghanistan, the free trade area is being connected to Iran's main rail network.

India has been eying the Chabahar port, which is situated 72 km west of the China developed Gwadar port in Pakistan's province of Baluchistan, on Iran's south-eastern coast, for a decade to get easier access to Afghanistan. India's presence at the Chabahar port, which lies outside the Persian Gulf and is easily accessed from India's western coast, would give it a sea-land access route into Afghanistan through Iran's eastern borders. The existing Iranian road network from Chabahar port, can be used to link up to Afghanistan's Zaranj, which is about 883km from the port, and then using the Zaranj-Delaram road constructed by India in 2009, Afghanistan's "garland" highway can be accessed, thereby establishing road access to four of the major cities of Afghanistan, namely, Herat, Kandahar, Kabul and Mazar-e-Sharif.

India, Iran and Afghanistan have an agreement on preferential treatment and low tariffs for goods moved through Chabahar port, which also has a free trade and industrial zone in its vicinity. Chabahar is also closer to India than the existing Iranian port at Bandar Abbas, which is about 380 nautical miles away from Chabahar.

India views the port as an alternative route not only to Afghanistan, but also to resource-rich Central Asia. The port will allow Indian goods into Central Asia using the existing north-south corridor to counter Beijing's domination in the region as reports indicate Indian traders are using Chinese ports to push goods into Kazakhstan.

The port will be in India's national interest as it would cut transport costs and freight time to Central Asia and the Gulf by about a third. It will be used to ship crude oil and urea, saving transportation costs.

While the construction of Chabahar Port augurs well for India and Iran, opening the trade routes to Afghanistan and Central Asia will also bolster economic ties with other nations. It is also expected to provide a "fillip to the ongoing reconstruction and humanitarian efforts" in Afghanistan.

Iran also wants India to help create a free trade zone near Chabahar where the Chinese Overseas Ports Holding Company has agreed to help Pakistan establish a free economic zone. The Chahababahar port is a foundation that has the potential to propel India's state-owned ports to look for a larger footprint globally.

Source: The Iran Project; The Wall Street Journal; Reuters; The Economic Times

- Agreement on Transfer of Sentenced Persons
- MOU on Cooperation in New & Renewable Energy
- MOU on Cooperation in Small Scale Industry between National Small Industries Corporation (NSIC) and Iranian Small Industries and Industrial Parks Organisation (ISIPO)
- Programme of Cooperation on Science & Technology
- MOU on Cooperation between Central Pulp and Paper Research Institute of India (CPPRI) and Gorgan University of Agricultural Science and Natural Resources (GUASNR)
- MOU between Institute of Standards and Industrial Research of Islamic Republic of Iran (ISIRI) and Bureau of Indian Standards (BIS)
- MOU between the Government of Republic of India and the Government of Islamic Republic of Iran on cooperation in the field of water resources management.

India provides 67 scholarships every year to Iranian students under ITEC, ICCR, Colombo Plan and IOR-ARC schemes.

India's Payment arrangements with Iran

With a view to facilitate trade relations, India and Iran have put in place an enabling bilateral payments and settlement arrangements. Under this arrangement, UCO Bank has been allowed to open "**Special Non-Resident Rupee Vostro Account**" in the name of Iranian Banks, viz. Parsian Bank, Bank Pasargad, EN Bank and Saman Bank, subject to certain permissible credits and debits. These include among others:

- ***Permissible Credits*** – Funding by inward remittances in foreign currency of the account of the Iranian banks for meeting payment obligations arising out of exports of goods including project exports to Iran
- ***Permissible Debits*** – (i) Payment towards export proceeds realization;(ii) Repayment of Line of Credit extended by Exim Bank to Iran; (iii) Other debits for meeting payments towards statutory dues, levies, cess, bank charges, etc, and (iv) Any other credits / debits specifically permitted by RBI. Under this Rupee Payment Mechanism, Indian exporters are allowed to receive export payments in Indian Rupees.

Indian exporters are also allowed to receive **advance payment** against exports from Iranian importers in Indian rupees though the above Rupee Payment Mechanism, subject to certain conditions / modalities. Further, '**Setting-off' of export receivables** against import payables in respect of the same overseas buyer and supplier with facility to make / receive payment of the balance of export receivables / import payables, if any, through the Rupee Payment Mechanism, may also be allowed, subject to certain conditions.

Under the sanctions regime, India paid for its oil imports from Iran in rupees, which were used by Iran to purchase agricultural products and medicines from India. While this system boosted Indian exports to Iran, it is insufficient for the payments necessary to maintain the current levels of oil imports. India currently owes Iran around US$ 8.8 billion. While the rupee system helped India reduce its current account deficit by containing the outflow of dollars, the depreciating value of the rupee and progress in nuclear negotiations has led Iran to reject full rupee payment for oil imports. In October 2014, Iran stated that while 45 percent of the payment can be made in rupees, the remaining 55 percent must be paid in euro.

5. Potential for Enhancing Bileteral Trade Relations with Iran

Introduction

As highlighted in the previous chapter, bilateral trade relations between India and Iran have witnessed a significant rise during the last decade, with India's trade (exports + imports) with Iran rising more than nine-fold, from US$ 1.7 billion in 2005 to US$ 15.7 billion in 2014. At the same time, bilateral trade balance has been in Iran's favour, with India's trade deficit with Iran amounting to US$ 6.8 billion in 2014.

To enhance bilateral trade relations, as also to address the high trade deficit, strategy to boost trade relations with Iran would entail identification of potential items of India's exports, which would be based on the following analysis:

- Identification of major items in Iran's import basket, and share of India in each product line (based on HS-Code)

- Selection of potential items, based on low share of India in Iran's import basket of major commodities, keeping in view India's export capability in the global market. This would entail identification of potential export items under each product category, up to 6-digit HS Commodity Code

Table 5.1 presents Iran's major import items, in terms of 2-digit HS Code, and India's share in Iran's global imports of these items. Infact, India's share in the top items in Iran's import basket is very low, which indicates a large scope for enhancing India's exports of these items to Iran, in line with huge import demand in Iran. At the same time, these items are amongst India's leading export items in the global market.

Based on the above criterion, as also on India's global export capability, potential items of export to Iran would include:

- Machinery and instruments (HS-84)
- Electrical, electronic equipment (HS-85)
- Vehicles other than railway, tramway (HS-87)
- Plastics and articles (HS-39)
- Optical, photo and technical apparatus (HS-90)
- Pharmaceutical products (HS- 30)
- Animal vegetable fats and oil (HS-15)
- Ceramic products (HS-69)
- Pearls, precious stones (HS-71)
- Articles of leather (HS-42)

Based on the above analysis, identification of potential items of India's exports to Iran under the above select categories, up to 6-digit HS Commodity Codes, are analyzed below.

Machinery and instruments (HS-84)

China, Italy and South Korea were the top three sources of Iran's imports of machinery and instruments in 2014. During the same year, India was the sixth largest global source, with a share of 2.5 percent (**Table 5.2**).

Table 5.1: Iran's Major Imports and India's Share, 2014

HS Code	Commodity	Iran's Global Imports (US$ mn)	Iran's Imports from India (US$ mn)	India's Share in Iran's Global Imports (%)	India's Global Exports (US$ mn)
	All products	**55659.2**	**4404.3**	**7.9**	**317544.6**
84	Machinery and instruments	8131.3	200.5	2.5	13596.1
85	Electrical, electronic equipment	5365.7	180.0	3.4	9002.3
10	**Cereals**	**4920.3**	**1359.6**	**27.6**	**10059.3**
87	Vehicles other than railway, tramway	3092.1	91.0	2.9	14482.0
72	**Iron and steel**	**3059.0**	**556.4**	**18.2**	**9080.6**
39	Plastics and articles	2474.3	45.5	1.8	5398.3
73	**Articles of iron or steel**	**1962.8**	**111.5**	**5.7**	**7518.7**
94	Furniture, lighting, signs, prefabricated buildings	1685.0	0.6	-	1204.4
90	Optical, photo, technical apparatus	1519.2	15.3	1.0	2334.6
48	**Paper and paperboard**	**1365.0**	**70.3**	**5.2**	**1116.0**
30	Pharmaceutical products	1228.4	65.4	5.3	11663.3
23	**Residues, wastes of food industry**	**1214.7**	**286.3**	**23.6**	**2042.8**
15	Animal, vegetable fats and oils	1154.7	2.8	0.2	903.7
69	Ceramic products	1047.6	12.2	1.2	768.6
29	**Organic chemicals**	**1044.2**	**224.5**	**21.5**	**12035.1**
71	Pearls, precious stones	909.0	33.4	3.7	40703.5
40	**Rubber and articles**	**861.7**	**45.4**	**5.3**	**2763.2**
27	**Mineral fuels, oils, distillation products, etc**	**759.9**	**53.5**	**7.0**	**62348.5**
83	Miscellaneous articles of base metal	742.3	5.7	0.8	540.9
38	**Miscellaneous chemical products**	**629.4**	**94.2**	**15.0**	**3164.4**
44	Wood and articles of wood	622.1	1.5	0.2	353.8
42	Articles of leather	604.8	0.7	0.1	2548.2
54	**Manmade filaments**	**579.2**	**39.5**	**6.8**	**2505.4**
55	**Manmade staple fibres**	**575.0**	**118.1**	**20.5**	**2181.6**

Note: Potential Items for Iran are selected for commodities with global of imports of at least US$ 500 million
'-' denotes nil/negligible
Source: Trade Map, ITC Geneva

Table 5.2: Iran's Import of Machinery and instruments (HS-84) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**11589.6**	**8131.3**	**100.0**	**100.0**
China	1719.5	3678.5	14.8	45.2
Italy	1157.8	921.6	10.0	11.3
South Korea	547.6	893.2	4.7	11.0
Germany	1529.1	884.5	13.2	10.9
Turkey	443.7	483.9	3.8	6.0
India	**118.8**	**200.5**	**1.0**	**2.5**
Spain	210.7	159.4	1.8	2.0
Taipei, Chinese	92.6	140.5	0.8	1.7
Ukraine	142.7	97.7	1.2	1.2
Austria	130.6	70.8	1.1	0.9
Netherlands	84.3	70.4	0.7	0.9
France	251.9	70.1	2.2	0.9
Switzerland	141.8	58.7	1.2	0.7
Belgium	175.9	48.9	1.5	0.6
Singapore	55.7	37.9	0.5	0.5
Malaysia	19.8	32.6	0.2	0.4
Japan	404.6	30.6	3.5	0.4
Thailand	28.4	27.3	0.2	0.3
Denmark	37.2	26.1	0.3	0.3
Romania	6.0	18.2	0.1	0.2

Source: Trade Map, ITC Geneva

Potential items of India's exports of machinery and instruments to Iran, at 6 digit HS code classification are given in **Table 5.3**.

Table 5.3: Machinery and instruments (HS-84) - Potential Export Items to Iran

HS Code	Commodity	Iran's Global Imports in 2014 (US$ mn)	Iran's Imports from India in 2014 (US$ mn)	India's Share in Iran's Imports in 2014 (%)	India's Global Exports in 2014 (US$ mn)
848180	Taps, cocks, valves and similar appliances	377.6	5.8	1.5	717.7
842230	Mach for filling/closing/sealing/ bottle/ can/box/ bag/container machinery for aerating beverage	119.2	3.2	2.7	96.5
847989	Machines & mechanical appliances having individual functions	113.7	3.0	2.7	344.1
840991	Parts for spark-ignition type engines	108.7	3.0	2.7	283.3
845590	Parts of metal rolling mills & rolls	53.3	1.4	2.7	77.6
847990	Parts of machines &mechanical appliances having individual functions	32.0	1.2	3.9	138.2
848340	Gears & gearing, ball screws, gear boxes, speed changers/torque converters	88.8	1.1	1.2	155.0
841370	Centrifugal pumps	166.0	1.1	0.6	201.5
842199	Parts for filtering or purifying machinery & apparatus for liquids or gases	41.9	1.0	2.4	109.4
841989	Machinery, plant/laboratory equipment for treatment	39.0	0.9	2.4	145.9

Source: Trade Map, ITC Geneva

Electrical, electronic equipment (HS-85)

As can be seen from **Table 5.4** below, the share of China, which the largest supplier to Iran of electrical, electronic equipment, increased more than five-fold from US$ 609.1 million in 2010, to record US$ 3.1 billion during 2014. India, which was the fifth largest global supplier of the commodity to Iran, also saw a more than two-fold increase in its exports in 2014, compared to levels seen in 2010. During 2014, India's share was a modest 3.1 percent.

Table 5.4: Iran's Import of Electrical, electronic equipment (HS-85) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**3018.5**	**5365.7**	**20.2**	**57.9**
China	609.1	3104.7	5.7	14.7
South Korea	171.6	788.1	1.8	4.8
Sweden	54.7	255.8	6.5	3.5
Germany	197.4	189.1	2.3	3.4
India	**69.9**	**180.0**	**2.6**	**3.1**
Turkey	78.1	163.8	1.1	2.8
Taipei, Chinese	32.2	152.1	2.6	2.0
Italy	79.9	107.2	0.4	1.0
Russian	10.7	52.4	1.3	1.0
Hong Kong	39.8	51.8	1.0	0.9
Spain	29.1	49.8	-	0.7
Oman	0.1	39.6	1.3	0.6
Japan	39.3	33.0	0.8	0.5
Singapore	23.7	28.0	3.0	0.5
France	91.1	26.4	0.4	0.4
Austria	13.0	21.7	0.1	0.3
Romania	1.7	13.6	0.2	0.2
Netherlands	6.5	13.4	0.1	0.2
Belgium	3.2	13.0	0.9	0.2
Switzerland	25.9	10.1	-	-

'-' denotes nil/negligible

Source: Trade Map, ITC Geneva

Potential exports from India to Iran of electrical, electronic equipment, at 6 digit HS code classification are given in **Table 5.5**.

Table 5.5: Electrical, electronic equipment (HS-85) - Potential Export Items to Iran

HS Code	Commodity	Iran’s Global Imports in 2014 (US$ mn)	Iran’s Imports from India in 2014 (US$ mn)	India’s Share in Iran’s Imports in 2014 (%)	India’s Global Exports in 2014 (US$ mn)
851762	Machines for the reception, conversion and transmission or regeneration	552.5	0.5	0.1	135.9
851770	Parts of telephone sets, telephones for cellular networks or for other	191.9	0.1	-	501.9
851712	Telephones for cellular networks mobile telephones or for other wireless	146.5	0.1	-	561.6
850440	Static converters	144.5	0.2	0.1	453.3
852990	Parts suitable for use solely with transmission and reception apparatus for radio-telephony, radio-telegraphy, radio-broadcasting, television, television cameras, still image video cameras and other video camera recorders	143.1	-	-	133.6
854140	Photosensitive semiconductor device, photovoltaic cells &light emit diodes	137.8	0.1	0.1	174.7
853710	Boards, panels, including numerical control panels, for a voltage <=1000 V	91.2	1.2	1.3	321.7
850423	Liquid dielectric transformers	57.8	-	-	143.9
853650	Electrical switches for a voltage not exceeding 1,000 volts	57.1	0.1	0.2	114.4
853890	Parts for use with the apparatus	54.4	0.7	1.2	337.1
850300	Parts of electric motors, generators, generating sets & rotary converters	52.9	0.7	1.3	248.2
852871	Reception apparatus for television, whether or not incorporating radio	48.0	-	-	193.1
853690	Electrical appliances for switching	39.4	0.1	0.2	201.5
853720	Boards, panels, including numerical control panels, for a voltage > 1,000 V	33.9	0.1	0.4	104.2
853620	Automatic circuit breakers for a voltage not exceeding 1,000 volts	33.1	0.1	0.3	108.3

‘-‘ denotes nil/negligible
Source: Trade Map, ITC Geneva

Vehicles other than railway, tramway (HS-87)

In 2014, China was the largest supplier to Iran of vehicles other than railway, tramway. India was the sixth largest supplier with a share of 2.9 percent in 2014, increasing from 0.5 percent in 2010 (**Table 5.6**).

Table 5.6: Iran's Import of Vehicles other than railway, tramway (HS-87) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**2479.6**	**3092.1**	**100.0**	**100.0**
China	245.1	1949.4	9.9	63.0
South Korea	559.9	283.1	22.6	9.2
Germany	158.0	155.5	6.4	5.0
Turkey	59.4	108.2	2.4	3.5
Japan	173.5	107.1	7.0	3.5
India	**12.0**	**91.0**	**0.5**	**2.9**
Oman	65.3	84.7	2.6	2.7
Kuwait	71.7	63.6	2.9	2.1
Romania	12.4	40.7	0.5	1.3
France	71.8	40.2	2.9	1.3
Taipei, Chinese	6.2	25.7	0.3	0.8
Belarus	4.4	22.1	0.2	0.7
Italy	16.5	20.0	0.7	0.6
Netherlands	1.8	13.7	0.1	0.4
Georgia	0.0	12.9	0.0	0.4
Thailand	1.8	9.4	0.1	0.3
Bulgaria	1.0	8.0	0.0	0.3
Indonesia	0.4	7.2	0.0	0.2
Poland	4.8	7.0	0.2	0.2
Malaysia	1.3	5.8	0.1	0.2

Source: Trade Map, ITC Geneva

Potential exports from India to Iran of vehicles other than railway, tramway, at 6 digit HS code classification, are given in **Table 5.7**.

Table 5.7: Vehicles other than railway, tramway (HS-87) - Potential Export Items to Iran

HS Code	Commodity	Iran's Global Imports in 2014 (US$ mn)	Iran's Imports from India in 2014 (US$ mn)	India's Share in Iran's Imports in 2014 (%)	India's Global Exports in 2014 (US$ mn)
871120	Automobiles with reciprocating piston engine displacing > 1500 cc to 3000 cc	770.7	-	-	835.5
871130	Motor vehicle parts	239.2	7.8	3.2	2696.1
871499	Automobiles with reciprocating piston engine displacing > 1000 cc to 1500 cc	203.7	-	-	3236.8
870490	Brakes and servo-brakes and their parts, for tractors, motor vehicles	186.5	-	-	156.6
871410	Diesel powered trucks with a GVW excluding five tonnes but not twenty tonnes	118.4	-	-	218.7
870810	Parts and accessories of motorcycles, incl. mopeds	80.1	0.4	0.5	116.2
870190	Drive axles with differential for motor vehicles	73.5	-	-	184.6
870840	Transmissions for motor vehicles	58.2	0.1	0.1	331.2
870894	Wheels including parts and accessories for motor vehicles	55.7	-	-	92.3
870410	Diesel powered trucks with a GVW exceeding twenty tonnes	52.3	-	-	94.8
870880	Dump trucks designed for off-highway use	51.8	-	-	92.2
870322	Shock absorbers for motor vehicles	49.5	-	-	97.5
870891	Diesel powered trucks with a GVW not exceeding five tonnes	26.7	-	-	271.1
871494	Wheeled tractors	22.3	0.2	1.0	903.5

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva

Plastics and articles (HS-39)

In 2014, China alone accounted for 51.5 percent of Iran's total imports of plastics and articles (**Table 5.8**). India was the sixth largest source, its share rising from 0.5 percent in 2010 to 1.8 percent in 2014.

Table 5.8: Iran's Import of Plastics and articles (HS-39) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**2165.0**	**2474.3**	**100.0**	**100.0**
China	260.8	1274.8	12.0	51.5
South Korea	435.4	557.7	20.1	22.5
Turkey	131.9	244.0	6.1	9.9
Taipei, Chinese	112.1	116.4	5.2	4.7
Germany	170.9	72.2	7.9	2.9
India	**10.9**	**45.5**	**0.5**	**1.8**
Italy	44.1	37.5	2.0	1.5
USA	35.9	16.5	1.7	0.7
France	27.1	15.4	1.3	0.6
Netherlands	22.1	10.5	1.0	0.4
Indonesia	1.7	9.4	0.1	0.4
Belgium	33.4	8.8	1.5	0.4
Switzerland	35.1	8.7	1.6	0.4
Hong Kong	9.4	7.7	0.4	0.3
Austria	14.2	6.2	0.7	0.3
Spain	10.8	5.9	0.5	0.2
Russia	3.7	5.8	0.2	0.2
Thailand	17.3	4.1	0.8	0.2
Malaysia	22.5	3.8	1.0	0.2
Sweden	19.3	3.6	0.9	0.1

Source: Trade Map, ITC Geneva

Potential items for exports from India of plastics and articles, at 6 digit HS code classification, are listed in **Table 5.9**.

Table 5.9: Plastics and articles (HS-39) - Potential Export Items to Iran

HS Code	Commodity	Iran's Global Imports in 2014 (US$ mn)	Iran's Imports from India in 2014 (US$ mn)	India's Share in Iran's Imports in 2014 (%)	India's Global Exports in 2014 (US$ mn)
392690	Articles of plastics or of other materials	243.6	0.6	-	506.5
390690	Acrylic polymers in primary forms	81.1	2.2	-	65.7
392190	Film and sheet etc of plastics	61.4	0.5	-	152.6
390760	Polyethylene terephthalates	57.7	5.1	-	517.7
392410	Tableware and kitchenware of plastics	57.7	0.3	-	147.7
390210	Polypropylene	40.9	-	-	1209.5

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva

Optical, photo and technical apparatus (HS-90)

In 2014, China, South Korea, Netherlands and Germany, the top four sources of imports of optical, photo and technical apparatus, together accounted for 71.1 percent of Iran's total imports of the commodity. India's share was low at 1 percent (**Table 5.10**).

Table 5.10: Iran's Import of Optical, photo and technical apparatus (HS-90) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**1393.0**	**1519.2**	**100.0**	**100.0**
China	129.8	420.9	9.3	27.7
South Korea	55.6	299.1	4.0	19.7
Netherlands	108.5	182.2	7.8	12.0
Germany	213.2	177.8	15.3	11.7
Belgium	22.5	57.1	1.6	3.8
Italy	51.4	50.0	3.7	3.3
France	62.7	45.2	4.5	3.0
USA	15.6	37.2	1.1	2.5
Japan	57.5	31.0	4.1	2.0
UK	108.5	30.1	7.8	2.0
Switzerland	99.6	23.9	7.2	1.6
Turkey	13.9	21.4	1.0	1.4
Austria	9.0	19.0	0.6	1.3
India	**10.3**	**15.3**	**0.7**	**1.0**
Hong Kong	8.1	14.7	0.6	1.0
Denmark	5.4	13.4	0.4	0.9
Taipei, Chinese	11.7	9.4	0.8	0.6
Romania	0.3	7.5	0.0	0.5
Malaysia	2.4	6.3	0.2	0.4
Russia	4.7	5.9	0.3	0.4

Source: Trade Map, ITC Geneva

Potential items of exports for India of optical, photo and technical apparatus to Iran, at 6 digit HS code classification are given in **Table 5.11**.

Table 5.11: Optical, photo and technical apparatus (HS-90) - Potential Export Items to Iran

HS Code	Commodity	Iran’s Global Imports in 2014 (US$ mn)	Iran’s Imports from India in 2014 (US$ mn)	India’s Share in Iran’s Imports in 2014 (%)	India’s Global Exports in 2014 (US$ mn)
901890	Instruments and appliances used in medical or veterinary sciences,	154.3	1.2	0.8	208.9
903289	Automatic regulating or controlling instruments and apparatus	75.3	0.4	0.5	159.9
903180	Measuring or checking instruments, appliances and machines	35.4	0.3	0.9	75.8
902300	Instruments, apparatus and models, designed for demonstrational purposes	28.0	-	0.1	54.8
901812	Ultrasonic scanning apparatus	24.1	0.1	0.3	88.8
901819	Electro-diagnostic apparatus,	22.4	-	-	80.4
902290	Parts& accessories for app based on the use of X-rays or other radiations	18.1	-	0.1	53.6
902214	X-rays apparatus, medical/surgical/veterinary use	16.9	0.1	0.3	63.4

‘-‘denotes nil/negligible

Source: Trade Map, ITC Geneva

Pharmaceutical products (HS- 30)

In 2014, Europe was the main source of imports of pharmaceuticals for Iran accounting for 64.7 percent of Iran's global imports of the commodity. India's share was seen at 5.3 percent in 2014 (**Table 5.12**).

Table 5.12: Iran's Import of Pharmaceutical products (HS- 30) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**1255.2**	**1228.4**	**100.0**	**100.0**
Germany	225.5	295.0	18.0	24.0
France	194.1	189.2	15.5	15.4
Switzerland	260.8	146.6	20.8	11.9
Austria	82.9	95.9	6.6	7.8
Belgium	35.1	68.2	2.8	5.6
India	**48.9**	**65.4**	**3.9**	**5.3**
Netherlands	52.5	62.2	4.2	5.1
Turkey	4.7	44.8	0.4	3.6
Italy	39.4	38.5	3.1	3.1
China	3.6	35.1	0.3	2.9
South Korea	14.1	29.2	1.1	2.4
UK	63.2	29.0	5.0	2.4
Ireland	13.8	22.0	1.1	1.8
Spain	8.8	18.0	0.7	1.5
Sweden	13.7	16.0	1.1	1.3
Slovenia	1.8	12.4	0.1	1.0
Denmark	34.9	11.0	2.8	0.9
USA	21.4	9.0	1.7	0.7
Greece	1.5	5.9	0.1	0.5
Finland	2.1	5.7	0.2	0.5

Source: Trade Map, ITC Geneva

Potential exports of pharmaceuticals from India, at 6 digit HS code classification, are listed in **Table 5.13**.

Table 5.13: Pharmaceutical products (HS- 30) - Potential Export Items to Iran

HS Code	Commodity	Iran's Global Imports in 2014 (US$ mn)	Iran's Imports from India in 2014 (US$ mn)	India's Share in Iran's Imports in 2014 (%)	India's Global Exports in 2014 (US$ mn)
300490	Medicaments in dosage	568.6	45.0	-	8288.9
300220	Vaccines, human use	25.4	11.8	-	578.0
300390	Medicaments formulated, in bulk	22.4	3.1	-	264.7
300431	Insulin, in dosage	18.9	1.1	-	108.4
300450	Vitamins and their derivatives, in dosage	20.4	1.0	-	251.3
300439	Hormones not containing antibiotics, in dosage	24.9	0.7	-	78.3
300440	Alkaloids or their derivatives, not containing antibiotics or hormones, in dosage	8.7	0.6	-	41.6
300420	Antibiotics in dosage	48.0	0.4	-	911.6

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva

Animal, vegetable fats and oil (HS-15)

In 2014, Malaysia accounted for 35.9 percent of Iran's global imports of animal, vegetable fats and oils (**Table 5.14**). India's share during the same year was marginal at 0.2 percent.

Table 5.14: Iran's Import of Animal, vegetable fats and oil (HS-15) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**1137.7**	**1154.7**	**100.0**	**100.0**
Malaysia	224.0	414.7	19.7	35.9
Ukraine	8.7	233.5	0.8	20.2
Indonesia	5.6	213.6	0.5	18.5
Argentina	2.0	135.0	0.2	11.7
Russia	0.1	42.1	-	3.6
Brazil	0.1	34.2	-	3.0
Paraguay	-	23.0	-	2.0
Turkey	4.2	21.1	0.4	1.8
Italy	2.2	6.7	0.2	0.6
Spain	1.7	6.5	0.2	0.6
Philippines	6.7	6.2	0.6	0.5
India	**0.7**	**2.8**	**0.1**	**0.2**
France	0.3	2.3	-	0.2
South Korea	0.7	1.5	0.1	0.1
Germany	150.8	1.2	13.3	0.1
Thailand	0.3	1.2	-	0.1
USA	-	1.1	-	0.1
Switzerland	29.0	1.1	2.6	0.1
Kuwait	0.1	1.0	-	0.1
Kazakhstan	-	1.0	-	0.1

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva

Potential exports from India of the commodity identified, at 6 digit HS code classification, are given in **Table 5.15**.

Ceramic products (HS-69)

In 2014, bulk of Iran's imports of ceramic products were sourced from China, which accounted for more than 91 percent of Iran's global imports of the commodity. India's share of the commodity has slipped from 4.5 percent in 2010 to a low to 1.2 percent in 2014 (**Table 5.16**).

Table 5.15: Animal, vegetable fats and oil (HS-15) - Potential Export Items to Iran

HS Code	Commodity	Iran's Global Imports in 2014 (US$ mn)	Iran's Imports from India in 2014 (US$ mn)	India's Share in Iran's Imports in 2014	India's Global Exports in 2014 (US$ mn)
151620	Vegetable fats &oils &fractions hydroge-nated, inter/re-esterified	31.5	0.5	1.5	83.1

Source: Trade Map, ITC Geneva

Table 5.16: Iran's Import of Ceramic products (HS-69) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**139.2**	**1047.6**	**100.0**	**100.0**
China	54.8	954.1	39.4	91.1
Germany	18.7	24.1	13.4	2.3
Turkey	4.8	16.2	3.5	1.6
Italy	8.0	15.0	5.7	1.4
India	**6.2**	**12.2**	**4.5**	**1.2**
Austria	9.5	8.9	6.8	0.9
Spain	2.0	7.1	1.5	0.7
UK	0.6	2.6	0.4	0.2
South Korea	1.5	2.1	1.1	0.2
Hungary	0.5	1.6	0.4	0.2
Thailand	0.1	0.5	0.1	-
France	2.3	0.5	1.7	-
Czech Republic	0.7	0.5	0.5	-
Belgium	0.1	0.4	-	-
Hong Kong	0.2	0.3	0.1	-
Portugal	0.1	0.3	-	-
Taipei, Chinese	0.9	0.2	0.7	-
Kuwait	0.2	0.2	0.1	-
Malaysia	0.2	0.2	0.1	-
Oman	-	0.2	-	-

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva

Potential exports from India of ceramic products, identified at 6 digit HS code classification, are given in **Table 5.17**.

Table 5.17: Ceramic products (HS-69) - Potential Export Items to Iran

HS Code	Commodity	Iran's Global Imports in 2014 (US$ mn)	Iran's Imports from India in 2014 (US$ mn)	India's Share in Iran's Imports in 2014	India's Global Exports in 2014 (US$ mn)
690320	Refractory ceramic goods,>50% of Al2O3/mix/compounds alumina/silica SiO2	13.4	4.5	-	57.0
690220	Refractory bricks etc >50% alumina Al2O3, silica SiO2 or mixture etc	28.7	3.1	-	91.3
690890	Tiles, cubes, glazed ceramics	111.6	0.8	-	326.4
691090	Ceramic sinks, wash basins etc & similar sanitary fixtures	4.9	0.1	-	55.2
690710	Tiles, cubes <7 cm rectangular or not etc, unglazed ceramics	10.2	0.1	-	50.2
690790	Tiles, cubes, unglazed ceramics	58.0	-	-	32.7

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva

Pearls, precious stones (HS-71)

In 2014, Turkey accounted for more than 90 percent of Iran's global imports of pearls and precious stones. India was the third largest source of imports of the commodity, its share increasing from 0.1 percent in 2010 to 3.7 percent in 2014 (**Table 5.18**).

Table 5.18: Iran's Import of Pearls, precious stones (HS-71) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**490.2**	**909.0**	**100.0**	**100.0**
Turkey	119.4	820.2	24.4	90.2
China	5.3	50.7	1.1	5.6
India	**0.6**	**33.4**	**0.1**	**3.7**
Thailand	0.1	1.1	-	0.1
Italy	0.1	1.0	-	0.1
South Korea	0.4	0.8	0.1	0.1
Taipei, Chinese	0.0	0.6	-	0.1
Russia	34.6	-	7.1	-
Australia	2.9	-	0.6	-

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva

Potential exports from India of the commodity, identified at 6 digit HS code classification are given in **Table 5.19**.

Articles of leather (HS-42)

In 2014, China accounted for more than 98 percent of Iran's imports of articles of leather (**Table 5.20**). Though India was the fourth largest source, however, India's share was meager at 0.1 percent.

Table 5.19: Pearls, precious stones (HS-71) - Potential Export Items to Iran

HS Code	Commodity	Iran's Global Imports in 2014 (US$ mn)	Iran's Imports from India in 2014 (US$ mn)	India's Share in Iran's Imports in 2014 (%)	India's Global Exports in 2014 (US$ mn)
711319	Articles of jewellery &part thereof of precious metals	843.0	23.7	2.8	11222.5
710812	Gold in unwrought forms non-monetary	1.4	-	-	2432.6
710391	Rubies, sapphires and emeralds further worked than sawn or rough shaped	0.8	-	-	136.5

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva

Table 5.20: Iran's Import of Articles of leather (HS-42) - Major Sources

Country	2010 (US$ mn)	2014 (US$ mn)	2010 (% share)	2014 (% share)
Total	**25.7**	**604.8**	**100.0**	**100.0**
China	12.0	595.4	46.5	98.4
Turkey	0.8	4.4	3.2	0.7
Italy	0.2	0.9	0.9	0.1
India	**0.1**	**0.7**	**0.4**	**0.1**
South Korea	-	0.7	-	0.1
Spain	0.1	0.5	0.5	0.1
Germany	0.3	0.4	1.0	0.1
Switzerland	-	0.3	-	0.1

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva

Potential exports from India of articles of leather to Iran, identified at 6 digit HS code classification, are given in **Table 5.21**.

Table 5.21: Articles of leather (HS-42) - Potential Export Items to Iran

HS Code	Commodity	Iran's Global Imports in 2014 (US$ mn)	Iran's Imports from India in 2014 (US$ mn)	India's Share in Iran's Imports in 2014 (%)	India's Global Exports in 2014 (US$ mn)
420222	Handbags with outer surface of sheet of plastics or of textile materials	115.0	0.2	0.2	205.9
420211	Trunks, suit-cases & similar containers with outer surface of leather	8.7	-	-	50.2
420221	Handbags with outer surface of leather	6.8	-	-	416.3
420100	Saddlery and harness for any animal, of any material	5.3	0.2	3.0	164.7
420231	Articles carried in pocket or handbag, with outer surface of leather	2.7	-	0.1	486.5
420330	Belts and bandoliers of leather or of composition leather	2.2	-	0.8	98.9
420329	Gloves mittens& mitts, for sport, of leather o of composition leather	1.8	-	0.3	296.1
420310	Articles of apparel of leather or of composition leather	1.3	-	-	618.5

'-'denotes nil/negligible

Source: Trade Map, ITC Geneva