

EXPORT-IMPORT BANK OF INDIA

WORKING PAPER NO. 18

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

EXIM Bank's Working Paper Series is an attempt to disseminate the findings of research studies carried out in the Bank. The results of research studies can interest exporters, policy makers, industrialists, export promotion agencies as well as researchers. However, views expressed do not necessarily reflect those of the Bank. While reasonable care has been taken to ensure authenticity of information and data, EXIM Bank accepts no responsibility for authenticity, accuracy or completeness of such items.

© Export-Import Bank of India
July 2012

CONTENTS

	Page No.
List of Tables	5
List of Charts	7
Executive Summary	9
1. Iran – Economic Overview	18
2. Foreign Trade of Iran	20
3. India's Trade and Economic Relations with Iran	23
4. Potential Areas for Enhancing Bilateral Trade Relations	27
5. Observations and Recommendations	43
Annexures	
Annexure I : International Sanctions against Iran	45
Annexure II : Foreign Investments in Iran and Investment Regulations	47
Annexure III : Potential Items of India's Exports to Iran (As per 6-Digit HS Commodity Classification)	50

Project team:

Mr. David Sinate, General Manager
Mr. Vanlalruata Fanai, Chief Manager
Ms. Debapriya Chakrabarti, Manager

LIST OF TABLES		
Table No.	Titles	Page No.
1	Iran's Exports of Major Commodities in 2001, 2005 & 2010 (US\$ mn)	10
2	Iran's Imports of Major Commodities in 2001, 2005 & 2010 (US\$ mn)	11
3	India's Trade with Iran, 2000 - 2010 (US\$ mn)	12
4	Trends in India's Exports of Major Commodities to Iran, 2001- 2010 (US\$ mn)	13
5	Trends in Iran's Imports of Major Commodities from India, 2001-2010 (US\$ mn)	14
6	Iran's Major Imports and India's Share, 2010	15
1.1	Iran - Macroeconomic Indicators	18
2.1	Iran's Exports of Major Commodities in 2001, 2005 & 2010 (US\$ mn)	21
2.2	Iran's Imports of Major Commodities in 2001, 2005 & 2010 (US\$ mn)	22
3.1	India's Trade with Iran, 2001 - 2010 (US\$ mn)	23
3.2	Trends in India's Exports of Major Commodities to Iran, 2001-2010 (US\$ mn)	24
3.3	India's Major Exports to Iran and Share in Iran's Global Imports, 2010	25
3.4	India's Imports of Major Commodities from Iran, 2001-2010 (US\$ mn)	26
4.1	Iran's Major Imports and India's Share, 2010	28
4.2	Iran's Major Suppliers of Machinery and Instruments (HS-84)	29
4.3	Potential Items of Exports to Iran under Machinery and Instruments (HS- 84)	29
4.4	Iran's Major Suppliers of Iron and Steel (HS-72)	30
4.5	Potential Items of Exports to Iran under Iron & Steel (HS- 72)	30
4.6	Iran's Major Suppliers of Electrical and Electronic Equipment (HS-85)	31
4.7	Potential Items of Exports to Iran under Electrical and Electronic Equipment (HS-85)	31
4.8	Iran's Major Suppliers of Vehicles other than Railway (HS-87)	32
4.9	Potential Items of Exports to Iran under Vehicles other than Railway (HS-87)	32
4.10	Iran's Major Suppliers of Plastics and Articles (HS-39)	33
4.11	Potential Items of Exports to Iran under Plastics and Articles (HS-39)	33
4.12	Iran's Major Suppliers of Mineral Fuels and Oils (HS-27)	34
4.13	Potential Items of Exports to Iran under Mineral Fuels and Oils (HS-27)	34
4.14	Iran's Major Suppliers of Optical, Photo and Medical Apparatus (HS-90)	35
4.15	Potential Items of Exports to Iran under Optical, Photo and Medical Apparatus (HS-90)	35
4.16	Iran's Major Suppliers of Pharmaceuticals (HS-30)	36

LIST OF TABLES		
Table No.	Titles	Page No.
4.17	Potential Items of Exports to Iran under Pharmaceuticals (HS-30)	36
4.18	Iran's Major Suppliers of Residues, Waste of Food Industry (HS-23)	37
4.19	Potential Items of Exports to Iran under Residues, Waste of Food Industry (HS-23)	37
4.20	Iran's Major Suppliers of Sugar and Sugar Confectionery (HS-17)	38
4.21	Potential Items of Exports to Iran under Sugar and Sugar Confectionery (HS-17)	38
4.22	Iran's Major Suppliers of Misc. Chemical Products (HS-38)	39
4.23	Potential Items of Exports to Iran under Misc. Chemical Products (HS-38)	39
4.24	Iran's Major Suppliers of Aluminium and Articles (HS-76)	40
4.25	Potential Items of Exports to Iran under Aluminium and Articles (HS-76)	40
4.26	Iran's Major Suppliers of Edible Fruits (HS-08)	41
4.27	Potential Items of Exports to Iran under Edible Fruits (HS-08)	41
4.28	Iran's Major Suppliers of Oilseed (HS-12)	42
4.29	Potential Items of Exports to Iran under Oilseed (HS-12)	42

LIST OF CHARTS		
Chart No.	Titles	Page No.
2.1	Iran's Foreign Trade, 2001 - 2010 (US\$ bn)	20
3.1	India's Trade with Iran, 2001 - 2010 (US\$ bn)	23

EXECUTIVE SUMMARY

ECONOMIC OVERVIEW

Real GDP of Iran, which averaged 6.4% during 2001-07, moderated to 0.6% in 2008. Growth, however, picked up in 2009 to 3.5%, but moderated to an estimated 2.5% in 2011, mainly owing to fall in production of hydrocarbons. Nominal GDP, on the other hand, has risen from US\$ 309 bn in 2007 to an estimated US\$ 475 bn in 2011.

Iranian real GDP growth is likely to be held back by tougher sanctions, subsidy cuts and overall declining oil production. Real GDP growth is expected to average 3.2% in 2011-13, as exports of crude are hit by tightening embargoes by the EU, with the Iranian authorities holding back oil production.

External Sector

On the external front, Iran's current account surplus decreased from US\$ 32.6 bn in 2007 to an estimated US\$ 27.1 bn in 2011. With oil production and exports expected to fall over the period and non-oil exports curbed by sanctions, Iran's external account is expected to be negatively

affected. As a result, current account is expected to turn into a deficit in 2013 at around 1% of GDP. Iran's external position will depend on oil prices being high enough to offset the difficulty in selling exports caused by sanctions. The non-merchandise deficit is expected to remain relatively steady.

Hydrocarbon Sector

Iran's hydrocarbon sector remains the base of the country's economy. Targets for increasing gas production have been missed, but the start-up of a number of delayed South Pars phases will make available sufficient gas for reinjection into oilfields.

Fiscal Outlook

As a result of the limited scope for capital inflows, the decline in fiscal revenues has recently led to a reduction in government spending as a percentage of GDP. Accordingly, the gross fiscal account, which incorporates all oil income, is estimated to record a much smaller surplus in 2012-13 as weaker tax revenue and falling oil production take a toll on revenue.

On the other hand, the government's decision to phase out all subsidies by the end of 2014 is a crucial step in adjusting fiscal balances of the country.

The first general stage of the implementation of the subsidy reform was put into effect in December 2010. Subsidies are estimated to cost the government around US\$ 100 bn annually.

Inflation Dynamics

Tight monetary policy and falling global commodity prices led overall CPI inflation to fall significantly from 25.5% in 2008 to 10.1% in 2010. Due to removal of subsidies, however, CPI inflation is estimated to exceed 21% in 2011. Further, with full annual effect of subsidy reductions on every-day items compounded by a recovery in global commodity prices, the CPI inflation is expected to cross 23% in the following year.

Exchange Rate

The Iranian rial (IR) is subject to volatility as Iranians seek to shift their savings into safer assets such as gold or the US dollar. Bank Markazi Jomhouri Islami Iran (the Central Bank of Iran) has changed some 15% of its foreign exchange reserve to gold stock in 2010-11. The rial has slid dramatically since the end of 2011, at one point reaching a low of IR 23,000: US\$1 on the black market. The central bank raised rates to try to prevent the rial weakening any further, but its ability to control the exchange rate has been limited. Bank Markazi announced

a new official rate of IR 12,260: US\$1 in mid-January 2012. However, there is a possibility of a continued depreciation from this level to an average of IR14,996 by 2016-17 as Iran's access to foreign exchange continued to be limited due to ongoing sanctions.

Challenges

Iran's hydrocarbon sector is likely to remain the mainstay of the country's economy. With targets for increasing gas

production being missed, Iran is expected to keep crude oil in the ground rather than risk being unable to export it. Production will remain depressed until there is much-needed investment in the sector and, fundamentally, an improvement in the political situation. Iran's economy will remain vulnerable to sanctions on the hydrocarbon sector. The lack of foreign investment and technology transfer had already dragged down production prior to the more restrictive sanctions. The EU embargo on Iranian oil,

however, may prompt Iran to try and shift more of its sales to Asian buyers—particularly China, India, South Korea and Japan, or to hold it in offshore tankers.

FOREIGN TRADE OF IRAN

Iran is one of the world's major oil exporters, with hydrocarbon related exports accounting for around three-fourth of total export revenue. Iran's total trade increased over four-fold during 2001-2008, from US\$ 40 bn to

Table 1 : Iran's Exports of Major Commodities in 2001, 2005 & 2010 (US\$ mn)

HS Code	Commodities	2001	Share in total (%)	2005	Share in total (%)	2010	Share in total (%)	CAGR (%) 2001-2010
	All products	23904.0	100.0	60012.0	100.0	83785.0	100.0	
27	Mineral fuels, oils	20367.8	85.2	52033.3	86.7	62640.6	74.8	13.3
29	Organic chemicals	213.5	0.9	730.5	1.2	2971.8	3.5	33.9
39	Plastics and articles	116.5	0.5	370.2	0.6	2827.6	3.4	42.5
8	Edible fruit, nuts	512.7	2.1	1255.2	2.1	2310.7	2.8	18.2
26	Ores, slag and ash	72.9	0.3	157.7	0.3	1239.0	1.5	36.9
57	Carpets and other textile floor coverings	601.9	2.5	638.0	1.1	877.0	1.0	4.3
25	Salt, sulphur, lime, cement	102.1	0.4	169.5	0.3	808.5	1.0	25.8
7	Edible vegetables and certain roots and tubers	94.1	0.4	126.4	0.2	724.8	0.9	25.4
72	Iron and steel	206.9	0.9	981.9	1.6	638.0	0.8	13.3
84	Machinery & instruments	48.9	0.2	172.2	0.3	632.8	0.8	32.9
87	Vehicles other than railway	66.3	0.3	199.9	0.3	587.4	0.7	27.4
74	Copper and articles	90.0	0.4	117.4	0.2	579.1	0.7	23.0
28	Inorganic chemicals	50.2	0.2	200.8	0.3	576.6	0.7	31.1
69	Ceramic products	27.1	0.1	89.7	0.1	389.7	0.5	34.5
9	Coffee, tea, mate and spices	67.7	0.3	121.7	0.2	367.7	0.4	20.7

Source: Trade Map, ITC Geneva

US\$ 189 bn, aided by growth in both exports and imports. Total trade declined in 2009 mainly reflecting sharp fall in export demand, before picking up in 2010. Iran's total exports in 2010 stood at US\$ 83.8 bn, as against US\$ 23.9 bn in 2001, mainly largely on account of increase in exports of oil, organic chemicals, plastics and ores. Iran's imports also increased over three-fold from US\$ 16.2 bn in 2001 to US\$ 54.7 bn

in 2010, driven by higher imports of machinery and instruments, iron and steel, electrical and electronic equipments, vehicles other than railway, cereals and plastics.

Major Exports Items

Trends in Iran's exports of major commodities have been presented in **Table 1**. Minerals fuels and oils are the largest items of exports, followed by organic chemicals,

plastics and articles thereof, edible fruits & nuts, ores slag & ash, carpets and other textile floor coverings.

Major Import Items

Trends in Iran's imports of major commodities have been presented in **Table 2**. Machinery and related products are the largest item in Iran's import basket, followed by iron and steel, electrical and

Table 2 : Iran's Imports of Major Commodities in 2001, 2005 & 2010 (US\$ mn)

HS Code	Commodities	2001	Share in total (%)	2005	Share in total (%)	2010	Share in total (%)	CAGR (%) 2001-2010
	All products	16173.1	100	38674.7	100	54697.2	100	
84	Machinery & instruments	3731.0	23.1	9520.6	24.6	11589.6	21.2	13.4
72	Iron and steel	1526.7	9.4	4069.2	10.5	7706.8	14.1	19.7
85	Electrical, electronic equipment	1338.9	8.3	2758.1	7.1	3018.5	5.5	9.4
87	Vehicles other than railway	1182.6	7.3	1111.4	2.9	2479.6	4.5	8.6
10	Cereals	1445.1	8.9	960.5	2.5	2284.8	4.2	5.2
39	Plastics and articles	526.8	3.3	1423.6	3.7	2165.0	4.0	17.0
73	Articles of iron or steel	471.0	2.9	1153.3	3.0	1838.2	3.4	16.3
27	Mineral fuels oils	561.9	3.5	3750.0	9.7	1472.5	2.7	11.3
90	Optical, photo, technical apparatus	438.9	2.7	725.5	1.9	1393.0	2.5	13.7
30	Pharmaceutical products	393.5	2.4	593.8	1.5	1255.2	2.3	13.7
48	Paper & paperboard	372.6	2.3	719.0	1.9	1148.5	2.1	13.3
29	Organic chemicals	384.2	2.4	743.6	1.9	1146.3	2.1	12.9
15	Animal, vegetable fats and oils	396.4	2.5	653.8	1.7	1137.7	2.1	12.4
2	Meat and edible meat offal	77.6	0.5	51.8	0.1	890.6	1.6	31.1
23	Residues, wastes of food industry	202.9	1.3	108.7	0.3	843.5	1.5	17.1
17	Sugars and sugar confectionery	187.0	1.2	138.7	0.4	790.0	1.4	17.3
40	Rubber and articles	213.6	1.3	383.7	1.0	775.8	1.4	15.4
38	Miscellaneous chemical products	435.5	2.7	464.4	1.2	738.8	1.4	6.0
44	Wood and articles of wood	53.8	0.3	196.0	0.5	619.8	1.1	31.2
76	Aluminium and articles	149.6	0.9	364.8	0.9	582.3	1.1	16.3

Source: Trade Map, ITC Geneva

electronic equipment, vehicles, cereals, plastics and articles, and articles of iron or steel.

INDIA'S TRADE AND ECONOMIC RELATIONS WITH IRAN

Trade relations between India and Iran have witnessed a significant rise during the last decade, with India's total trade (exports plus imports) with Iran rising from US\$ 520 mn in 2001 to US\$ 10.5 bn in 2010. This buoyant trend has been supported by both rise in India's exports to and imports from Iran, with India's imports from Iran showing a much higher CAGR as compared to India's exports to Iran (Table 3).

India's trade balance with Iran which showed a surplus of US\$ 428.8 mn in 2005, turned into a deficit of US\$ 4.3 bn in 2006 owing to sharp increase in oil imports. By 2010, the trade deficit stood at US\$ 5.5 bn.

In 2010-11, Iran was India's thirteenth largest trading partner, with a share of 2.1% of India's total trade. During the same year Iran was the seventh largest source of imports for India, with a share of 3% of India's total imports, and the twenty fourth largest export markets with a share of 1.1% of total India's exports.

India's Major Exports to Iran

During 2001-2010, India's exports to Iran have risen close to ten-fold, from US\$ 253.3 mn in 2001 to US\$ 2.5 bn in 2010, due to rise in exports of inorganic chemicals, cereals, iron and steel and articles of iron or steel to Iran (Table 4). India's exports basket to Iran is dominated by inorganic chemicals, articles of iron or steel and cereals, with these three items accounting for a significant 50.6 % of India's total exports to Iran in 2010.

India's Imports from Iran

As regards India's imports from Iran, mineral fuels dominate the import basket, accounting for as much as 84.5% of India's total imports from Iran (Table 5).

In 2010, Iran was the third largest source of imports of mineral fuels for India, accounting for 8.2% of India's total imports of mineral fuels.

Iran is also a major source for India's imports of plastics and articles thereof, as well as fertilizers, ores slag and ash.

INDIA'S ECONOMIC RELATIONS WITH IRAN

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 New Delhi on July 8-9, 2010. During the

Table 3 : India's Trade with Iran, 2000 - 2010 (US\$ mn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR(%) 2001-2010
Export	253.3	492.2	893.0	1185.0	1073.0	1617.3	1845.3	2335.9	1949.1	2509.3	29.0
Import	266.9	254.2	267.7	355.9	644.2	5918.1	9165.6	13791.5	10591.7	7999.9	45.9
Total Trade	520.2	746.3	1160.7	1540.9	1717.2	7535.4	11010.8	16127.4	12540.8	10509.2	39.6
Trade Balance	-13.7	238.0	625.3	829.1	428.8	-4300.7	-7320.3	-11455.6	-8642.6	-5490.7	

Source: Trade Map, ITC Geneva

Table 4: Trends in India's Exports of Major Commodities to Iran, 2001- 2010 (US\$ mn)

HS Code	Commodities	2001	2005	2006	2007	2008	2009	2010
	All products	253.3	1073.0	1617.3	1845.3	2335.9	1949.1	2509.3
28	Inorganic chemicals	6.7	33.3	66.0	33.2	86.7	38.7	465.7
73	Articles of iron or steel	10.1	104.0	130.2	94.7	123.1	175.2	435.8
10	Cereals	0.4	1.5	12.5	3.7	95.2	505.4	369.0
72	Iron and steel	31.4	149.7	133.6	180.1	180.3	199.4	192.0
84	Machinery & instruments	13.4	68.8	75.1	78.4	144.3	118.8	140.7
29	Organic chemicals	25.4	54.7	100.6	91.1	91.9	87.3	90.9
85	Electrical, electronic equipment	16.3	29.9	44.4	71.8	73.4	69.5	90.4
09	Coffee, tea, mate and spices	19.1	20.4	24.2	41.2	57.0	44.8	76.4
55	Manmade staple fibres	3.2	10.0	19.0	20.1	18.8	38.0	67.1
30	Pharmaceutical products	12.9	26.4	20.6	22.4	37.6	48.2	54.1
54	Manmade filaments	6.2	16.9	24.3	19.6	41.1	30.7	53.3
40	Rubber and articles thereof	15.1	21.1	36.4	47.1	49.9	40.9	46.4
02	Meat and edible meat offal	15.5	14.6	27.4	20.6	26.2	11.1	44.1
87	Vehicles other than railway	6.5	18.3	24.0	23.0	26.9	19.0	42.1
38	Miscellaneous chemical products	4.8	24.3	27.0	35.9	48.0	35.0	36.4
27	Mineral fuels & oils	0.2	337.0	687.7	870.6	983.1	287.8	31.7
23	Residues, wastes of food industry	2.6	0.5	0.8	14.4	16.3	29.7	20.3
39	Plastics and articles thereof	5.4	19.8	14.0	22.2	33.9	11.1	19.7
52	Cotton	1.4	3.7	6.1	6.8	18.1	18.0	19.4
48	Paper & paperboard	3.4	6.6	9.0	11.2	13.9	11.5	17.5

Source: Trade Map, ITC Geneva

JCM, 6 MoUs/agreements were signed: (i) Air Services Agreement; (ii) Agreement on Transfer of Sentenced Persons; (iii) MoU on Cooperation in New & Renewable Energy; (iv) MoU on Cooperation in Small Scale Industry between National Small Industries Corporation (NSIC) and Iranian Small Industries and Industrial Parks Organisation (ISIPO); (v) Programme of Cooperation on Science & Technology and (vi) MoU on Cooperation between Central Pulp and Paper Research Institute of India (CPPRI) and Gorgan University of Agricultural

Science and Natural Resources (GUASNR).

Joint ventures between India and Iran include the Irano -Hind Shipping Company, the Madras Fertilizer Company and the Chennai Refinery.

Talks are on for setting up a number of projects, which include the IPI gas pipeline project, a long term supply of 5 mn tons of LNG, development of the Farsi oil and gas blocks, South Pars gas field and LNG project, Chahbahar

container terminal project and Chahbahar-Zarand railway project.

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

The State Bank of India (SBI) has a representative office in Tehran. In addition, companies which have a presence in Iran include ESSAR, ONGC Videsh Ltd. (OVL) and TATA.

Table 5 : Trends in Iran's Imports of Major Commodities from India, 2001-2010 (US\$ mn)

HS Code	Commodities	2001	2005	2006	2007	2008	2009	2010
	All Products	266.9	644.2	5918.1	9165.6	13791.5	10591.7	7999.9
27	Mineral fuels, oils,	34.2	7.1	5077.0	8368.2	12627.1	9584.4	6798.8
26	Ores, slag and ash	4.1	9.4	90.2	157.3	252.6	193.0	306.3
29	Organic chemicals	37.0	141.0	149.8	205.6	294.2	373.4	277.7
31	Fertilizers	-	2.7	1.3	0.1	1.5	74.4	161.2
28	Inorganic chemicals, precious metal compound	30.3	47.0	84.8	35.9	231.5	106.7	140.2
39	Plastics and articles	0.0	4.2	29.6	8.6	11.0	55.1	107.4
25	Salt, sulphur, earth, stone,	15.8	40.7	34.2	41.2	156.3	23.2	49.6
08	Edible fruit, nuts	47.8	53.8	60.9	69.5	51.9	30.9	30.8
38	Miscellaneous chemical products	0.1	2.6	16.1	16.2	25.8	27.8	27.6
79	Zinc and articles	7.7	42.7	121.2	52.3	31.2	29.8	21.9
72	Iron and steel	2.6	152.1	140.8	90.2	9.2	48.9	17.1
84	Machinery & instruments	0.5	1.1	1.2	0.4	0.5	0.3	13.2
10	Cereals	-	-	-	-	-	0.1	10.8

-Not available/negligible

Source: Trade Map, ITC Geneva

POTENTIAL AREAS FOR ENHANCING BILATERAL TRADE RELATIONS

Bilateral trade relations between India and Iran has witnessed a robust rising trend, with total trade between the two countries having stood at US\$ 10.5 bn in 2010. At the same time, bilateral trade balance has been in Iran's favour, with India's trade deficit with Iran amounting to US\$ 5.5 bn in 2010.

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. This would entail identification of potential export items under each product category, up to 6-digit HS Commodity code.

Table 6 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. As

can be seen from the table, apart from cereals (HS-10), articles of iron and steel (HS-73), organic chemical (HS-29), rubber and articles (HS-40) and manmade staple fibres (HS- 55), India's share in Iran's major imports is still low, which highlights the potential for enhancing these exports to Iran.

The potential items of exports to Iran would include:

- Machinery & instruments (HS-84)
- Iron and steel (HS-72)
- Electrical, electronic equipment (HS-85)
- Vehicles other than railway (HS-87)

- Plastic and articles (HS-39)
 - Mineral fuels & oils (HS-27)
 - Optical, photo and medical apparatus (HS- 90)
 - Pharmaceutical products (HS-30)
 - Residues, wastes of food industry (HS- 23)
 - Sugar and sugar confectionery (HS-17)
 - Misc. chemical products (HS-38)
 - Aluminium and articles (HS-76)
 - Edible fruits (HS-8)
 - Oilseed (HS-12)
- 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, has been undertaken.

Table 6: Iran's Major Imports and India's Share, 2010

HS Code	Commodities	Iran's Imports from World (US\$ mn)	Iran's Imports from India (US\$ mn)	India's Share in Iran's Imports (%)	India's Global Exports (US\$ mn)
Total	All products	54697.2	2509.3	4.6	220408.5
84	Machinery & instruments	11589.6	140.7	1.2	8149.8
72	Iron and steel	7706.8	192.0	2.5	6996.2
85	Electrical, electronic equipment	3018.5	90.4	3.0	8706.5
87	Vehicles other than railway	2479.6	42.1	1.7	9285.9
10	Cereals	2284.8	369.0	16.2	2923.7
39	Plastics and articles thereof	2165.0	19.7	0.9	3630.3
73	Articles of iron or steel	1838.2	435.8	23.7	6367.7
27	Mineral fuels, oils	1472.5	31.7	2.2	37984.1
90	Optical, photo, technical apparatus	1393.0	10.9	0.8	1440.8
30	Pharmaceutical products	1255.2	54.1	4.3	6096.1
48	Paper & paperboard	1148.5	17.5	1.5	784.2
29	Organic chemicals	1146.3	90.9	7.9	8592.7
15	Animal, vegetable fats and oils	1137.7	2.3	0.2	716.3
23	Residues, wastes of food industry	843.5	20.3	2.4	2066.6
17	Sugars and sugar confectionery	790.0	6.8	0.9	1039.9
40	Rubber and articles	775.8	46.4	6.0	1675.4
38	Miscellaneous chemical products	738.8	36.4	4.9	2070.1
44	Wood and articles of wood, wood charcoal	619.8	0.7	0.1	163.8
76	Aluminium and articles	582.3	5.6	1.0	1328.0
8	Edible fruit, nuts	571.1	7.7	1.4	1088.7
12	Oil seed, oleaginous fruits, grain, seed, fruit, etc, nes	545.7	6.9	1.3	1084.4
55	Manmade staple fibres	520.1	67.1	12.9	1621.8

Source: Trade Map, ITC Geneva

OBSERVATIONS AND RECOMMENDATIONS

As observed in the preceding paragraphs, India's trade relations with Iran has witnessed a robust trend in recent years, with total bilateral trade between the two countries having risen from US\$ 520 mn in 2001 to US\$ 10.5 bn in 2010¹. As per Ministry of Commerce and Industry, Government of India, bilateral trade between the two countries had reached US\$ 13.7 bn during the fiscal year 2010-11. The two countries aim to increase their bilateral trade to US\$ 25 bn by 2015².

India is a major source for Iran's global imports of organic chemicals, cereals, articles of iron and steel and manmade staple fibres, accounting for a significant share in Iran's global imports. However, in the case of other major commodities imported by Iran, such as machinery and instruments, iron and steel, pharmaceuticals, vehicles other than railway, India's share in Iran's global imports is low, and in some cases has even declined over the years. Given India's export capability in these sectors, and the huge demand existing in Iran, potential exists to further enhance India's trade relations with Iran in

line with potential sectors which present export opportunities for India.

With India's trade deficit with Iran witnessing a rising trend in recent years, strategy to enhance trade relations with Iran, and thereby bridge the rising trade gap, would entail identification of potential items of India's exports (upto 6-digit commodity classification) in line with Iran's imports demand and India's export capabilities, which has been undertaken in this study, as also identification of potential exporters who could benefit from prevailing and future market opportunities in Iran.

Towards this end, Industry Associations and Chambers of Commerce and Industries could focus on the potential items and sectors identified to boost trade between the two countries. Various trade promoting activities such as organizing Business to Government (B2G) and Business-to-Business (B2B) delegation visits relating to identified potential sectors; organizing fairs and exhibitions in Iran to showcase competencies of Indian corporate and to capture market opportunities; and tie-ups with select industry associations/chambers in Iran in potential sectors would serve to strengthen

India's trade linkages with Iran.

Trade with Iran – Facilitation

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.

¹As per Trade Map, ITC, UNCTAD.

²Economic Times, “India, Iran look at \$25 billion trade by 2015”, March 12, 2012 (Online edition).

Indian exporters are also allowed to receive **advance payment** against exports from Iranian importers in Indian rupees through 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.

In light of the huge potential to enhance India's exports to Iran and thereby boost bilateral trade

relations, such endeavours to facilitate bilateral trade and payments system would need to be encouraged, while efforts would need to be made to ensure the smooth functioning of this payment arrangement so that Indian exporters to Iran are benefitted.

1. Iran – Economic Overview

Real GDP of Iran, which averaged 6.4% during 2001-07, moderated to 0.6% in 2008. Growth, however, picked up in 2009 to 3.5%, but moderated again to an estimated 2.5% in 2011, mainly owing to fall in production of hydrocarbons. Nominal GDP, on the other hand, has risen from US\$ 309 bn in 2007 to an estimated US\$ 475 bn in 2011 (**Table 1.1**).

Iranian real GDP growth is likely to be held back by tougher sanctions

(**Annexure I**), subsidy cuts and overall declining oil production. Real GDP growth is expected to average 3.2% in 2011-13, as exports of crude are hit by tightening embargoes by the EU, with the Iranian authorities holding back oil production.

External Sector

On the external front, Iran's current account surplus decreased from US\$ 32.6 bn in 2007 to an estimated US\$ 27.1 bn in 2011. With oil production and exports expected to fall over the period and non-oil exports curbed by sanctions, Iran's external account is expected to be negatively affected. As a result, current

account is expected to turn into a deficit during 2013, at around 1% of GDP. Iran's external position will depend on oil prices being high enough to offset the difficulty in selling exports caused by sanctions. The non-merchandise deficit is expected to remain relatively steady (**Annexure II**).

Hydrocarbon Sector

Iran's hydrocarbon sector remains the base of the country's economy. Targets for increasing gas production have been missed, but the start-up of a number of delayed South Pars phases will make available sufficient gas for reinjection into oilfields.

Table 1.1: Iran - Macroeconomic Indicators

	2007	2008*	2009*	2010*	2011*	2012#	2013#
Nominal GDP (US\$ bn)	309.1	353.8	362.6	407.4	475.1	494.5	523.5
Nominal GDP (IR trn)	2,869.6	3,387.6	3,596.7	4,211.7	5,313.6	6,114.2	6,879.6
Real GDP Growth (%)	10.8	0.6	3.5	3.2	2.5	3.4	3.8
Population (mn)	71.5	72.6	73.7	74.8	75.9	77.0	78.2
Public Sector balance (% of GDP)	19.3	11.2	9.2	10.6	7.2	2.5	-0.7
Consumer Prices (Annual avg., %)	17.1	25.5^	13.5^	10.1^	21.2	23.6	21.0
Lending Interest Rates (avg., %)	12.5	12.0^	12.0^	12.0^	12.5	16.0	16.5
Exchange Rate IR:US\$ (Annual avg.)	9,281.0	9429.0^	9864.0^	10254.0^	10620.0^	12,260.0	13,130.0
Trade Balance (US\$ bn)	39.4	31.1^	20.9^	40.2^	40.8	22.4	10.0
Current Account Balance (US\$ bn)	32.6	22.9^	10.9^	25.4^	27.1	8.4	-5.0
Debt Stock (US\$ bn)	21.1	13.0^	13.5^	12.6	13.5	13.1	12.8
International Reserves (US\$ bn)	82.1	96.6	81.3	75.1	79.9	76.4	73.4

Notes: * - estimates; # - forecasts; ^ - actuals

Source: IMF, Economic Intelligence Unit (EIU)

Fiscal Outlook

As a result of the limited scope for capital inflows, the decline in fiscal revenues has recently led to a reduction in government spending as a percentage of GDP. Accordingly, the gross fiscal account, which incorporates all oil income, is estimated to record a much smaller surplus in 2012-13 as weaker tax revenue and falling oil production take a toll on revenue.

On the other hand, the government's decision to phase out all subsidies by the end of 2014 is a crucial step in adjusting fiscal balances of the country. The first general stage of the implementation of the subsidy reform was put into effect in December 2010. Subsidies are estimated to cost the government around US\$ 100 bn annually.

Inflation Dynamics

Tight monetary policy and falling global commodity prices

led overall CPI inflation to fall significantly from 25.5% in 2008 to 10.1% in 2010. Due to removal of subsidies, however, CPI inflation is estimated to exceed 21% in 2011. Further, with full annual effect of subsidy reductions on every-day items compounded by a recovery in global commodity prices, the CPI inflation is expected to cross 23% in the following year.

Exchange Rate

The Iranian rial (IR) is subject to volatility as Iranians seek to shift their savings into safer assets such as gold or the US dollar. Bank Markazi Jomhuri Islami Iran (the Central Bank of Iran) has changed some 15% of its foreign exchange reserve to gold stock in 2010-11. Bank Markazi announced a new official rate of IR 12,260: US\$1 in mid-January 2012. However, there is a possibility of a continued depreciation from this level to an average of IR14,996 by 2016-17 as Iran's access to foreign exchange continued to be limited due to ongoing sanctions.

Challenges

Iran's hydrocarbon sector is likely to remain the mainstay of the country's economy. With targets for increasing gas production being missed, Iran is expected to keep crude in the ground rather than risk being unable to export it. Production will remain depressed until there is much-needed investment in the sector and fundamentally, an improvement in the political situation. Iran's economy will remain vulnerable to sanctions on the hydrocarbon sector. The lack of foreign investment and technology transfer had already dragged down production prior to the more restrictive sanctions. The EU embargo on Iranian oil, however, may prompt Iran to try and shift more of its sales to Asian buyers—particularly China, India, South Korea and Japan, or to hold it in offshore tankers.

2. Foreign Trade of Iran

Iran is one of the world's major oil exporters, with hydrocarbon related exports accounting for around three-fourth of total export revenue. Iran's total trade increased over four-fold during 2001-2008, from US\$ 40 bn to US\$ 189 bn, aided by growth in both exports and imports. Total trade declined in 2009, mainly reflecting sharp fall in export demand, before picking up in 2010. Iran's total exports in 2010 stood at US\$ 83.8 bn, as against US\$ 23.9 bn in 2001, mainly on account of increase in exports of oil, organic chemicals, plastics and ores. Iran's imports also increased over three-fold from US\$ 16.2 bn in 2001 to US\$ 54.7 bn in 2010, driven by higher imports of machinery and instruments,

iron and steel, electrical and electronic equipments, vehicles other than railways, cereals and plastics (**Chart 2.1**).

Major Export Items

Trends in Iran's exports of major commodities have been presented in **Table 2.1**. Mineral fuels and oils are the largest items of exports, followed by organic chemicals, plastics and articles, edible fruits & nuts, ores slag & ash, carpets and other textile floor coverings.

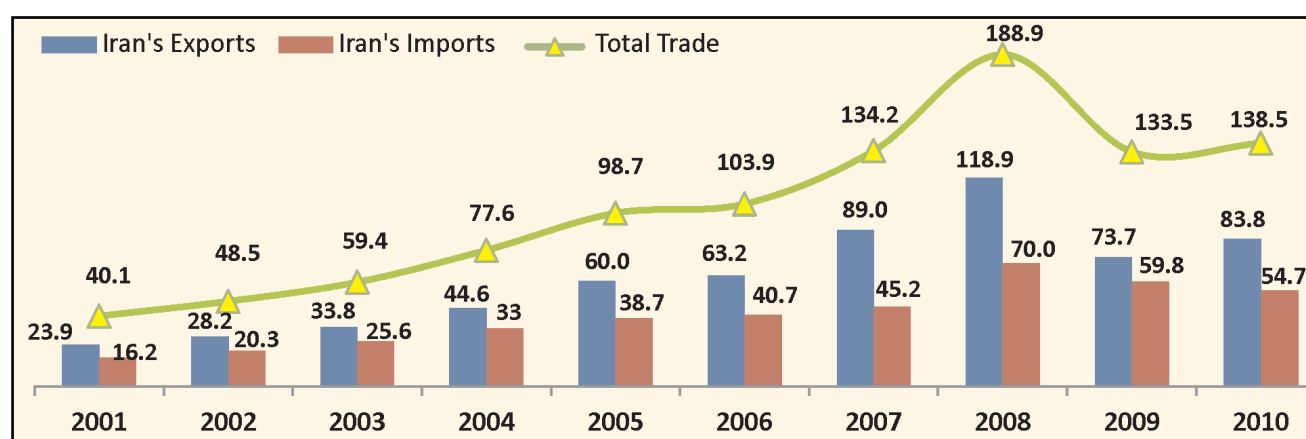
Mineral fuels and oils remain the main foreign exchange earner for Iran, despite attempts to diversify, which have been prevented by low levels of foreign investment. Petrochemicals are expected to represent an increasing share of exports in the medium term. However, despite the government's attempt to significantly increase gas exports, growth has been curtailed by rising domestic consumption, which is likely to

outgrow increases in production in the short to medium term. The imposition of sanctions over Iran's refusal to suspend its nuclear programme has impacted exports (other than hydrocarbons), as banks from western countries refuse to extend trade-credit facilities or transfer funds to Iranian banks.

Mineral fuels and oils are mostly exported to Taiwan, European countries, Iraq, China, UAE and India. Crude petroleum oil is the key exported item under this category accounting for over 55% of total mineral fuels and oils exported, with major destinations including China, Japan, South Korea, Italy, Spain and South Africa.

As regards exports of organic chemicals, which are the second largest items in Iran's export basket, China is the largest export market, followed by, India, South Korea, Taiwan, UAE, Pakistan

Chart 2.1: Iran's Foreign Trade, 2001 - 2010 (US\$ bn)



Note: Data for 2007, 2008 and 2009 are sourced from DOTS, IMF

Source: Trade Map, ITC Geneva; DOTS, IMF

Table 2.1 : Iran's Exports of Major Commodities in 2001, 2005 & 2010 (US\$ mn)

HS Code	Commodities	2001	Share in total (%)	2005	Share in total (%)	2010	Share in total (%)	CAGR (%) 2001-2010
	All products	23904.0	100.0	60012.0	100.0	83785.0	100.0	14.9
27	Mineral fuels, oils	20367.8	85.2	52033.3	86.7	62640.6	74.8	13.3
29	Organic chemicals	213.5	0.9	730.5	1.2	2971.8	3.5	33.9
39	Plastics and articles	116.5	0.5	370.2	0.6	2827.6	3.4	42.5
08	Edible fruit, nuts	512.7	2.1	1255.2	2.1	2310.7	2.8	18.2
26	Ores, slag and ash	72.9	0.3	157.7	0.3	1239.0	1.5	36.9
57	Carpets and other textile floor coverings	601.9	2.5	638.0	1.1	877.0	1.0	4.3
25	Salt, sulphur, lime, cement	102.1	0.4	169.5	0.3	808.5	1.0	25.8
07	Edible vegetables and certain roots and tubers	94.1	0.4	126.4	0.2	724.8	0.9	25.4
72	Iron and steel	206.9	0.9	981.9	1.6	638.0	0.8	13.3
84	Machinery & instruments	48.9	0.2	172.2	0.3	632.8	0.8	32.9
87	Vehicles other than railway	66.3	0.3	199.9	0.3	587.4	0.7	27.4
74	Copper and articles	90.0	0.4	117.4	0.2	579.1	0.7	23.0
28	Inorganic chemicals	50.2	0.2	200.8	0.3	576.6	0.7	31.1
69	Ceramic products	27.1	0.1	89.7	0.1	389.7	0.5	34.5
09	Coffee, tea, mate and spices	67.7	0.3	121.7	0.2	367.7	0.4	20.7

Source: Trade Map, ITC Geneva

and Philippines. Acyclic alcohol and their derivatives are the major exports under this category.

For Iran's exports of plastics and articles, the major markets are China, UAE, Belgium, Turkey, Iraq, India and Afghanistan. In the case of edible fruit & nuts, Iraq, Hong Kong, UAE, Russia, Germany, India and Pakistan are the largest markets, together accounting for 59% of Iran's total exports in 2010.

As regards exports of ores, slag and ash, China is the single largest

market with a dominant share of 92% of Iran's total exports in 2010, followed by India, Pakistan and Iraq.

In the case of carpets and other textile floor coverings, the top markets are Afghanistan, US, UAE, Iraq and Lebanon.

In the case of salt, sulphur, lime and cement, China and Iraq are the largest export markets, together accounting for 59% of Iran's total exports in 2010. Turkmenistan, Azerbaijan and Afghanistan are other key markets

for Iran's salt, sulphur, lime and cement exports.

As regards edible vegetables, Iraq is the largest market, accounting for as much as 63% of Iran's total imports in 2010, while Russia, UAE, Azerbaijan and Turkmenistan are other key markets.

Major Import Items

Trends in Iran's imports of major commodities have been presented in **Table 2.2**. Machinery and related products are the largest item in

Iran's import basket, followed by iron and steel, electrical and electronic equipment, vehicles, cereals, plastics and articles, and articles of iron or steel.

Imports of machinery and instruments, the largest item in Iran's import basket, amounted to US\$ 11.6 bn in 2010, with a share of 21% in the country's total imports. UAE is the primary source of imports, accounting for as much for as 30% of Iran's imports of these items, followed by China (15%) and Germany (13%).

Iron and steel imports, which accounted for 14% of Iran's total imports, is the second largest item imported by Iran. The major supplier, UAE, accounted for 45% of Iran's imports of iron and steel, followed by South Korea (14%), Germany (8%), Turkey (6%) and China (3%).

As regards electrical & electronic equipments imports, which constitutes 5.5% of Iran's total imports, UAE again dominated as the main source of Iran's imports, accounting for 37% of Iran's imports, followed by China

(20%). Other important sources of Iran's imports of electrical and electronic equipments include Germany, South Korea, France, Italy, Turkey and India.

Vehicles other than railways accounted for 4.5% of Iran's total imports in 2010. UAE was the major supplier to Iran, accounting for 23% of Iran's total imports, followed by South Korea (22%), China and Sweden (9% each). Other important sources include Japan, Germany, France and Kuwait.

Table 2.2 : Iran's Imports of Major Commodities in 2001, 2005 & 2010 (US\$ mn)

HS Code	Commodities	2001	Share in total (%)	2005	Share in total (%)	2010	Share in total (%)	CAGR (%) 2001-2010
	All products	16173.1	100	38674.7	100	54697.2	100	14.4
84	Machinery & instruments	3731.0	23.1	9520.6	24.6	11589.6	21.2	13.4
72	Iron and steel	1526.7	9.4	4069.2	10.5	7706.8	14.1	19.7
85	Electrical, electronic equipment	1338.9	8.3	2758.1	7.1	3018.5	5.5	9.4
87	Vehicles other than railway	1182.6	7.3	1111.4	2.9	2479.6	4.5	8.6
10	Cereals	1445.1	8.9	960.5	2.5	2284.8	4.2	5.2
39	Plastics and articles	526.8	3.3	1423.6	3.7	2165.0	4.0	17.0
73	Articles of iron or steel	471.0	2.9	1153.3	3.0	1838.2	3.4	16.3
27	Mineral fuels, oils	561.9	3.5	3750.0	9.7	1472.5	2.7	11.3
90	Optical, photo, technical apparatus	438.9	2.7	725.5	1.9	1393.0	2.5	13.7
30	Pharmaceutical products	393.5	2.4	593.8	1.5	1255.2	2.3	13.7
48	Paper & paperboard	372.6	2.3	719.0	1.9	1148.5	2.1	13.3
29	Organic chemicals	384.2	2.4	743.6	1.9	1146.3	2.1	12.9
15	Animal, vegetable fats and oils	396.4	2.5	653.8	1.7	1137.7	2.1	12.4
23	Residues, wastes of food industry	202.9	1.3	108.7	0.3	843.5	1.5	17.1
17	Sugars and sugar confectionery	187.0	1.2	138.7	0.4	790.0	1.4	17.3
40	Rubber and articles	213.6	1.3	383.7	1.0	775.8	1.4	15.4
38	Miscellaneous chemical products	435.5	2.7	464.4	1.2	738.8	1.4	6.0
44	Wood and articles of wood	53.8	0.3	196.0	0.5	619.8	1.1	31.2
76	Aluminium and articles	149.6	0.9	364.8	0.9	582.3	1.1	16.3

Source: Trade Map, ITC Geneva

3. India's Trade and Economic Relations with Iran

TRENDS IN INDO-IRAN TRADE

Trade relations between India and Iran have witnessed a significant rise, during the last decade, with India's total trade (exports plus

imports) with Iran rising from US\$ 520 mn in 2001 to US\$ 10.5 bn in 2010. This buoyant trend has been supported by both rise in India's exports to and imports from Iran, with India's imports showing a much higher CAGR as compared to India's exports to Iran (**Table 3.1 & Chart 3.1**).

India's trade balance with Iran which showed a surplus of US\$ 428.8 mn in 2005, moved into a deficit of US\$ 4.3 bn in 2006

owing to sharp increase in oil imports. By 2010, the trade deficit stood at US\$ 5.5 bn.

In 2010-11, Iran was India's thirteenth largest trading partner, with a share of 2.1% of India's total trade. During the same year, Iran was the seventh largest source of imports for India, with a share of 3% of India's total imports, and the twenty-fourth largest export markets, with a share of 1.1% of India's total exports.

Table 3.1 : India's Trade with Iran, 2001 - 2010 (US\$ mn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR(%) 2001-2010
Export	253.3	492.2	893.0	1185.0	1073.0	1617.3	1845.3	2335.9	1949.1	2509.3	29.0
Import	266.9	254.2	267.7	355.9	644.2	5918.1	9165.6	13791.5	10591.7	7999.9	45.9
Total Trade	520.2	746.3	1160.7	1540.9	1717.2	7535.4	11010.8	16127.4	12540.8	10509.2	39.6
Trade Balance	-13.7	238.0	625.3	829.1	428.8	-4300.7	-7320.3	-11455.6	-8642.6	-5490.7	

Source: Trade Map, ITC Geneva

Chart 3.1 : India's Trade with Iran, 2001 - 2010 (US\$ bn)



Source: Trade Map, ITC Geneva

India's Major Exports to Iran

During 2001-2010, India's exports to Iran have risen close to ten-fold, from US\$ 253.3 mn in 2001 to US\$ 2.5 bn in 2010, due to rise in exports of inorganic chemicals, cereals, iron and steel and articles of iron or steel to Iran (**Table 3.2**). India's exports basket to Iran is dominated by inorganic chemicals, articles of iron or steel and cereals, with these three items accounting for a significant

50.6 % of India's total exports to Iran in 2010.

India's Major Exports to Iran and Share in Iran's Global Imports

While India's overall exports to Iran have depicted a robust trend in recent years, an analysis of the share of India's major exports to Iran vis-à-vis Iran's global imports of these items would reveal the tremendous scope to enhance India's exports to Iran.

This analysis has been presented in **Table 3.3**. The following observations can be discerned from the table:

- In the case of coffee, tea and spices (HS-09), manmade filaments (HS-54), articles of iron and steel (HS-73), cereals (HS-10), manmade staple fibres (HS-55) and cotton (HS-52), India is a major source for Iran's imports, accounting for a significant share in Iran's global imports;

Table 3.2: Trends in India's Exports of Major Commodities to Iran, 2001-2010 (US\$ mn)

HS Code	Commodities	2001	2005	2006	2007	2008	2009	2010
	All products	253.3	1073.0	1617.3	1845.3	2335.9	1949.1	2509.3
28	Inorganic chemicals	6.7	33.3	66.0	33.2	86.7	38.7	465.7
73	Articles of iron or steel	10.1	104.0	130.2	94.7	123.1	175.2	435.8
10	Cereals	0.4	1.5	12.5	3.7	95.2	505.4	369.0
72	Iron and steel	31.4	149.7	133.6	180.1	180.3	199.4	192.0
84	Machinery & instruments	13.4	68.8	75.1	78.4	144.3	118.8	140.7
29	Organic chemicals	25.4	54.7	100.6	91.1	91.9	87.3	90.9
85	Electrical, electronic equipment	16.3	29.9	44.4	71.8	73.4	69.5	90.4
09	Coffee, tea, mate and spices	19.1	20.4	24.2	41.2	57.0	44.8	76.4
55	Manmade staple fibres	3.2	10.0	19.0	20.1	18.8	38.0	67.1
30	Pharmaceutical products	12.9	26.4	20.6	22.4	37.6	48.2	54.1
54	Manmade filaments	6.2	16.9	24.3	19.6	41.1	30.7	53.3
40	Rubber and articles thereof	15.1	21.1	36.4	47.1	49.9	40.9	46.4
02	Meat and edible meat offal	15.5	14.6	27.4	20.6	26.2	11.1	44.1
87	Vehicles other than railway	6.5	18.3	24.0	23.0	26.9	19.0	42.1
38	Miscellaneous chemical products	4.8	24.3	27.0	35.9	48.0	35.0	36.4
27	Mineral fuels & oils	0.2	337.0	687.7	870.6	983.1	287.8	31.7
23	Residues, wastes of food industry	2.6	0.5	0.8	14.4	16.3	29.7	20.3
39	Plastics and articles thereof	5.4	19.8	14.0	22.2	33.9	11.1	19.7
52	Cotton	1.4	3.7	6.1	6.8	18.1	18.0	19.4
48	Paper & paperboard	3.4	6.6	9.0	11.2	13.9	11.5	17.5

Source: Trade Map, ITC Geneva

Table 3.3: India's Major Exports to Iran and Share in Iran's Global Imports, 2010

HS Code	Commodities	Iran's imports from India (US\$ mn)	Iran's imports from the World (US\$ mn)	India's share in Iran's global imports (%)
	All Products	2509.3	54697.2	4.6
73	Articles of iron or steel	435.8	1838.2	23.7
10	Cereals	369.0	2284.8	16.2
72	Iron and steel	192.0	7706.8	2.5
84	Machinery & instruments	140.7	11589.6	1.2
29	Organic chemicals	90.9	1146.3	7.9
85	Electrical, electronic equipment	90.4	3018.5	3.0
09	Coffee, tea and spices	76.4	184.3	41.5
55	Manmade staple fibres	67.1	520.1	12.9
30	Pharmaceutical products	54.1	1255.2	4.3
54	Manmade filaments	53.3	218.8	24.4
40	Rubber and articles thereof	46.4	775.8	6.0
02	Meat and edible meat offal	44.1	890.6	4.9
87	Vehicles other than railway	42.1	2479.6	1.7
38	Miscellaneous chemical products	36.4	738.8	4.9
27	Mineral fuels & oils	31.7	1472.5	2.2
23	Residues, wastes of food industry	20.4	843.5	2.4
39	Plastics and articles	19.7	2165.0	0.9
52	Cotton	19.4	113.9	17.0
48	Paper & paperboard	17.5	1148.5	1.5

Source: Trade Map, ITC Geneva

- However, in the case of other major exports to Iran, the share of India in Iran's basket is low. In particular, the low share of India in Iran's import basket in items like machinery and instruments (HS-84), iron and steel (HS-72), electrical and electronic equipments (HS-85), plastics and articles (HS-39), would serve to highlight the tremendous

scope to enhance such exports to Iran.

India's Imports from Iran

As regards India's imports from Iran, mineral fuels and oils dominate the import basket, accounting for as much as 84.5% of India's total imports from Iran (Table 3.4).

In 2010, Iran was the third largest source of imports of mineral fuels and oils for India, accounting for 8.2% of India's total imports of mineral fuels. Iran is also a major source for India's imports of plastics and articles as well as fertilizers, ores slag and ash with a significant share in India's global imports.

Table 3.4: India's Imports of Major Commodities from Iran, 2001-2010 (US\$ mn)

HS Code	Commodities	2001	2005	2006	2007	2008	2009	2010
	All Products	266.9	644.2	5918.1	9165.6	13791.5	10591.7	7999.9
27	Mineral fuels, oils	34.2	7.1	5077.0	8368.2	12627.1	9584.4	6798.8
26	Ores, slag and ash	4.1	9.4	90.2	157.3	252.6	193.0	306.3
29	Organic chemicals	37.0	141.0	149.8	205.6	294.2	373.4	277.7
31	Fertilizers	-	2.7	1.3	0.1	1.5	74.4	161.2
28	Inorganic chemicals, precious metal compound	30.3	47.0	84.8	35.9	231.5	106.7	140.2
39	Plastics and articles	-	4.2	29.6	8.6	11.0	55.1	107.4
25	Salt, sulphur, lime, cement	15.8	40.7	34.2	41.2	156.3	23.2	49.6
08	Edible fruit, nuts	47.8	53.8	60.9	69.5	51.9	30.9	30.8
38	Miscellaneous chemical products	0.1	2.6	16.1	16.2	25.8	27.8	27.6
79	Zinc and articles	7.7	42.7	121.2	52.3	31.2	29.8	21.9
72	Iron and steel	2.6	152.1	140.8	90.2	9.2	48.9	17.1
84	Machinery & instruments	0.5	1.1	1.2	0.4	0.5	0.3	13.2
10	Cereals	-	-	-	-	-	0.1	10.8

-Not available/negligible

Source: Trade Map, ITC Geneva

INDIA'S ECONOMIC RELATIONS WITH IRAN³

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 New Delhi on July 8-9, 2010. During the JCM, 6 MoUs/agreements were signed: (i) Air Services Agreement; (ii) Agreement on Transfer of Sentenced Persons; (iii) MoU on Cooperation in New & Renewable Energy; (iv) MoU on Cooperation in Small Scale Industry between National Small Industries Corporation (NSIC) and Iranian Small Industries and Industrial Parks Organisation (ISIPO);

(v) Programme of Cooperation on Science & Technology and (vi) MoU on Cooperation between Central Pulp and Paper Research Institute of India (CPPRI) and Gorgan University of Agricultural Science and Natural Resources (GUASNR).

Joint ventures between India and Iran include the Irano - Hind Shipping Company, the Madras Fertilizer Company and the Chennai Refinery.

Talks are on for setting up a number of projects, which include the IPI gas pipeline project, a long term supply of 5 mn tons of LNG, development of the Farsi oil and

gas blocks, South Pars gas field and LNG project, Chahbahar container terminal project and Chahbahar-Zarand railway project.

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

The State Bank of India (SBI) has a representative office in Tehran. In addition, companies which have a presence in Iran include ESSAR, ONGC Videsh Ltd. (OVL) and TATA.

³'India-Iran Relations', Ministry of External Affairs, Govt. of India, January 2012

4. Potential Areas for Enhancing Bilateral Trade Relations

As highlighted in the previous chapter, bilateral trade relations between India and Iran has witnessed a robust trend, with total trade between the two having stood at US\$ 10.5 bn in 2010. At the same time, bilateral trade balance has been in Iran's favour, with India's trade deficit with Iran amounting to US\$ 5.5 bn in 2010.

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 4.1 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. As can be seen from the table, apart from cereals (HS-10), articles of iron or steel (HS-73), organic chemical (HS-29), rubber and articles (HS-40) and manmade staple fibres (HS-55), India's share in Iran's major imports is still low, which highlights the potential for enhancing these exports to Iran.

In fact, India's share in the top four 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 criteria, as also on India's global export capability, potential items of export to Iran would include:

- Machinery & instruments (HS-84)
- Iron and steel (HS-72)
- Electrical and electronic equipment (HS-85)
- Vehicles other than railway (HS-87)
- Plastic and articles (HS-39)
- Mineral fuels & oils (HS-27)
- Optical, photo and medical apparatus (HS-90)
- Pharmaceutical products (HS-30)
- Residues, wastes of food industry (HS- 23)
- Sugar and sugar confectionery (HS-17)
- Misc. chemical products (HS-38)
- Aluminium and articles (HS-76)
- Edible fruits (HS-8)
- Oilseed (HS-12)

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, has been undertaken (**Annexure III**).

Table 4.1: Iran's Major Imports and India's Share, 2010

HS Code	Commodities	Iran's Imports from World (US\$ mn)	Iran's Imports from India (US\$ mn)	India's Share in Iran's Imports (%)	India's Global Exports (US\$ mn)
Total	All products	54697.2	2509.3	4.6	220408.5
84	Machinery & instruments	11589.6	140.7	1.2	8149.8
72	Iron and steel	7706.8	192.0	2.5	6996.2
85	Electrical, electronic equipment	3018.5	90.4	3.0	8706.5
87	Vehicles other than railway	2479.6	42.1	1.7	9285.9
10	Cereals	2284.8	369.0	16.2	2923.7
39	Plastics and articles	2165.0	19.7	0.9	3630.3
73	Articles of iron or steel	1838.2	435.8	23.7	6367.7
27	Mineral fuels, oils	1472.5	31.7	2.2	37984.1
90	Optical, photo, technical, apparatus	1393.0	10.9	0.8	1440.8
30	Pharmaceutical products	1255.2	54.1	4.3	6096.1
48	Paper & paperboard	1148.5	17.5	1.5	784.2
29	Organic chemicals	1146.3	90.9	7.9	8592.7
15	Animal, vegetable fats and oils,	1137.7	2.3	0.2	716.3
23	Residues, wastes of food industry	843.5	20.3	2.4	2066.6
17	Sugars and sugar confectionery	790.0	6.8	0.9	1039.9
40	Rubber and articles	775.8	46.4	6.0	1675.4
38	Miscellaneous chemical products	738.8	36.4	4.9	2070.1
44	Wood and articles of wood, wood charcoal	619.8	0.7	0.1	163.8
76	Aluminium and articles thereof	582.3	5.6	1.0	1328.0
08	Edible fruit, nuts	571.1	7.7	1.4	1088.7
12	Oil seed, oleaginous fruits, grain, seed, fruit, etc, nes	545.7	6.9	1.3	1084.4
55	Manmade staple fibre	520.1	67.1	12.9	1621.8

Source: Trade Map, ITC Geneva

Machinery & Instruments (HS-84)

Machinery and instruments are the largest item in Iran's import basket, amounting to US\$ 11.6 bn in 2010, with a share of 21.2% of Iran's total imports. The major suppliers to Iran are UAE, China, Germany and Italy (Table 4.2). While India's exports of these items to Iran have risen from US\$ 75.1 mn in 2006 to US\$ 140.7 mn in 2010, India's share in Iran's imports was marginal at 1.2%, which highlights the potential to further enhance these exports to Iran.

According to 6-digit HS commodity classification code, potential items of exports to Iran under this category, based on import demand in Iran and India's export capability, have been presented in Table 4.3.

Table 4.2: Iran's Major Suppliers of Machinery and Instruments (HS-84)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	1547.6	11589.6	100.0	100.0
UAE	-	3416.4	-	29.5
China	599.4	1719.5	38.7	14.8
Germany	-	1529.1	-	13.2
Italy	-	1157.8	-	10.0
South Korea	-	547.6	-	4.7
Turkey	-	443.7	-	3.8
Japan	293.6	404.6	19.0	3.5
France	278.2	251.9	18.0	2.2
Sweden	-	242.0	-	2.1
Spain	-	210.7	-	1.8

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.3: Potential Items of Exports to Iran under Machinery and Instruments (HS- 84)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
840991	Parts for spark-ignition type engines nes	259.6	165.6
840999	Parts for diesel and semi-diesel engines	181.4	456.6
841090	Parts of hydraulic turbines & water wheels	12.9	32.1
841199	Parts of gas turbines nes	883.0	120.1
841430	Compressors of a kind used in refrigerating equipment	264.3	23.3
841440	Air compressors mounted on a wheeled chassis for towing	73.8	31.7
841480	Air or gas compressors, hoods	66.2	241.4
841510	Air conditioning machines window or wall types, self-contained	169.8	17.1
841810	Combined refrigerator-freezers, fitted with separate external doors	128.4	37.8
844250	Printing type, blocks, plates, & other printing components	6.9	20.5
845899	Lathes for removing metal	46.3	37.5
847130	Portable digital computers <10kg	308.8	29.1
847170	Computer data storage units	117.8	121.7
847989	Machines & mechanical appliances nes having individual functions	267.9	113.6
848180	Taps, cocks, valves and similar appliances, nes	164.3	334.4
848210	Bearings, ball	113.8	41.1
848410	Gaskets of metal sheeting combined with other material	23.1	52.2

Source: Trade Map, ITC Geneva

Iron and Steel (HS-72)

Iron and steel are the second largest item in Iran's import basket. In 2010, these imports amounted to US\$ 7.7 bn with a share of 14% in Iran's total import basket. Major suppliers to Iran are UAE, South Korea, Germany, Turkey and China (Table 4.4).

Potential to enhance India's exports to Iran can be accessed from the fact that India's exports of US\$ 192 mn in 2010 accounts for only 2.5% of Iran's total imports, a steep decline from the 16.7% share in 2006.

In light of these, and to enhance these exports to Iran, potential items of exports under this category according to 6-digit HS commodity classification code are presented in Table 4.5.

Table 4.4: Iran's Major Suppliers of Iron and Steel (HS-72)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	797.8	7706.8	100.0	100.0
UAE	-	3430.8	-	44.5
South Korea	-	1038.6	-	13.5
Germany	-	633.6	-	8.2
Turkey	-	456.1	-	5.9
China	95.9	235.2	12.0	3.1
UK	-	209.1	-	2.7
Switzerland	3.5	199.8	0.4	2.6
Japan	132.8	196.8	16.6	2.6
India	133.6	192.0	16.7	2.5
Austria	-	179.2	-	2.3

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.5: Potential Items of Exports to Iran under Iron and Steel (HS- 72)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
720211	Ferro-manganese (weight more than 2% of carbon)	68.1	101.6
720219	Ferro-manganese (weight no more than 2% of carbon)	39.2	31.3
720839	Hot roll iron/steel nes, coil >600mm x <3mm	1098.5	74.5
720851	Hot roll iron/steel, not coil >600mm x >10mm	516.8	47.7
720916	Cold rolled iron/steel, coils >600mm x 1-3mm	60.4	76.5
720917	Cold rolled iron/steel, coils >600mm x 0.5-1mm	204.4	60.6
720918	Cold rolled iron/steel, coils >600mm x <0.5mm	67.2	231.8
721049	Flat rolled prod,i/nas,plated or coated with zinc,>=600mm wide, nes	166.2	662.5
721012	Flat rolled prod,i/nas,plated or coated with tin,>=600mm wide,<0.5mm thk	154.3	66.4
721070	Flat rolled products, painted, varnished	96.6	174.3
721391	Hot rolled bar/rod, irregular coils, <14mm diam	245.2	64.4
721934	Flat rolled prod, stainless steel, cr,w>=600mm,0.5mm<=thick <1mm	87.7	16.3
721990	Flat rolled prod, stainless steel, 600mm or more wide, nes	54.5	33.3

Source: Trade Map, ITC Geneva

Electrical and Electronic Equipment (HS-85)

Iran's imports of electrical and electronic equipments increased more than threefold from US\$ 894.9 mn in 2006 to US\$ 3.0 bn in 2010, accounting for around 5.5% of the country's total imports and ranks as the third largest item in the country's imports. The major suppliers to Iran are UAE, China, Germany and South Korea, with UAE and China together accounting for as much as 57% of Iran's global imports of these items (Table 4.6).

Table 4.6: Iran's Major Suppliers of Electrical and Electronic Equipment (HS-85)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	894.9	3018.5	100.0	100.0
UAE	-	1121.2	-	37.1
China	333.1	609.1	37.2	20.2
Germany	-	197.4	-	6.5
South Korea	-	171.6	-	5.7
France	153.5	91.1	17.2	3.0
India	44.4	90.4	5.0	3.0
Italy	-	79.9	-	2.6
Turkey	-	78.1	-	2.6
Sweden	-	54.7	-	1.8
Hong Kong	15.7	39.8	1.8	1.3
Japan	64.8	39.3	7.2	1.3

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.7: Potential Items of Exports to Iran under Electrical and Electronic Equipment (HS-85)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
850231	Wind-powered generating equipment	6.6	122.9
851140	Starter motors	5.2	51.9
851420	Industrial& laboratory electric induction/dielectric furnaces & ovens	14.1	15.1
852990	Parts suitable f use solely/princ w the app of headings 85.25 to 85.28	282.4	77.3
854511	Carbon or graphite electrodes, of a kind used for furnaces	128.8	211.3

Source: Trade Map, ITC Geneva

Iran's imports from India for this commodity has risen from US\$ 44.4 mn in 2006 to US\$ 90.4 mn in 2010. India accounts for 3% share in Iran's global imports of these items. To enhance exports to Iran, potential items under this category, as per 6-digit HS commodity classification have been presented in Table 4.7.

Vehicles other than Railway (HS- 87)

Iran's import of vehicles other than railway rose from US\$ 623 mn in 2006 to US\$ 2.5 bn in 2010, with the major suppliers being UAE, South Korea and China (**Table 4.8**).

In 2010, Iran's imports of these items from India amounted to US\$ 42.1 mn. accounting for a marginal share of 1.6% of Iran's global imports. With India's export capability and large demand existing in Iran, the potential items of exports as per 6-digit HS commodity code have been presented in **Table 4.9**.

Table 4.8: Iran's Major Suppliers of Vehicles other than Railway (HS-87)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	623.0	2479.6	100.0	100.0
UAE	-	589.2	-	23.8
South Korea	-	559.9	-	22.6
China	319.2	245.1	51.2	9.9
Sweden	-	235.0	-	9.5
Japan	72.6	173.5	11.6	7.0
Germany	-	158.0	-	6.4
France	137.6	71.8	22.1	2.9
Kuwait	54.6	71.7	8.8	2.9
Oman	10.3	66.8	1.7	2.7
Turkey	-	65.3	-	2.6
Spain	-	59.4	-	2.4

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.9: Potential Items of Exports to Iran under Vehicles other than Railway (HS-87)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
870190	Wheeled tractors	64.3	516.9
870321	Automobiles with reciprocating piston engine displacing not more than 1000 cc	7.1	2110.2
870322	Automobiles with reciprocating piston engine displacing > 1000 cc to 1500 cc	14.1	2151.8
870323	Automobiles w reciprocating piston engine displacing > 1500 cc to 3000 cc	219.0	110.0
870410	Dump trucks designed for off-highway use	53.2	310.3
870600	Chassis fitted w engines for the vehicles of heading Nos 87.01 to 87.05	25.7	155.5
870810	Bumpers and parts for motor vehicles	11.4	207.9
870840	Transmissions for motor vehicles	129.2	148.7
870850	Drive axles with differential for motor vehicles	58.5	74.4
871419	Motorcycle parts	74.5	99.5
871499	Bicycle parts	11.9	65.0

Source: Trade Map, ITC Geneva

Plastics and Articles (HS-39)

Iran's imports of plastics and articles increased from US\$ 212.1 mn in 2006 to US\$ 2.2 bn in 2010, with the major suppliers being UAE, South Korea, China and Germany (**Table 4.10**). India's exports of these items to Iran forms a marginal 0.9% of Iran's imports.

Under this category, the potential items of India's exports to Iran, as per 6-digit HS commodity classification are presented in **Table 4.11**.

Table 4.10: Iran's Major Suppliers of Plastics and Articles (HS-39)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	212.1	2165.0	100.0	100.0
UAE	-	565.0	-	26.1
South Korea	-	435.4	-	20.1
China	60.1	260.8	28.4	12.0
Germany	-	170.9	-	7.9
Turkey	-	131.9	-	6.1
Chinese Taipei	-	112.1	-	5.2
Saudi Arabia	-	54.0	-	2.5
Italy	-	44.1	-	2.0
USA	-	35.9	-	1.7
Switzerland	0.4	35.1	0.2	1.6
Belgium	-	33.4	-	1.5
Singapore	-	29.6	-	1.4
France	32.6	27.1	15.4	1.3
Japan	11.5	25.7	5.4	1.2

-Not available/negligible
Source: Trade Map, ITC Geneva

Table 4.11: Potential Items of Exports to Iran under Plastics and Articles (HS-39)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
390110	Polyethylene having a specific gravity of less than 0.94	85.6	23.2
390120	Polyethylene having a specific gravity of 0.94 or more	162.7	77.5
390210	Polypropylene	120.4	800.0
390690	Acrylic polymers nes, in primary forms	94.9	42.0
390760	Polyethylene terephthalate	93.9	458.4
390950	Polyurethanes in primary forms	167.9	16.9
391231	Carboxymethylcellulose and its salts	4.0	12.3
391290	Cellulose derivatives nes, in primary forms	10.6	9.2
391400	Ion-exchangers based on polymers	3.9	17.7
392069	Film and sheet etc, non-cellular etc, of polyesters	8.4	130.5
392329	Sacks and bags (including cones) of plastics nes	6.2	148.1

Source: Trade Map, ITC Geneva

Mineral Fuels and Oils (HS-27)

Iran's imports of mineral fuels and oils amounted to US\$ 1.5 bn in 2010, as compared to US\$ 1.6 bn seen in 2006. Main suppliers in 2010 were Singapore, Ukraine and UAE. India's exports of these items to Iran amounted to US\$ 31.7 mn in 2010, accounting for 2.2% of Iran's total imports, a sharp decline from the 42.3% share in 2006 (**Table 4.12**).

Table 4.12: Iran's Major Suppliers of Mineral Fuels and Oils (HS-27)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	1626.1	1472.5	100.0	100.0
Singapore	-	671.4	-	45.6
Ukraine	-	202.7	-	13.8
UAE	-	182.7	-	12.4
Turkmenistan	-	67.0	-	4.5
Russia	-	50.2	-	3.4
Germany	-	34.1	-	2.3
India	687.7	31.7	42.3	2.2
China	42.8	28.2	2.6	1.9
Saudi Arabia	-	26.1	-	1.8
Bahrain	-	24.5	-	1.7

-Not available/negligible

Source: Trade Map, ITC Geneva

To further enhance India's exports, potential items under this category as per 6-digit commodity classification are presented in

Table 4.13.

Table 4.13: Potential Items of Exports to Iran under Mineral Fuels and Oils (HS-27)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
270400	Coke & semi-coke of coal	407.2	197.9
271011	Aviation spirit	906.3	15071.7
271019	Light petroleum distillates nes	111.8	21029.5
271312	Petroleum coke, calcined	16.3	121.0

Source: Trade Map, ITC Geneva

Optical, Photo and Medical Apparatus (HS-90)

Iran's imports of optical, photo and medical apparatus amounted to US\$ 1.4 bn in 2010, from US\$ 252.1 mn seen in 2006. Main suppliers in 2010 were UAE, Germany and China (**Table 4.14**). India's exports of these items to Iran amounted to US\$ 10.9 mn in 2010, accounting for a marginal 0.8% of Iran's total imports.

With India's export capability and the rising demand in Iran, the potential items of exports under this category, as per 6-digit commodity classification have been presented in **Table 4.15**.

Table 4.14: Iran's Major Suppliers of Optical, Photo and Medical Apparatus (HS-90)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	252.1	1393.0	100.0	100.0
UAE	-	293.4	-	21.1
Germany	-	213.2	-	15.3
China	53.2	129.8	21.1	9.3
UK	-	108.5	-	7.8
Netherlands	36.6	108.5	14.5	7.8
Switzerland	-	99.6	-	7.2
France	50.7	62.7	20.1	4.5
Japan	30.0	57.5	11.9	4.1
South Korea	-	55.6	-	4.0
Italy	-	51.4	-	3.7
Belgium	-	22.5	-	1.6
Thailand	-	20.5	-	1.5

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.15: Potential Items of Exports to Iran under Optical, Photo and Medical Apparatus (HS-90)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
900110	Optical fibres, optical fibres bundles & cables, oth than those of heading 85.44	20.5	85.0
901580	Surveying, hydrographic, oceanographic, meteorological/ geophysical inst	21.0	14.9
901811	Electro-cardiographs	3.1	5.3
901839	Needles, catheters, cannulae and the like, nes	111.9	83.7
902214	X-rays apparatus, medical/ surgical/veterinary use	40.5	137.9
903300	Parts & access nes for machines, appliances, inst or app of Chapter 90	5.4	86.9

Source: Trade Map, ITC Geneva

Pharmaceutical Products (HS-30)

In 2010, Iran's imports of pharmaceutical products amounted to US\$ 1.3 bn, compared to US\$ 204.5 mn in 2006. Imports from India stood at US\$ 54.1 mn with a share of 4.3% in Iran's total imports, a sharp decline from 10.1% share in 2006. The major suppliers to Iran are Switzerland, Germany and France, which together have a market share of 54.3% (Table 4.16).

Table 4.16: Iran's Major Suppliers of Pharmaceuticals (HS-30)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	204.5	1255.2	100.0	100.0
Switzerland	-	260.8	-	20.8
Germany	-	225.5	-	18.0
France	81.9	194.1	40.1	15.5
UAE	-	83.6	-	6.7
Austria	-	82.9	-	6.6
UK	-	63.2	-	5.0
India	20.6	54.1	10.1	4.3
Netherlands	73.9	52.5	36.1	4.2
Italy	-	39.4	-	3.1
Belgium	-	35.1	-	2.8
Denmark	-	34.9	-	2.8
USA	-	21.4	-	1.7
Canada	16.0	20.2	7.8	1.6
South Korea	-	14.1	-	1.1

-Not available/negligible

Source: Trade Map, ITC Geneva

Therefore, efforts to enhance these exports to Iran would entail focus on potential items, as per 6-digit classification code, presented in Table 4.17

Table 4.17: Potential Items of Exports to Iran under Pharmaceuticals (HS-30)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
300310	Penicillin or streptomycin and their derivatives, formulated, in bulk	8.2	71.1
300339	Medicines containing hormones	6.1	156.4
300390	Medicaments	63.8	240.0
300410	Penicillin or streptomycin and their derivatives, in dosage	24.2	259.8
300420	Antibiotics, in dosage	47.6	572.6
300450	Vitamins and their derivatives, in dosage	15.7	221.9
300490	Medicaments nes, in dosage	703.6	3954.7

Source: Trade Map, ITC Geneva

Residues, Waste of Food Industry (HS-23)

Iran's imports of residues and waste of food industry rose to US\$ 843.5 mn in 2010, from US\$ 18.7 mn seen in 2006. Main suppliers in 2010 were Switzerland, UAE and Netherlands together catering to 76.1% of Iran's imports. India's exports of these items to Iran amounted to US\$ 20.3 mn in 2010, accounting for 2.4% of Iran's total imports (Table 4.18).

Table 4.18: Iran's Major Suppliers of Residues, Waste of Food Industry (HS-23)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	18.7	843.5	100.0	100.0
UAE	-	314.2	-	37.3
Switzerland	-	213.0	-	25.3
Netherlands	2.6	113.6	13.8	13.5
Austria	-	40.4	-	4.8
Argentina	-	30.7	-	3.6
Kazakhstan	12.6	23.5	67.3	2.8
India	0.8	20.3	4.3	2.4
Turkmenistan	-	13.5	-	1.6
Azerbaijan	-	12.3	-	1.5
UK	-	12.1	-	1.4
Malta	-	6.7	-	0.8
Germany	-	5.8	-	0.7

- Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.19: Potential Items of Exports to Iran under Residues, Waste of Food Industry (HS-23)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
230400	Soya-bean oil-cake and other solid residues	735.5	1652.7
230649	Oil-cake and other solid residues	6.1	214.1

Source: Trade Map, ITC Geneva

Potential item of exports to Iran as per 6-digit HS commodity code would include soya-bean oil cake and solid residues (Table 4.19).

Sugar and Sugar Confectionery (HS-17)

Iran's imports of sugar and sugar confectionery rose to US\$ 790 mn in 2010, from US\$ 11.3 mn seen in 2006. Main suppliers in 2010 were UAE and Switzerland, together accounting for 82.9% of Iran's total imports. India's exports of these items to Iran amounted to US\$ 6.8 mn in 2010, accounting for a marginal share 0.9% of Iran's total imports (Table 4.20).

Potential export items to Iran under this category, as per 6-digit HS commodity code would include raw sugar and refined sugar (Table 4.21).

Table 4.20: Iran's Major Suppliers of Sugar and Sugar Confectionery (HS-17)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	11.3	790.0	100.0	100.0
UAE	-	543.8	-	68.8
Switzerland	-	111.3	-	14.1
Brazil	-	69.6	-	8.8
UK	-	24.6	-	3.1
Germany	-	23.6	-	3.0
India	0.1	6.8	0.9	0.9
China	0.7	4.0	6.6	0.5
Pakistan	-	3.8	-	0.5
Turkey	-	3.7	-	0.5
Netherlands	0.5	2.5	4.6	0.3
New Zealand	0.3	1.3	2.6	0.2

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.21: Potential Items of Exports to Iran under Sugar and Sugar Confectionery (HS-17)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
170111	Raw sugar, cane	758.9	248.3
170199	Refined sugar	3.5	585.6

Source: Trade Map, ITC Geneva

**Miscellaneous Chemical
Products (HS-38)**

Iran's imports of miscellaneous chemical products amounted to US\$ 738.8 mn in 2010, with the major suppliers being UAE, China and Germany (**Table 4.22**).

India's exports of misc. chemical products to Iran increased from US\$ 27 mn in 2006 to US\$ 36.4 mn in 2010, with a share of 4.9% in Iran's total imports, a sharp decline from the 19.6% share in 2006. To further enhance these exports to Iran, potential items of India's exports as per 6-digit HS commodity code, have been presented in **Table 4.23**.

Table 4.22: Iran's Major Suppliers of Misc. Chemical Products (HS-38)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	137.6	738.8	100.0	100.0
UAE	-	216.2	-	29.3
China	55.1	113.4	40.0	15.3
Germany	-	85.6	-	11.6
France	19.1	47.0	13.9	6.4
India	27.0	36.4	19.6	4.9
Italy	-	26.6	-	3.6
Belgium	-	22.9	-	3.1
Turkey	-	22.4	-	3.0
Malaysia	5.8	22.0	4.2	3.0
Netherlands	14.3	17.0	10.4	2.3
Switzerland	0.1	16.5	0.1	2.2
UK	-	15.7	-	2.1
Japan	8.3	11.7	6.0	1.6

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.23: Potential Items of Exports to Iran under Misc. Chemical Products (HS-38)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
381121	Lubricatg oil additives cntg pet oils/oils obtained from bitu minerals	76.4	26.3
381230	Anti-oxidisg prep & other compound stabilizers for rubber or plastics	32.3	50.0
381511	Supportd catalysts,with nickel/nickel compounds as the active subst	22.9	21.0
381512	Supportd catalysts,w precious metal/ compds thereof as the activ subs	13.4	39.4
381600	Refractory cements,mortars,concretes and similar compositions, nes	30.3	29.2
382311	Stearic acid	14.2	24.1
382370	Industrial fatty alcohols	26.2	93.0
382490	Chemical/allied industry preparations/ prods nes	75.6	103.1

Source: Trade Map, ITC Geneva

Aluminium and Articles (HS-76)

Iran's imports of Aluminium and articles amounted to US\$ 582.3 mn in 2010, with the main suppliers being UAE, China and Tajikistan. India's exports of these items to Iran amounted to US\$ 5.6 mn in 2010, accounting for close to 1% of Iran's total imports, a sharp decline from 11.5% share in 2006 (**Table 4.24**).

Under this category, potential items of India's exports to Iran as per 6-digit commodity classification would include aluminium unwrought, articles of aluminium, aluminium foil and household articles made of aluminium (**Table 4.25**).

Table 4.24: Iran's Major Suppliers of Aluminium and Articles (HS-76)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	73.0	582.3	100.0	100.0
UAE	-	210.9	-	36.2
China	27.8	108.2	38.1	18.6
Tajikistan	-	36.9	-	6.3
Germany	-	36.4	-	6.2
UK	-	34.1	-	5.9
Iraq	-	29.7	-	5.1
Turkey	-	24.6	-	4.2
India	8.4	5.6	11.5	0.96
South Korea	-	17.7	-	3.0
Bahrain	-	13.0	-	2.2
Italy	-	9.9	-	1.7

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.25: Potential Items of Exports to Iran under Aluminium and Articles (HS-76)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
760110	Aluminium unwrought, not alloyed	178.3	770.7
760120	Aluminium unwrought, alloyed	80.0	34.3
760612	Plate, sheet or strip, aluminium alloy, rect or sq, exceeding 0.2mm thick	23.1	56.9
760719	Foil, aluminium, not backed and not exceeding 0.2mm thick, nes	49.6	28.1
761519	Table, kitchen, household goods nes, of aluminium	28.1	58.7
761699	Articles of aluminium	8.5	103.6

Source: Trade Map, ITC Geneva

Edible Fruits (HS-08)

Iran's imports of edible fruits rose to US\$ 571.1 mn in 2010, from US\$ 99.6 mn seen in 2006. Main suppliers in 2010 were UAE, Philippines and Turkey. India's exports of these items to Iran amounted to US\$ 7.7 mn in 2010, accounting for a marginal 1.4% of Iran's total imports (**Table 4.26**).

Under this category, potential items of exports to Iran as per 6-digit HS commodity code, are presented in **Table 4.27**.

Table 4.26: Iran's Major Suppliers of Edible Fruits (HS-08)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	99.6	571.1	100	100.0
UAE	-	215.8	-	37.8
Philippines	90.0	144.3	90.3	25.3
Turkey	-	76.7	-	13.4
Pakistan	5.7	39.0	5.7	6.8
Egypt	2.6	35.8	2.6	6.3
South Africa	-	13.4	-	2.3
Ecuador	-	12.2	-	2.1
India	1.2	7.7	1.3	1.4
China	-	6.9	-	1.2
Cyprus	-	4.6	-	0.8

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.27: Potential Items of Exports to Iran under Edible Fruits (HS-08)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
080132	Cashew nuts, without shell, fresh or dried	3.4	561.9
080300	Bananas including plantains, fresh or dried	392.4	25.1
080450	Guavas, mangoes and mangosteens, fresh or dried	9.9	228.7
080810	Apples, fresh	8.9	13.1

Source: Trade Map, ITC Geneva

Oilseed (HS-12)

Iran's imports of oilseed rose to US\$ 545.7 mn in 2010, from US\$ 80.5 mn seen in 2006. Main suppliers in 2010 were Switzerland, UAE and Netherlands, with Switzerland and UAE catering to 75% of Iran's imports. India's exports of these items to Iran amounted to US\$ 6.9 mn in 2010, accounting for 1.3% of Iran's total imports (Table 4.28).

Table 4.28: Iran's Major Suppliers of Oilseed (HS-12)

	Value (US\$ mn)		% share in Iran's imports	
	2006	2010	2006	2010
World	80.5	545.7	100.0	100.0
Switzerland	-	271.0	-	49.7
UAE	-	139.4	-	25.5
Netherlands	50.2	30.7	62.4	5.6
Argentina	-	25.8	-	4.7
UK	-	18.3	-	3.3
Afghanistan	-	9.8	-	1.8
India	0.6	6.9	0.7	1.3
France	-	5.3	-	1.0
Pakistan	0.9	5.0	1.1	0.9
Paraguay	5.0	4.9	6.2	0.9

-Not available/negligible

Source: Trade Map, ITC Geneva

Table 4.29: Potential Items of Exports to Iran under Oilseed (HS-12)

Under this category, potential items of exports to Iran, as per 6-digit HS commodity code, are presented in Table 4.29.

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
120220	Ground-nuts shelled	10.7	392.2
120740	Sesamum seeds	22.5	455.6
120991	Seeds, vegetable, nes for sowing	60.2	22.0
120999	Seeds, fruit and spores for sowing, nes	11.6	12.5

Source: Trade Map, ITC Geneva

5. Observations and Recommendations

As observed in the preceding paragraphs, India's trade relations with Iran has witnessed a robust trend in recent years, with total bilateral trade between the two countries having risen from US\$ 520 mn in 2001 to US\$ 10.5 bn in 2010⁴. As per Ministry of Commerce and Industry, Government of India, bilateral trade between the two countries had reached US\$ 13.7 bn during the fiscal year 2010-11. The two countries aim to increase their bilateral trade to US\$ 25 bn by 2015⁵.

India is a major source for Iran's global imports of organic chemicals, cereals, articles of iron or steel and manmade staple fibres, accounting for a significant share in Iran's global imports. However, in the case of other major commodities imported by Iran, such as machinery and instruments, iron and steel, pharmaceuticals, vehicles other than railway, India's share in Iran's global imports is low, and in

some cases has even declined over the years. Given India's export capability in these sectors, and the huge demand existing in Iran, potential exist to further enhance India's trade relations with Iran in line with potential sectors which present export opportunities for India.

With India's trade deficit with Iran witnessing a rising trend in recent years, strategy to enhance trade relations with Iran, and thereby bridge the rising trade gap, would entail identification of potential items of India's exports (upto 6-digit commodity classification) in line with Iran's imports demand and India's export capabilities, which has been undertaken in this study, as also identification of potential exporters who could benefit from prevailing and future market opportunities in Iran.

Towards this end, Industry Associations and Chambers of Commerce and Industries could focus on the potential items and sectors identified to boost trade between the two countries. Various trade promoting activities such as organizing Business to Government (B2G) and Business-to-Business (B2B) delegation visits relating to identified

potential sectors; organizing fairs and exhibitions in Iran to showcase competencies of Indian corporate and to capture market opportunities; and tie-ups with select industry associations/chambers in Iran in potential sectors would serve to strengthen India's trade linkages with Iran.

Trade with Iran – Facilitation

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;

⁴ As per Trade Map, ITC, UNCTAD.

⁵ Economic Times, “India, Iran look at \$25 billion trade by 2015”, March 12, 2012 (Online edition).

(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.

In light of the huge potential to enhance India's exports to Iran and thereby boost bilateral trade relations, such endeavours to facilitate bilateral trade and payments system would need to be encouraged, while efforts would need to be made to ensure the smooth functioning of this payment arrangement so that Indian exporters to Iran are benefitted.

ANNEXURE I

INTERNATIONAL SANCTIONS AGAINST IRAN⁶

The international sanctions enforced against Iran impose significant constraints on the ability of foreign firms to invest in Iran, as well as domestic companies to trade with the West. Sanctions commonly bar nuclear, missile and certain military exports to Iran; investments in oil, gas and petrochemicals; exports of refined petroleum products; business dealings with the Iranian Republican Guard Corps; banking and insurance transactions, including with the Central Bank of Iran; and shipping.

UN Sanctions

The UN ratified four rounds of sanctions against Iran between 2006 and 2010 in reaction to its refusal to halt uranium enrichment and co-operate with the International Atomic Energy Association (IAEA). These sanctions include a ban on the supply of heavy weaponry and nuclear-related technology to Iran, a block on Iranian arms

exports, and an asset freeze on key individuals and companies. Resolution 1929, passed in 2010, mandates cargo inspections to detect and stop Iran's acquisition of illicit materials.

The sanctions also impose a freeze of funds and financial assets owned or controlled by companies or persons associated with Iran's nuclear or missile programmes. Exceptions to this freeze include deals made in prior contracts. The fourth set of sanctions against Iran was passed by the UN in June 2010 as a result of the country's failure to suspend its nuclear enrichment programme. These UN sanctions, which were watered down in order to gain support from Russia and China, target a further 40 companies and organisations, many of which are associated with the Pasdaran, Army of the Guardians of the Islamic Revolution. In addition, the resolution bans Iran from pursuing activity related to ballistic missiles capable of delivering nuclear weapons. It also calls on all countries to co-operate in inspections of cargo if there are reasonable grounds to believe that the cargo could contribute to nuclear programme. Finally, the resolution calls for countries to block financial transactions, including insurance and reinsurance, and ban the licensing of Iranian banks.

Bilateral sanctions against Iran

The US has longstanding comprehensive sanctions in place on Iran. Since April 1980 when diplomatic relations between the two countries were broken, the US has imposed successive rounds of sanctions, citing Iran's support for international terrorism, human rights violations and refusals to co-operate with the 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 and publications.

In early 2010, the Comprehensive Iran sanctions, Accountability and Divestment Act (CISADA) was passed by the US government, which imposed sanctions on companies facilitating trade of refined oil products through insurance, re-insurance and shipping.

A new law signed by US in December 2011, imposed new sanctions on financial institutions dealing with Iran's central bank with intent to hamper Tehran's ability to sell oil abroad.

⁶Dun & Bradstreet; EIU

In late 2011 the US, UK and Canada announced more bilateral sanctions on Iran, in reaction to an IAEA report which suggested Iran's nuclear programme may have a military purpose. The US expanded sanctions to target companies that aid Iran's oil and petrochemical industries, while the UK ordered all British financial institutions to stop doing business with their Iranian counterparts, including the Iranian central bank.

The EU has imposed its own restrictions on trade in equipment which could be used for uranium enrichment and has put in place an asset freeze on a list of individuals and organisations which it believes are helping advance the country's nuclear programme. It has also banned the individuals on the list from entering the EU. In addition, the EU banned the export to Iran of key equipment and technology for the refining and production of natural gas in 2011. In January 2012, the EU agreed to an oil embargo on Iran, effective from

July, and to freeze the assets of Iran's central bank.

Several other countries including Switzerland, Japan, Australia and Canada have also imposed bilateral sanctions on Iran in recent years in response to Iran's lack of co-operation with the IAEA.

Banking Sector Sanctions

In 2006, the US Treasury issued a regulation prohibiting US financial institutions from handling any assets directly or indirectly related to Bank Sedarat. Since then, Bank Sepah, Bank Melli, Bank Mellat and Bank Saderat, the Bahrain based Future bank and the Export Development Bank of Iran have all been designated for their involvement in proliferation activities: designation allows the US authorities to freeze any assets of the banks concerned. In 2008, the EU also froze assets of Bank Melli, Iran's largest bank and in 2010, the EU tightened banking sanctions by stepping

up its monitoring of banks doing business with Iran. In 2011, it sanctioned the Iranian owned Hamsburg based European-Iranian Trade Bank over its alleged links with Iran's nuclear programme.

In 2008, the UN Security Council Resolution (UNSCR) 1803 called for all states to exercise vigilance over activities between financial institutions in their territories and any bank domiciled in Iran (and branches and subsidiaries abroad). In 2010, a new legislation came into force in the US which could result in Washington taking action against any bank that does business with any of the 21 blacklisted Iranian banks. In May 2011, the Bank of Industry and Mine, Iran was the latest institution to be added to the list. As the nuclear issue remains unresolved, there is a risk of additional US action that may further curtail Iranian banking activity.

ANNEXURE II

FOREIGN INVESTMENTS IN IRAN AND INVESTMENT REGULATIONS

RECENT TRENDS IN FDI INFLOWS INTO IRAN

According to UNCTAD's World Investment Report, 2011, FDI inflows into Iran have declined to US\$ 3.1 bn in 2005 to US\$ 1.6 bn in 2008, before picking up in 2009 to reach US\$ 3.6 bn in 2010 (**Table 1**).

As regards FDI inward stock in Iran, cumulative FDI inward stock rose from US\$ 2 bn in 1990 to US\$ 2.6 bn in 2000, and further to US\$ 27.6 bn in 2010 (**Table 2**).

The major sectors of FDI inflows into Iran include: oil and gas industries, vehicle manufacture, copper mining, petrochemicals, foods, and pharmaceuticals. Asian countries such as UAE, Singapore, Indonesia and Oman are among the major investors in Iran.

Table 1: Iran - FDI Inflows, 2005-2010 (US\$ mn)

	2005	2006	2007	2008	2009	2010
FDI Inflows	3,136	1,647	1,670	1,615	3,016	3,617

Source: UNCTAD World Investment Report 2011

Table 2: Iran - FDI Inward Stock, 1990, 2000 & 2010 (US\$ mn)

	1990	2000	2010
FDI Inward Stock	2,039	2,597	27,600

Source: UNCTAD World Investment Report 2011

INVESTMENT LAW, REGULATIONS AND INCENTIVES - HIGHLIGHTS⁷

Foreign Investment Law

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 in April 2011.

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

⁷<http://www.iran-investment.org>, <http://www.investiniran.ir/home-en.html>

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 sectors are:

1. Agriculture
2. Mining
3. 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

4. Electricity, Gas supply
5. Construction
6. Transport and Communications
7. 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% in any one sector or 35% 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 therefrom, 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% of taxable income earned from manufacturing, mining which have or will receive an operating license from the said ministries, are exempt from taxation.
- 100% of income earned through the export of finished industrial goods, and 50% 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 % 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% 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.

ANNEXURE III

POTENTIAL ITEMS OF INDIA'S EXPORTS TO IRAN (AS PER 6-DIGIT HS COMMODITY CLASSIFICATION)

1. Machinery & Instruments (HS- 84)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
840991	Parts for spark-ignition type engines nes	259.6	165.6
840999	Parts for diesel and semi-diesel engines	181.4	456.6
841090	Parts of hydraulic turbines & water wheels	12.9	32.1
841199	Parts of gas turbines nes	883.0	120.1
841430	Compressors of a kind used in refrigerating equipment	264.3	23.3
841440	Air compressors mounted on a wheeled chassis for towing	73.8	31.7
841480	Air or gas compressors, hoods	66.2	241.4
841510	Air conditioning machines window or wall types, self-contained	169.8	17.1
841810	Combined refrigerator-freezers, fitted with separate external doors	128.4	37.8
844250	Printing type, blocks, plates, & other printing components	6.9	20.5
845899	Lathes for removing metal	46.3	37.5
847130	Portable digital computers <10kg	308.8	29.1
847170	Computer data storage units	117.8	121.7
847989	Machines & mechanical appliances nes having individual functions	267.9	113.6
848180	Taps, cocks, valves and similar appliances, nes	164.3	334.4
848210	Bearings, ball	113.8	41.1
848410	Gaskets of metal sheeting combined with other material	23.1	52.2

Source: Trade Map, ITC Geneva

2. Iron & Steel (HS- 72)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
720211	Ferro-manganese (weight more than 2% of carbon)	68.1	101.6
720219	Ferro-manganese (weight no more than 2% of carbon)	39.2	31.3
720839	Hot roll iron/steel nes, coil >600mm x <3mm	1098.5	74.5
720851	Hot roll iron/steel, not coil >600mm x >10mm	516.8	47.7
720916	Cold rolled iron/steel, coils >600mm x 1-3mm	60.4	76.5
720917	Cold rolled iron/steel, coils >600mm x 0.5-1mm	204.4	60.6
720918	Cold rolled iron/steel, coils >600mm x <0.5mm	67.2	231.8
721049	Flat rolled prod,i/nas,plated or coated with zinc,>=600mm wide, nes	166.2	662.5
721012	Flat rolled prod,i/nas,plated or coated with tin,>=600mm wide, <0.5mm thk	154.3	66.4
721070	Flat rolled products, painted, varnished	96.6	174.3
721391	Hot rolled bar/rod, irregular coils, <14mm diam	245.2	64.4
721934	Flat rolled prod, stainless steel, cr,w>=600mm,0.5mm<=thick <1mm	87.7	16.3
721990	Flat rolled prod, stainless steel, 600mm or more wide, nes	54.5	33.3

Source: Trade Map, ITC Geneva

3. Electrical and Electronic Equipment (HS-85)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
850231	Wind-powered generating equipment	6.6	122.9
851140	Starter motors	5.2	51.9
851420	Industrial& laboratory electric induction/dielectric furnaces & ovens	14.1	15.1
852990	Parts suitable f use solely/princ w the app of headings 85.25 to 85.28	282.4	77.3
854511	Carbon or graphite electrodes, of a kind used for furnaces	128.8	211.3

Source: Trade Map, ITC Geneva

4. Vehicles other than Railway (HS- 87)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
870190	Wheeled tractors	64.3	516.9
870321	Automobiles with reciprocating piston engine displacing not more than 1000 cc	7.1	2110.2
870322	Automobiles with reciprocating piston engine displacing > 1000 cc to 1500 cc	14.1	2151.8
870323	Automobiles w reciprocating piston engine displacg > 1500 cc to 3000 cc	219.0	110.0
870410	Dump trucks designed for off-highway use	53.2	310.3
870600	Chassis fitted w engines for the vehicles of heading Nos 87.01 to 87.05	25.7	155.5
870810	Bumpers and parts for motor vehicles	11.4	207.9
870840	Transmissions for motor vehicles	129.2	148.7
870850	Drive axles with differential for motor vehicles	58.5	74.4
871419	Motorcycle parts	74.5	99.5
871499	Bicycle parts	11.9	65.0

Source: Trade Map, ITC Geneva

5. Plastics and Articles (HS-39)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
390110	Polyethylene having a specific gravity of less than 0.94	85.6	23.2
390120	Polyethylene having a specific gravity of 0.94 or more	162.7	77.5
390210	Polypropylene	120.4	800.0
390690	Acrylic polymers nes, in primary forms	94.9	42.0
390760	Polyethylene terephthalate	93.9	458.4
390950	Polyurethanes in primary forms	167.9	16.9
391231	Carboxymethylcellulose and its salts	4.0	12.3
391290	Cellulose derivatives nes, in primary forms	10.6	9.2
391400	Ion-exchangers based on polymers	3.9	17.7
392069	Film and sheet etc, non-cellular etc, of polyesters	8.4	130.5
392329	Sacks and bags (including cones) of plastics nes	6.2	148.1

Source: Trade Map, ITC Geneva

6. Mineral Fuels & Oils (HS-27)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
270400	Coke & semi-coke of coal	407.2	197.9
271011	Aviation spirit	906.3	15071.7
271019	Light petroleum distillates nes	111.8	21029.5
271312	Petroleum coke, calcined	16.3	121.0

Source: Trade Map, ITC Geneva

7. Optical Photo, Technical, Medical etc Apparatus (HS-90)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
900110	Optical fibres, optical fibres bundles & cables, oth than those of heading 85.44	20.5	85.0
901580	Surveying, hydrographic, oceanographic, meteorological/geophysical inst	21.0	14.9
901811	Electro-cardiographs	3.1	5.3
901839	Needles, catheters, cannulae and the like, nes	111.9	83.7
902214	X-rays apparatus, medical/surgical/veterinary use	40.5	137.9
903300	Parts & access nes for machines, appliances, inst or app of Chapter 90	5.4	86.9

Source: Trade Map, ITC Geneva

8. Pharmaceutical Products (HS-30)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
300310	Penicillin or streptomycin and their derivatives, formulated, in bulk	8.2	71.1
300339	Medicines containing hormones	6.1	156.4
300390	Medicaments	63.8	240.0
300410	Penicillin or streptomycin and their derivatives, in dosage	24.2	259.8
300420	Antibiotics, in dosage	47.6	572.6
300450	Vitamins and their derivatives, in dosage	15.7	221.9
300490	Medicaments nes, in dosage	703.6	3954.7

Source: Trade Map, ITC Geneva

9. Residues, Wastes of Food Industry (HS- 23)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
230400	Soya-bean oil-cake and other solid residues	735.5	1652.7
230649	Oil-cake and other solid residues	6.1	214.1

Source: Trade Map, ITC Geneva

10. Sugar and Sugar Confectionery (HS-17)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
170111	Raw sugar, cane	758.9	248.3
170199	Refined sugar	3.5	585.7

Source: Trade Map, ITC Geneva

11. Miscellaneous Chemical Products (HS-38)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
381121	Lubricatg oil additives cntg pet oils/oils obtaind from bitu minerals	76.4	26.3
381230	Anti-oxidisg prep & other compound stabilizers for rubber or plastics	32.3	50.0
381511	Supportd catalysts,with nickel/nickel compounds as the active subst	22.9	21.0
381512	Supportd catalysts,w precious metal/compds thereof as the activ subs	13.4	39.4
381600	Refractory cements,mortars,concretes and similar compositions, nes	30.3	29.2
382311	Stearic acid	14.2	24.1
382370	Industrial fatty alcohols	26.2	93.0
382490	Chemical/allied industry preparations/prods nes	75.6	103.1

Source: Trade Map, ITC Geneva

12. Aluminium and Articles (HS-76)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
760110	Aluminium unwrought, not alloyed	178.3	770.7
760120	Aluminium unwrought, alloyed	80.0	34.3
760612	Plate, sheet or strip, aluminium alloy, rect or sq, exceeding 0.2mm thick	23.1	56.9
760719	Foil, aluminium, not backed and not exceeding 0.2mm thick, nes	49.6	28.1
761519	Table, kitchen, household goods nes, of aluminium	28.1	58.7
761699	Articles of aluminium	8.5	103.6

Source: Trade Map, ITC Geneva

13. Edible Fruits (HS-08)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
080132	Cashew nuts, without shell, fresh or dried	3.4	561.9
080300	Bananas including plantains, fresh or dried	392.4	25.1
080450	Guavas, mangoes and mangosteens, fresh or dried	9.9	228.7
080810	Apples, fresh	8.9	13.1

Source: Trade Map, ITC Geneva

14. Oil Seed (HS-12)

HS Code	Commodities	Iran's Global Imports, 2010 (US\$ mn)	India's Global Exports, 2010 (US\$ mn)
120220	Ground-nuts shelled	10.7	392.2
120740	Sesamum seeds	22.5	455.6
120991	Seeds, vegetable, nes for sowing	60.2	22.0
120999	Seeds, fruit and spores for sowing, nes	11.6	12.5

Source: Trade Map, ITC Geneva