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Iranian economic and financial developments last year

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Despite application of increasingly biting international sanctions (regardless of denials by the Iranian government trying to minimise the impact left by the sanctions), the economy seemed to have witnessed a modest growth which was far below rates registered in previous years.

In fact while restrictions on Iran's access to international banking coupled with tightening US pressures to shoo away potential investors in the oil and gas industry –which constitutes the major source of hard currency for the Iranian state, left its toll in terms of increasingly costly imports and new hardships for the Iranian private sector, no serious or paralysing breakdown imputable to the sanctions was witnessed in any sector of the Iranian economy thanks to a combination of several reasons including the ironical non-integration of the Iranian economy into the global economic systems which feature kept it purportedly less hit in the latest wave of global recession.

The hydrocarbon sector seemed to be marked by some shilly-shallying of major players, hesitant to commit new investments in the face of tough US policy dating to the 1990s D'Amato Act. The government, in turn, persistently claims that American dissuasive policy is a blessing in disguise as it favoured localisation of skills and expertise. Thus, many of the latest contracts for exploration and development of Pars Offshore Field were awarded to Khatam Al-Anbia HQ (affiliated with IRGC and already heavily involved in gigantic onshore development projects such as construction of dams) which, in turn, out-

sourced some of the EPC works to a consortium of Iranian contractors.

In banking, there were moves to facilitate the implantation of foreign banks in Iran. It remains to be seen whether such a measure (which many describe as deplorably belated) would have any positive implications, knowing that it comes against a background of squeezing away the flow of funds and closure of communication channels between the Iranian banks (both public and private) and the international banking community. It is noteworthy that timid reforms in the past aimed, inter alia, at bringing the Iranian banking sector in line with their peers and rendering such symbolic services as the offer and use of international credit cards (Visa, Mastercard etc.) suffered a further setback in the light of stepping up of sanctions. On a relevant note, most state-owned banks are set for privatisation which privatisation is also to include the insurance sector.

On the domestic scene, President's Ahmadi Nejad's second term in office was also marked by tightening and squeezing off public access to credits and facilities despite tough resistance by the bankers. The move, however, was welcomed by low income segments of society which saw in it better chances and prospects to buy homes specially as it came in the wake of growing signs that many well-off Iranians had begun repatriating funds from Dubai, after the property prices crash over there, to reinvest in property development and against a backdrop of hyperinflation featured by skyrocketing real-estate prices which were prompting people to raise mortgages at no less than 29% rate of interest per year either for speculation and better gains or simply because they were fed up with paying spiralling rent.

Basically, last year was also marked by continued drive towards privatisation of key industries with, obviously, holding companies, pension funds and sometimes mysterious cooperatives acting as the front bidders.

Although many economic observers and analysts criticise the lack of transparency characterising some of those privatisations (that was notably the case of the Telecommunication Company of Iran which, although not being listed on the stock exchange, ended up there to be taken over by a previously unheard of organisation in circumstances which many observers dispute for its lack of fair competition, alleged behind-the-scenes price-rigging etc.)

Speaking of Iranian Stock Exchange, the recent global recession seems to be siphoning in a portion (a broker company speaks of no less than \$130 million attracted through its own road show campaign alone), although still a tiny one, of the huge capital the Iranian private sector holds outside of Iran and which by the most conservative estimate, is put, only in Dubai, at several hundreds of billion of dollars. The figure, not inclusive of other preferred investment centres for Iranian funds such as Canada and Turkey, would speak for itself of the huge potential and resources in this field which can be productively tapped and harnessed for national benefit.

Despite positive developments overall (the adoption of a new capital market legislation and a new bylaw facilitating application of Foreign Investments Promotion and Protection Act, enforcement of Art. 44 of the Constitution etc.), it is, nonetheless, unlikely that the Iranian economy will achieve any significant breakthrough in the present context of counter-productive rhetoric and standoff over the nuclear issue and as long as serious confidence-restoring measures have not been introduced.

Financial and corporate

Recommended firms	
Tier 1	Atieh Associates Tavakoli & Shahabi Torossian Avanesian & Associates
Tier 2	Dr Behrooz Akhlaghi & Associates Dr Jamal Seifi & Associates
Tier 3	AA Atai & Associates Adib Law Firm Dr Laya Joneydi & Associates Law Office IRCLS (Hendzadeh & Associates) Law Firm of H Lotfi & Associates

While the number of European investors entering the Iranian market has decreased, investment from other regions has remained stable. There has been a shift to the Gulf countries and to the East, including China and Korea who are investing in petrochemicals and telecommunications. “I feel that European investors in oil, gas and petrochemicals are slowing down. European investors have concerns and are conscious but the Chinese are now frequently in Iran now. They are investing in oil, gas, petrochemicals and telecommunications,” says one partner.

In line with the rest of the world, Iran has been affected by the financial crisis and there has been a slow-down in the economy. “There are those who mostly deal with advice on foreign investment, the impact for them would be important I would think, but for the general law firms the impact is not great,” says a partner.

While international sanctions have affected the financial sector and financing by European banks has slowed down, Iranian law firms have continued to be active in the field of corporate work.

Sectors that are still a priority in Iran are oil, gas and refining, as one partner explains: “There may be some opportunities where foreign countries will come in; we’ve had a number of acquisitions we weren’t expecting to see this year, these have been in the oil and gas sector. There is a lot of room for growth in the market but it hasn’t dried up.”

From an economic point of view these sectors are still very much a priority for investment and expansions. “It’s a mixed year, as you can imagine due to the political climate it’s been difficult and we haven’t seen a trend where investment is growing. It’s been consistent with the reality of this country,” says one partner.

Atieh Associates

Atieh Associates has been active on a number of acquisitions this year across different industry sectors including petrochemical, mining and telecommunications. The firm maintains a strong international client base with the majority of its mandates coming from foreign clients.

“It is one of the leading firms in Iran and offers a European type of service,” says one competitor. The practice is led by Babak Namazi who is a strong presence in the Iranian legal market and is respected by clients and peers alike. Namazi has been active in advising an international organisation on its upstream and midstream investments.

Another transaction involved advising a foreign lender on the financing of a power plant on a build-operate-transfer (BOT) basis. In M&A, Namazi also led a team advising a foreign purchaser on an acquisition in the mining sector.

“Babak is very responsive and always makes himself available even if it is a public holiday,” says one international client, adding: “He has a very client-focused attitude and does everything he can to make sure he delivers a service within the timeframe required and because of this client-focused attitude we see no reason to go to anyone else.”

Leading lawyers

Behnam Khatami
Babak Namazi

Tavakoli & Shahabi

Tavakoli & Shahabi has a strong presence in the Iranian legal market and is respected by competitors for its professionalism and experience. The firm’s leading figure is Cyrus Shafizadeh, who is commended by clients as well as peers. “Cyrus is really a star at that firm,” says one competitor, adding: “He has a modern approach and maintains the firm as a serious contender.”

Clients also highlight Shafizadeh as a leading figure at the firm. “The opinions he has written and the documents he has drafted have been excellent. He is very knowledgeable and gets the job done,” says one international client.

Key transactions the firm has been involved in include advising a packaging company in connection with the acquisition of a local manufacturing site and advising an international airline regarding setting up their operations in Iran. The firm also assisted an international freight forwarding company in the acquisition of a local company.

“One of the difficulties we find is getting lawyers with high levels of English and in that regard we had no problem at all. They did a

good job in translating the local legal culture into an understandable form for us,” says one client.

Leading lawyers

Ahmad Ehtesham
Cyrus Shafizadeh

Dr Behrooz Akhlaghi & Associates

The practice at Dr Behrooz Akhlaghi & Associates is well regarded by clients for its capacity to operate in line with international standards. One client notes: “The firm is professional and capable of providing a service to foreign clients.”

The firm is led by managing partner Behrooz Akhlaghi who has been active on a number of key transactions this year. Market commentators have emphasised that Akhlaghi is not only a highly experienced lawyer but a prominent and respected figure within the legal market. One competitor says: “He is well respected by lawyers in Iran and knows what he is talking about.” Clients were equally impressed: “He is very pleasant and the advice we were getting was very good, timely and very reactive,” says one.

Akhlaghi has been active in advising Persian Gold in the establishment of a corporation that would be active in the field of exploration and exploitation of gold and silver mines. Akhlaghi also advised Etisalat, an Emirati telecommunications corporation, in regards to a national and international public tender for a third-generation public mobile network license.

Clients also spoke highly of Encyeh Seyed Sadr for his proficient manner and capability to provide a prompt and professional service. One said: “He is very responsive and he dealt with urgent matters efficiently.”

Leading lawyers

Behrooz Akhlaghi
Encyeh Seyed Sadr

Other ranked firms

The practice at Dr Laya Joneydi & Associates Law Office has been highlighted by competitors as a reputable firm that is active in the market. The team is led by managing partner Laya Joneydi who is praised by peers: “She is knowledgeable, professional and spends a lot of time on the matters she is dealing with. I have noticed this in several meetings I have had with her,” says one.