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Business Opportunities in Iran *An Interview with Mr. Umit Herguner*

Iran and P5+1 (USA, China, France, Russia, UK and Germany) signed a historic deal on July 14th in the form of Joint Comprehensive Plan for Action (JCPOA). The agreement aims to make Tehran's nuclear program more transparent, in exchange of gradually lifting certain sanctions imposed by the United States, United Nations and European Union.

Umit Herguner traveled to Iran with a group of partners in early September 2015 and held a series of meetings with the representatives of legal and business communities. In this interview, Mr. Herguner shares his observations and insight about what the future holds for Iran in terms of business opportunities and legal environment, as well as Turkey's role in guiding businesses in this new territory.

What are your impressions about the daily life in Iran?

One of the most striking things we have noticed in Tehran is the role of women in social and business life. They appear to be not only taking an active role in the daily life, but also in the business life, as we have witnessed in the meetings we have held.

However, the long-standing sanctions have clearly made a negative impact on everyday economy. There are a lot of things that need to be improved. We have also got the impression that income distribution and social equality will be one of the main issues on the agenda of Iranian policy makers, because the sanctions regime apparently led to the accumulation of wealth in the hands of few. Various political players influence the private sector. There seems to be a constant jockeying of power within the Iranian regime, with significant consequences on business.

Have you noticed any outcome of the nuclear deal signed between Iran and western powers?

The idea that the nuclear agreement would lead to the gradual lifting of sanctions has apparently created a great deal of excitement in international business. All the law firms we have met told us that requests from international firms have rapidly increased over the past two months.

How do you see the legal environment in Iran?

Obviously, their legal system is primarily based on Islamic principles. Law firms are rather small-sized, and it is forbidden for international law firms to enter Iran. But there could be cooperation between them. However, it should be noted that the legal environment is currently not in a position to guide international investors, in case

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they rush into the Iranian market following the lifting of sanctions. While Iran provides a lot of business opportunities, first comers will be in need of qualified legal service. This will be the main challenge of businessmen and lawyers.

How do you assess Turkey's role in Iran's future?

For the Turks, Iranian culture is not a stranger. One third of the Iranian population speaks Turkish. Moreover, Iranian and Turkish languages have a lot of words in common. Even our knowledge of Persian phrases in the game of backgammon helps! This is an invaluable advantage that Turkish people have. Secondly, Turkey has a tradition to do business according to the western culture. For this reason, international investors should see Turkey as a business guide in Iran.

Turkey's role will be especially crucial during the transition phase within the next few years. Turkey is a western oriented country, but we also understand the Iranian culture and language. The two neighboring countries have not fought against each other for 600 years. Turkish Airlines flies to seven different cities in Iran.

Briefly, Turkey is Iran's window to the West, and no other country can replace that role in the foreseeable future. In my opinion, this is the most valuable asset we possess.

What are the sectors that provide opportunities?

Let me start by saying this: doing business in Iran has as much risks as opportunities. The key here is to have institutional partnerships based on contractual guarantees. Turkish companies can undertake every type of business in Iran, but they need to be careful about business and legal risk assessment.

It is true that strategic sectors such as energy and communication look attractive. But contrary to the popular belief, I think Turkish and international businesses should focus on what Iranian consumers need. There are two reasons behind this. First, trust is the main issue for the Iranians, as they are very attentive about national security concerns. It will take long time for big ticket businesses to build trust with Iranian counterparts. Second, as the country integrates with the rest of the world, Iranian population will increasingly become more aware of the need to improve the quality of life. Turkish firms should thus focus on non-security related sectors, such as FMCG, retail and white goods. From olive oil to toys, from automobile to air purifier devices, Iranian market is in need of all types of quality products. Turkish firms should use this opportunity. For the moment, there are more Turkish brands in shopping malls in Germany, than in Iran.

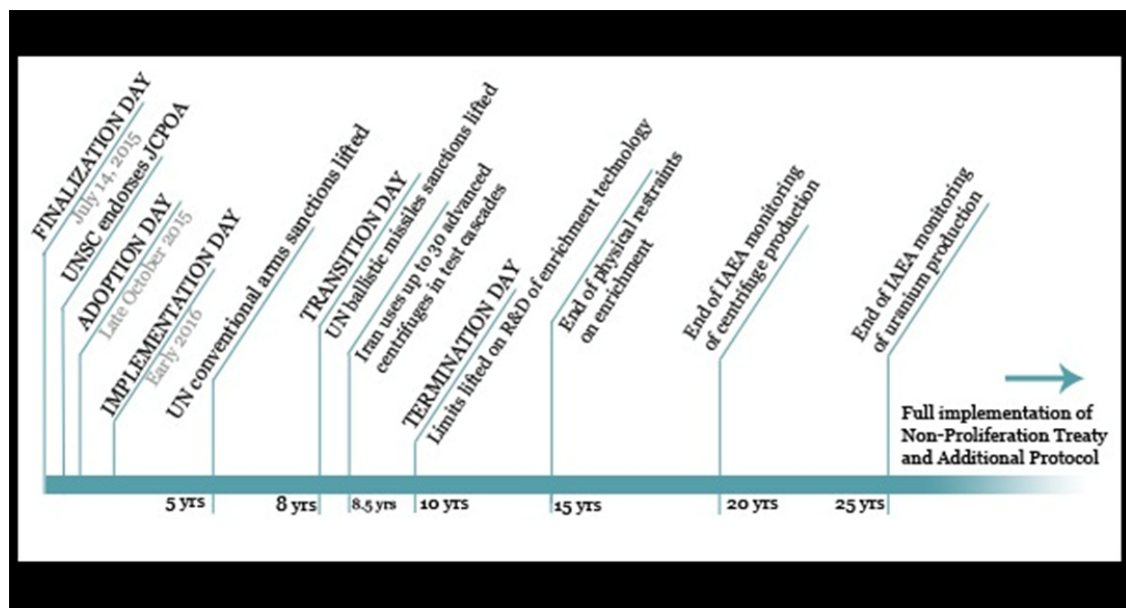
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How does Hergüner law firm assess the Iranian legal and business market?

We already receive questions from our Turkish and international clients about Iran. We will organize a seminar in our offices on “Doing Business in Iran” in mid-October. Our goal is to inform our clients and colleagues who are interested in Iran from various perspectives, including business, political and legal environments.

The challenge Iran faces is the inward looking culture that is caused by the long lasting international isolation. Herguner may play a role in building the bridge between Iran and global legal and business communities, in a manner paying attention to the gradual establishment of more advance rule of law there.

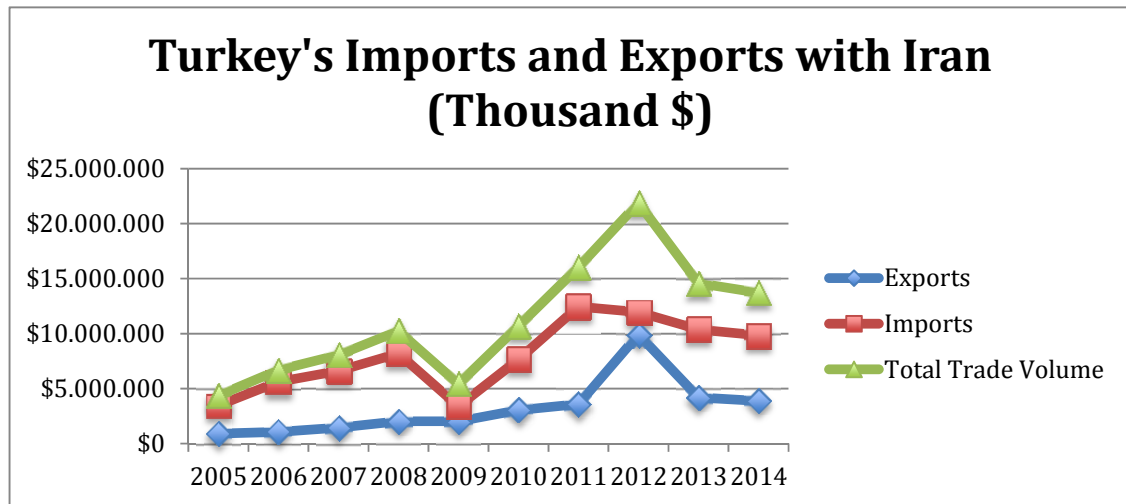
Box: Timeline of Iranian Nuclear Agreement



Source: Brookings Institution

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Chart - 1



Source: TurkStat

Iranian Demographics (InfoGrafik)

Population:

81,824,270 (July 2015 est.)

Population growth rate:

1.2% (2015 est.)

Age structure:

0-14 years: 23.69%

15-24 years: 17.58%

25-54 years: 46.87%

55-64 years: 6.58%

65 years and over: 5.28%

(2015 est.)

Median age:

total: 28.3 years

Life expectancy at birth:

total population: 71.15 years

male: 69.56 years

female: 72.82 years

(2015 est.)

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Urbanization:

urban population: 73.4% of total population (2015)

rate of urbanization: 2.07% annual rate of change (2010-15 est.)

Literacy:

definition: age 15 and over can read and write

total population: 86.8%

male: 91.2%

female: 82.5%

(2015 est.)

Unemployment

Total: 10.8%

Male: 9.0%

Female: 19.2%

(Jun. 2015)

Youth Unemployment (Age 15-24)

Total: 25%

Male: 20.9%

Female: 43.2%

(Jun. 2015)

Overall employment distribution according to sectors

Agriculture: 19.2%

Manufacturing: 33.0%

Services: 47.9%

(Jun. 2015)

Sources: Statistical Center of Iran, CIA World Factbook