

IRAN - LAND OF OPPORTUNITIES

18 March 2016 | Australia, Brisbane, Melbourne, Perth, Sydney
Legal Briefings

Iran represents an important frontier market with significant opportunity for companies in search of growth through acquisition or capital investment. There is potential for early movers to secure attractive projects and capitalise on a government eager to capture foreign investment and know-how at a time when investment in the sector is difficult.

Mining sector opportunities have received less publicity as compared to those in the oil & gas and industrial sectors. However, Iran has the potential to become a major player in minerals. Reportedly there are already around 3,000 privately owned mining operations with most large operations being government owned and capital constrained.

Some fast facts:

Global position:

- holds 7% of the total world's minerals,
- is in the top 15 most mineral rich countries globally, and
- mining represents >30% of Iran's non-oil exports.

Zinc:

- has the world's largest undeveloped zinc reserves, with ~5% of the world's zinc

reserves,

- 300 million tons of proven zinc reserves, only 5.1 million tons have been extracted (less than 0.5% of what is available), and
- zinc smelters operating at <40% of total capacity.

Copper:

- 2.6 billion tonnes of copper reserves, ~4% of global reserves,
- aiming to quadruple annual production to 800,000 tons by 2025, and
- 19 active copper mines extracting 15 million tonnes per annum.

Aluminium:

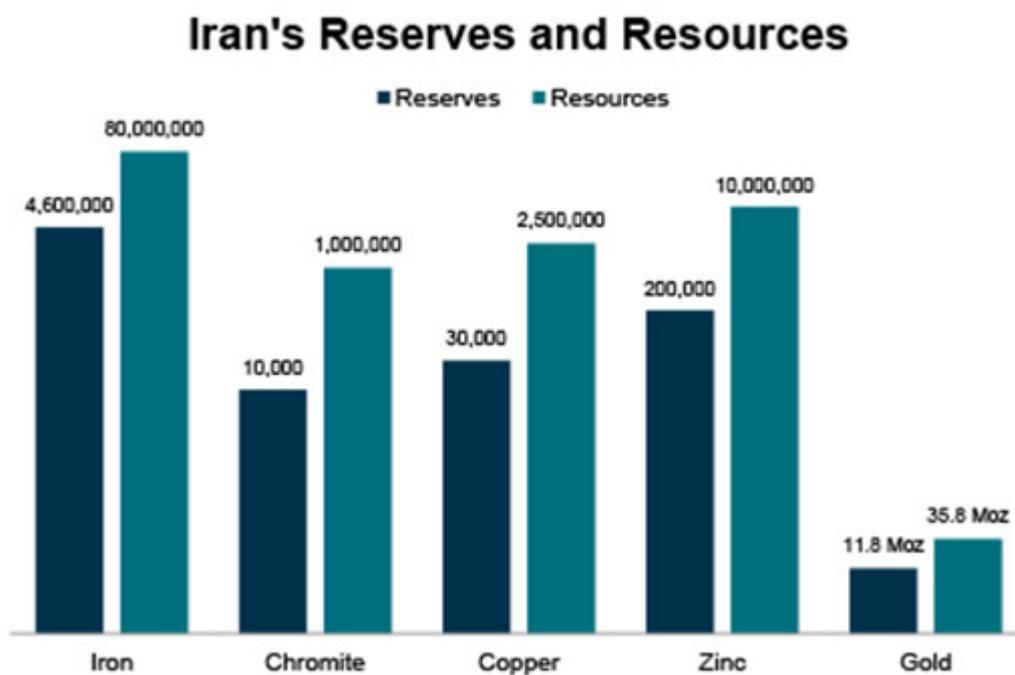
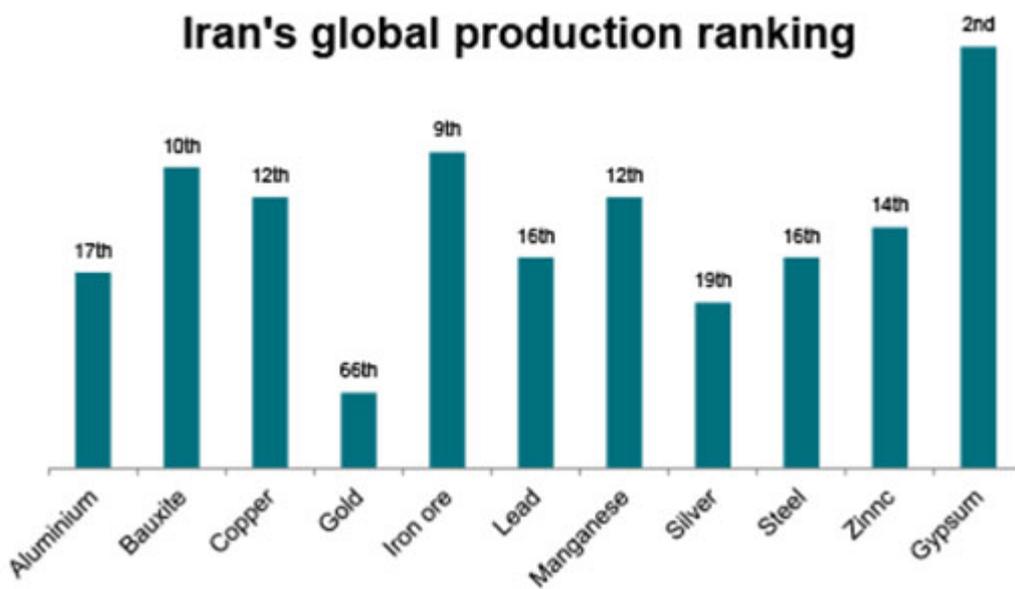
- aims to produce 1.5 million tons of aluminium by 2025, and
- new projects could see Iran become one of the top 10 global producers.

Iron Ore:

- 9th largest iron ore and 14th largest steel producer globally,
- accounts for ~3% of global reserves, but only 1% of production,
- aiming to produce 52 million tons by 2025, more than three times 2013 levels,
- reserves estimated at 4.5 billion tons, with over 200 ore deposits, and
- targeting to more than triple steel capacity within the next 10 years.

Gold:

- probable reserves of 12 million ounces, and
- 15 operating and 9 non-operating mines, but production only 100,000 ounces per annum.



OPERATING ENVIRONMENT

It is estimated that 90% of Iran's mines and mineral deposits have some element of state-ownership. The limited local private investment that exists is predominantly through quasi-government affiliated entities.

However, the Iranian government is committed to developing foreign direct investment in the sector, with focus on the copper, iron ore and aluminium sectors. It is estimated that the Iranian mining sector will need US\$20 billion of investment by 2025.

Foreign investment in minerals before the sanctions had come mainly from Europe, with some from Australia.

POLICY AND LEGISLATIVE ENVIRONMENT

Formation and implementation of Iran's mining policy is undertaken by the state-owned holding company Iranian Mines and Mining Industries Development and Renovation Organisation (**IMIDRO**).

For new projects, private companies can apply to the Ministry of Industry, Mine and Trade for exploration licences. Once minerals are discovered a discovery certificate is issued which can be transferred to another party or used to apply for an extraction licence. Extraction licences are issued by the mining ministry and prescribe the quantity of the minerals that can be mined, with royalties being determined on a case by case basis (though sums are modest).

Iran has an accommodating legislative framework developed to foster direct foreign investment. The Foreign Investment Promotion and Protection Act introduced in 2002 enacts the following key protections for direct foreign investors:

- Permits investment into all areas available to local investors, together with a regime for prompt direct investment approvals.
- No restrictions on the level of foreign ownership for entities and projects.
- Full rights of repatriation of capital and profits.
- Equal treatment as accorded to local investors.
- Certain protections against nationalisation and government interference.

TARGETING OPPORTUNITIES

The Iranian government's initial focus has been on downstream projects, where South East Asian companies are among the first movers.

The identification of upstream opportunities is more challenging. However, we see two key origination sources:

- IMIDRO will likely offer opportunities for both green field and brown field projects and investments (they will need to be compelling in the current environment).
- Local partnerships and joint venture arrangements will be important in unlocking local knowledge. In particular, the involvement of the quasi-government affiliated entities that have been heavily involved in mining could be useful for foreign companies.

The mining industry represents ~25% by market capitalisation of the Tehran Stock Exchange with a total value of approximately US\$30 billion, most of which have some element of government ownership. There is a strong desire to reduce the level of government ownership for Iran's public companies generally. Entry through some of these entities may also be attractive in due course.

This article was written by Robert Nicholson, Partner, Kamran Jamshidi, Senior Associate, Melbourne.

LEGAL NOTICE

The contents of this publication, current at the date of publication set out above, are for reference purposes only. They do not constitute legal advice and should not be relied upon as such. Specific legal advice about your specific circumstances should always be sought separately before taking any action based on this publication.

© Herbert Smith Freehills 2020

SUBSCRIBE TO STAY UP-TO-DATE WITH LATEST THINKING, BLOGS, EVENTS, AND MORE

Close

© HERBERT SMITH FREEHILLS LLP 2020