

## **Euler Hermes study: 4 reasons why German companies could capitalize on Iran**

- German companies extremely strong in sectors set to experience growing demand in Iran
- High appreciation of quality among Iranian population
- Iranian communities in Germany and trade relations with Turkey will open doors
- Machinery, production lines and infrastructure needs – great potential for engineers
- German exports could double despite competition from China.

**HAMBURG - 25 JANUARY 2016** – The lifting of sanctions against Iran offers significant opportunities for German companies, but also entails risks. This is the conclusion reached by Euler Hermes, the worldwide leader in trade credit insurance, in its study ["Iran – back in the game?"](#)

"The economic potentials in Iran are significant, particularly for German exporters," said Ludovic Subran, chief economist at Euler Hermes. "But realistically, it is no El Dorado whose streets will be paved with gold after sanctions are lifted. At least not in the short term, because the financial services sector for example is currently almost non-existent. In the medium and long term however, the country and its 80 million potential customers will become very interesting. Unsurprisingly, the first companies are already under starters' orders."

Why for the German economy in particular? According to Subran, there are four key reasons:

"First, the sectors in which German exporters are particularly strong will experience great demand in the coming years. Second, German industry has an excellent reputation and is synonymous with quality. Iran has a broadly developed economy and a population in which most people are highly educated. Many of its people would love to buy high-end brands, particularly those who remember the much higher standard of living prior to the sanctions. Third, there is a very large Iranian community in Germany, and their bilingualism could smooth the path for German companies in Iran. And fourth, thanks to its long-standing trade relationship, Turkey will open doors for Iran – which in turn will benefit German companies with subsidiaries in Turkey.

### **Strong pent-up demand: cars, food, infrastructure, medicine, production plants, washing machines**

There are also high levels of pent-up demand. From 2011 until today, Iran saw imports decline to the tune of 30 billion euros as sanctions tightened. Foreign products such as household goods are currently very difficult to obtain, as are cars and machinery. Both imports and domestic consumption will therefore rise sharply after Iran opens for business. Thanks to its oil deposits, Iran also has the financial means to finance this demand.

"In a first step, this will lead to increased satisfaction of basic needs: food and health," said Subran.

"Initially there will be increased demand for foodstuffs and pharmaceuticals for medical care. In a second step, the Iranians will buy new cars and replace their dishwashers and other household appliances. Thus, if an Iranian family can currently only afford a cheap dishwasher, which they have to replace more often, they will eventually switch to higher-end products with a longer service life -- and this is precisely what German companies are gearing up for. The machinery in Iran's manufacturing sector is also antiquated. Demand for new machines and spare parts to repair existing production lines are a logical outcome. The country's infrastructure is also decrepit and in need of replacement and modernization."

Automotive, chemical, engineering, medical and pharma companies, construction and construction material companies, as well as manufacturers of consumer goods and foodstuffs, therefore hold a winning hand.



### **German exports could double; competition from China**

The potential is great, even if Germany can only harness part of it. In the best case scenario, German exports could double in the next few years. There will be competition from China, however, which has already been very proactive for years in trading with Iran. The Chinese have handled this very skillfully, and unlike the West, are not bound by sanctions.

"Oil exports from Iran to China are paid for in renminbi for example," said Subran. "Consequently, many Iranian companies and financiers have high reserves in this currency, which more or less forces them to buy Chinese products. This creates a virtual circle in renminbi exports. This could change with the lifting of sanctions and Germany – together with other nations – could challenge the Chinese for market share."

### **Barriers: Financial services sector, currency, credit and political risks**

However, exporters face many potential risks, especially in four areas:

"Sanctions are normally eased in stages," explains Subran. "Based on experience, the financial services sector is usually one of the last. Monetary transactions with Iran have previously been severely penalized by the US. So everyone is waiting for the Americans to take the first step. At the moment however, Iran has no financial services such as banks and insurance. The second risk is currency risk. Unprecedented currency chaos reigns in Iran today – this will continue initially even after sanctions have been lifted. Companies need certainty, for example, about which currency to conduct their business in."

Uncertainty also exists in the general business environment, particularly relating to the pitfalls of a bureaucracy which make doing business anything but simple. Euler Hermes experts also consider credit risk to be high at present.

"The public accessibility of corporate data (e.g. balance sheets) is limited," notes Subran. "Suppliers more or less find themselves buying "blind", with no opportunity to assess the creditworthiness of their customers. Without relevant information or hedging options, there is significant risk. Iran's legal foundations are also relatively insecure at the moment; companies will have to tread carefully with the courts and when dealing with insolvency proceedings."

Added to this is a residual political risk, both nationally and in the region as a whole, including the tensions between Iran and Saudi Arabia. This residual risk includes the extent of the Iranian state's influence on trade after the sanctions have been lifted. It is currently unclear, for example, how and whether the government will impose regulations, e.g. through import restrictions.

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