



Iran Agri-Food Country Profile Statistical Overview August 2004

Forward

This information piece is provided to update the statistical information of existing documents on Iran. Due to recent economic developments an update was deemed necessary.

Economy

Iran's economic structure is comprised of state owned large enterprises, small scale village agriculture and private trading and service business enterprises. Iran's large and fast growing population coupled with their hold on the world's fourth largest oil reserve, make Iran a significant economy. Oil sales account for over one third of the governments total income.

Natural resources and key sectors within Iran's economy - as well as areas for opportunity are oil (roughly 10% of world's oil), gas (15.5% of world's gas), agriculture, mining and minerals, petrochemicals (output of 13 million ons per year one sixth of country's non oil exports), information technology, environment and electric power.

Economic indicators reveal that economic growth cannot keep pace with labor force growth and advancing unemployment rates that are set at 16%, but unofficial estimates reach as high as 30%. Economic growth is a high priority, but one that has proceeded at a reserved pace.

Current Situation

Iran's current situation is highly reflective of two decades of revolution, war and economic struggle. High levels of inflation nearing 16% in 2004, an unemployment rate of 15%, a shortage of investment in key developmental projects as well as a centrally controlled economy spell out numerous barriers to economic growth and stability. However, with a recent rise in oil prices as well as reported overall economic growth, even during a time of regional uncertainty, the outlook

remains encouraging. Iran's current account has benefitted from the rise in oil prices, and the country has been repaying debt. Iran is also relying on this solid growth in their recovery from the devastating earthquake of 2004, the worst the country has seen in years. With promise for consistent growth within the countries key sector, Iran is hopeful that it can rebuild while dedicating money to pay debt and commence key development projects.

Iran's latest five year plan, scheduled to begin in March 2005 is considered economically ambitious, but well timed. It aims to create 700,000 jobs a year and drive the country towards privatization. Also, Iran has scheduled the refurbishing of oil fields to increase oil output with the support of foreign investment. Presently oil exports account for nearly 80% of Iran's exports, more than 80% of Iran's hard currency earnings and 50% of its gross revenue. Positive fluctuations in the sector have far reaching effects on many economic indicators. The foreign direct investment (FDI) will likely flow into the country with more ease, following the approval of a new FDI law that seeks to establish a clear legal framework for foreign investment. The Foreign Investment Promotion and Protection Act addresses the need to entice FDI into Iran.

Iran's presidency plan will follow market reform ambitions, with the hope of achieving diversification of an oil-reliant economy. To date little progress has been made on the economic diversification front. With most economic activity controlled by an often inefficient state sector, changes in economic structure are solely dependent on the state taking considerable action. The new five year plan is a step towards a more

diversified less central economy. The state will focus on an overall liberalization of the economy, which at this point is a necessity and not an option, with demographic and economic pressures pushing for these changes.

Economic Indicators	
GDP	US\$125 billion(2003) US\$145 (2004)
GDP Growth	5% (2003) 4% (2004)
GDP per capita	US\$1,813 (2003) US\$2,112 (2004)
GDP by Sector	
Agriculture	19%
Industry	26%
Services	55%

Forecast

Iran's current president will likely be unable to advance liberalizing policies before his final term is up in mid-2005, due to many powerful institutions being run by conservative minorities.

Recent parliamentary elections have led to a conservative majority which will likely lead to more reliability in government and a likeliness for coherent policy making. The incoming parliament will stand behind their campaign, and work towards improved living standards.

The economic forecast calls for GDP and GDP per capita to grow considerably from 2003 to 2004. GDP will increase by US\$20 billion, while GDP per capita growth will near US\$300. GDP is anticipated to remain close to 2004 standards in 2005 at about 3.9%, while the average rate of inflation is forecasted to fall from a 2003 rate of 16%, to 15.5% in 2004 decreasing further to 14.7% in 2005. This is a refreshing downward trend, but inflationary pressures are expected to remain.

Overall the outlook is positive with anticipated ease of policy making in the new government as well as positive repercussions from increased oil prices and anticipated increase in oil output.

Consumer Market

There seems to be quite a contrast in trends in the Iranian consumer market. On one hand Iran is comprised of a young and economically active population. A demographic shift has resulted in nearly 50% of the population in the under 20 age category and 70% of the population is under 30.

Demographics	
Total Population	70 million
Growth Rate	1.07%
Age Breakdown	
0-14 yrs	28%
15-64 yrs	67%
65 yrs and over	5%
Life Expectancy	
Total	69.5 yrs
Male	68 yrs
Female	71 yrs

These younger groups will generally be experiencing increases in disposable income, this trend coupled with rapid population growth will in turn drive up a demand for all products including food which should lead to an overall diversification of agricultural imports.

Iran's population is increasing urbanized, with 65% of the population living in larger cities. The remainder is divided into market-town, village and tribal settings. Substantial portions of this group as well as the expanding younger population, will fall into the bundle of consumers who are unemployed and have minimal purchasing power. These key factors affect local demand for goods and services, and result in a consumer market that ranges from those likely to demand and consume actively and those who are constrained by low purchasing potential.

Main Cities	
Tehran	12 million
Mashhad	2.9 million
Esfahan	1.5 million
Tabriz	1.2 million
Shiraz	1.2 million

A demand for western products and services does exist, and is an increasing trend in the consumer market. It is deficient marketing, market research, and unreliable distribution methods that are slowing an otherwise forward moving trend. Brand recognition and advertising will continue to be a problem for imported products in Iran as a number of forms of advertising are banned in the country. Also, the government is very firm on what products can and cannot be sold to their citizens therefore putting solid restrictions on import opportunities.

While efforts to modernize the retail sector in Iran have provided the country with more modern stores, the urban bazaar has historically been the heart of the Iranian town. In most areas the bazaar is centrally located and covers a large area with small shops grouped by service or product. An ideal environment for Iranian's to practice their widely used bargaining skills.

Other opportunities for Canadian companies include trade in livestock genetics, including breeding stock, semen and embryos. Also, there exists a demand for new healthful foods, nutraceuticals and halal meat. There is also a demand for agricultural expertise and consulting management, for technology and equipment for food processing, packing, and quality control. Also, technology and equipment related to the handling, storing and transporting of food products as well as technology and equipment related to waste management, pollution cleanup and prevention are in demand. Further needs include technology and equipment for mining, petroleum/gas and natural resource management.

Agriculture

Despite the obvious dominance of oil, agriculture has always been a key economic contributor and employer in Iran. The country's agricultural sector accounts for 19% of GDP, 25% of gross national production (GNP), employs 30% of the labour force, represents 21% of non-oil exports, and some 10.2 million hectares of land are cultivated throughout the country. Despite these strong economic contributors, the sector still struggles with self-sufficiency, and as a result the country is currently one of the world's largest net importers of agricultural products, importing 30-50% of its annual food requirements.

Despite perceptions, only 20% of Iran's total land mass is made up of desert, the remaining area is made up of natural range land, forest, and roughly 20% arable land. The major constraint to further development of the agricultural sector is not the availability of land, rather the availability of water. Only 10% of the country receives adequate rainfall for agriculture, irrigating techniques are heavily relied upon to battle limited water supply.

Much of the arable land is used to grow wheat and barley. These are staple foods and are the main sources of protein in an Iranian diet. Wheat alone represents 50% of land usage, while fruit accounts for 15% of irrigated land. Two farming systems are primarily used to cultivate these lands. Man-made irrigation systems are used in certain areas, while rain-fed and dry farming methods are used in western and north-western Iran.

Iran has become more or less self-sufficient in the production of certain fruits, vegetables and livestock. Livestock raising methods in Iran are generally unsophisticated. Nomadic tribesmen support a few animals as a sideline to farming. Other major agricultural output are nuts, cotton, dairy products, wool and caviar. Despite self sufficiency in some areas, Iran will remain a large importer due to population growth and susceptibility to drought.

Iran has undertaken initiatives to move away from

subsistence agriculture and achieve modernization. These include dam building, subsidization of irrigation and more governmental transparency. The key issue is how rapidly the country should open itself to the modernizing influences of the outside world. The government's last 5 Year Development Plan helped liberalize production and marketing in the sector, allocated foreign exchange at a preferential rate for the import of agricultural machinery and continued to pay subsidies on domestic production. This plan expires in 2005, but similar priorities are expected to extend into the future.

The Ministry of Agriculture has been urging peasants to consolidate their small, scattered farming plots and to form rural production cooperatives (RPC's). Optimally, each RPC will cover 2,000 to 92,500 hectares of land and employ 200 to 250 farmers, who will maintain their individual ownership. While the movement towards RPC's has been slow, it is estimated that by 2022 almost all of Iran's farms will consist of RPC's or large commercial farms.

Despite the importance placed on agriculture, problems plaguing the sector's development remain, including shortages of water, inefficient irrigation, outdated farm machinery, lack of raw materials, and the common practice of subsistence farming. The government has made some progress in developing the sector including the vast improvement of rural infrastructure, such as bringing electricity to rural communities and road building, but the task is far from over.

The high cost of local farming is also a problem facing the sector. This problem is not as easily solved as it is directly attributed to the expense of water. The government heavily subsidizes delivered water for irrigation but suspects that high subsidization of the cost of water is a deterrent to its efficient use. As a result, only about 50% of cultivated land is equipped with full or partial control irrigation. By far, the largest proportion of irrigated land is for wheat. The cost of producing wheat in Iran is far more expensive than importing it, but the government is highly

supportive of local wheat farming because it wants to reduce the country's dependence on imports and enhance food security. As a result, the government chooses to produce up to 70% of Iran's wheat needs.

Trade

Iran reported a trade surplus of US\$4 billion in 2003. Exports totaled US\$30 billion while, imports were valued at US\$26 billion. Both exports and imports increased from 2002 and are likely to continue an upward trend for 2004 trade totals.

Oil and gas industry output accounted for 80% of Iran's total exports in 2003, other top exportable commodities in Iran are chemical and petrochemical products, fruits and nuts, and carpets. Iran's top export destinations are Japan at 17.4%, China at 8.7%, United Arab Emirates 7.6%, Italy 6.5% and South Korea at 5%.

Imports were dominated by capital goods accounting for 60% of the import total, industrial raw materials, intermediate goods, foodstuffs and other consumer goods as well as military supplies. Leading suppliers to Iran are Germany at 11%, Italy at 9%, France at 8%, China at 7% and South Korea at 6.5%.

Trade Agreements

Iran's "Islamic foreign policy" emphasizes support for Muslims globally as well as increasing diplomatic contacts with developing countries. Iran's regional goals are to establish a leadership role in the Middle East, build trade ties and diminish the presence of outside powers in the region. Syria continues to be a significant trade ally to Iran.

Iran maintains diplomatic and commercial relations with Russia and other former Soviet states. Both Iran and Russia agree that their national interest is best served if more development occurred in Central Asia.

Market Access

While Iran has the potential to be a great trading partner, it still remains that this nation has not been overly exposed to the level of capitalism that is known here in North America. This is as a result of deliberate government planning. However the government does wish to establish outside relations in a continuous effort to modernize the country.

Many opportunities for trade exist in Iran, but interested companies must accept a higher level of risk than would be evident in other countries. Import barriers in Iran enforce Islamic law, and prohibit numerous commodities including alcohol and pork.

Iran's import rules and regulations are complex and ever-changing. Each year the Iranian Ministry of Commerce publishes a new handbook on export and import guidelines. As Iran pursues an application for WTO membership, exporting and importing regulations change frequently, as a result it is in the best interest of companies to closely monitor changes by consulting the Canadian Embassy in Tehran - contact information provided at the end of this document.

All imports must be registered with the Ministry of Commerce, from which a general importing license is obtained. Also, in the majority of cases, the importer must have the approval of the relevant ministry for their commodity. In order for an Iranian company to be granted the opportunity to import, the product imported must be classified as one of strategic importance (e.g. wheat, edible oil or specific technology).

In the past Iranian government has banned or heavily restricted through high tariffs, the importation of agricultural products that are produced in Iran. In cases where the country's production cannot meet domestic demand, such products can be imported into the country with the proper Ministry of Commerce and Agricultural Jihad approval.

Market access priorities for 2003 resulted in Iran in 2003 lead to reducing Iran's tariffs on canola oil from 60% in 2001 to 5% in 2003. Iranian importers are no longer bound by strict import permit requirement due to the drastic reduction in restricted imports. Also the importation of processed foods was prohibited to Iran for many years, in 2003 regulations were altered now allowing Canadian processed food items (except for pork and alcohol) to be imported into the country.

Canadian market access priorities for 2004 seek to improve access for trade in livestock and pursue a general protocol between the Iranian Health Ministry and the Canadian Food Inspection Agency to blanket Canadian food manufacturing and products.

Despite recent improvements and ongoing efforts to improve Canadian access to the Iranian market, nearly 80% of the economy is state-owned, making the client - the government. Procurement policies and complexities can lengthen the trade process considerably. As privatization slowly proceeds and Canadian-Iranian efforts to facilitate business continue such barriers will likely dissipate.

For the time being, the Government Trading Corporation of Iran (GTC) is affiliated to the Ministry of Commerce and imports essential commodities such as wheat, sugar, rice, crude vegetable oil, fertilizers, frozen chicken and baby milk powder. These commodities are delivered to the recipient organization(s) and they in turn distribute the commodities inside the country. This is an internal trade agreement between the Iranian Government and the GTC.

Canada - Iran Trade and Investment

Iran-Canada relations have recently entered a stormy phase at a time when the new Iranian conservative government, and their more confrontational approach to policy making may hinder many international relations between Iran and the rest of the world. Fluctuating Canada-Iran

relations are common with diplomatic relations commencing in 1955, ending from 1980-1988 and re-instated in 1988 to present date. These fluctuations are not always indicative of the healthy commercial relationship Canada and Iran have shared, with Iran frequently the largest export destination for Canada within the Middle East. Exchanges will continue in efforts to solidify cultural, bilateral and commercial bonds.

Iranian business people are very keen to find Canadian suppliers for commodities, livestock feed, and certain types of technology and equipment. Although there is limited potential for Canadian value-added agri-food products at present, it is not due to a lack of market demand, but more to import restrictions and local processing capabilities.

While many trade opportunities exist in other sectors, at present Canadian agriculture and agri-food exports are centered around bulk commodities. This sector provides the most vast opportunity for Canadian exporters. In all, it appears Iran's weaknesses are Canadian strengths, creating a highly-beneficial trade opportunity for Canadian companies.

In 2003, Canadian exports to Iran amounted to \$236.8 million, up nearly 40% from 2002, while Iran's exports to Canada amounted to \$63.2 million, up 15% from a year earlier. Iran ranks 46th as an export market for Canadian goods and 75th as a source of imports into Canada.

Imports from Iran were dominated by carpet and rug mill output accounting for 28% of the total market or \$17.8 million. Non-citrus fruit and tree nut farming output represented 24% of Canadian imports from Iran. Fruit and vegetable canning, pickling and drying represented 19% of the import market while aerospace products and parts represented 5%. The 15% increase in Canadian imports from Iran was in most part due to the doubling of the non-citrus fruit and tree nut market.

Exports to Iran in 2003 were dominated by wheat

accounting for \$78.7 million of the market, or 33%. Soybean exports represented 10% of Canadian exports to Iran, while material handling equipment accounted for 7% of exports, and mining and oil and gas - as well as navigational, measuring and medicinal equipment each accounted for 5% of the market. The 40% increase in Canadian exports to Iran is partly explained through the \$44 million dollar increase in the wheat export market as well as the \$15 million dollar increase in material handling machinery exports. Besides these increases, 18 of the top 25 exported commodity categories destined for Iran experienced growth in 2003.

Iran - Canada Bilateral Trade 2003	
Iran Total	US\$56 billion
Exports	US\$30 billion
Imports	US\$26 billion
Trade Balance	US\$4 billion
Total Canadian	\$300 million
Exports to Iran	\$236.8 million
Imports from Iran	\$63.2 million
Trade Balance	\$173.6 million
Canadian Agricultural	\$139.9 million
Exports to Iran	\$108.6 million
Imports from Iran	\$31.3 million
Trade Balance	\$77.3 million

Two-way agricultural trade was valued at \$139.9 million in 2003. Canada's exports were valued at \$108.6 million, and imports from Iran were valued at \$31.3 million resulting in a positive trade balance of \$77.3 million.

Wheat dominated exports accounting for 72.5% or \$78.7 million of Canada's agricultural exports to Iran. This commodity has always been a top export to Iran but amounts can fluctuate from the \$370 million exported in 2001 to the \$34 million in 2002. Wheat imports are closely guided by government, these imports are of strategic importance to the country to meet domestic needs, but government closely protects the commodities that are harvested at home, such as wheat. Canada's wheat exports to Iran are dependent on Iran's domestic capabilities from year to year.

Soya bean represented 21.4% of the market, while animal feed, rape seeds and rape seed oil each represented just under 2% of the market.

Canada imported \$16 million worth of pistachios in 2003, accounting for 51.6% of the agricultural import market from Iran. Dried grapes represented 25% while dates represented 13.8%.

Canada's bulk exports increased from 2002 to 2003 by nearly \$49 million, a direct result of the increase in wheat exports spanning these years. Intermediate goods also increased from \$1.5 million in 2002 to \$4.5 million in 2003, while consumer goods exports remained low but fell from \$432,000 in 2002 to \$313,000 in 2003.

For more information on Iran

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Canadian Trade Commissioner Service - Market Information on Iran:

<http://www.infoexport.gc.ca>

Agri-Food Trade Service At a Glance Fact Sheet:

http://ats.agr.ca/stats/iran_e.htm

Presidency of the Islamic Republic of Iran:

<http://www.president.ir/eng/>

Statistical Centre of Iran:

<http://www.sci.or.ir/index.htm>

Government Trading Corporation:

<http://www.gtcir.com/>