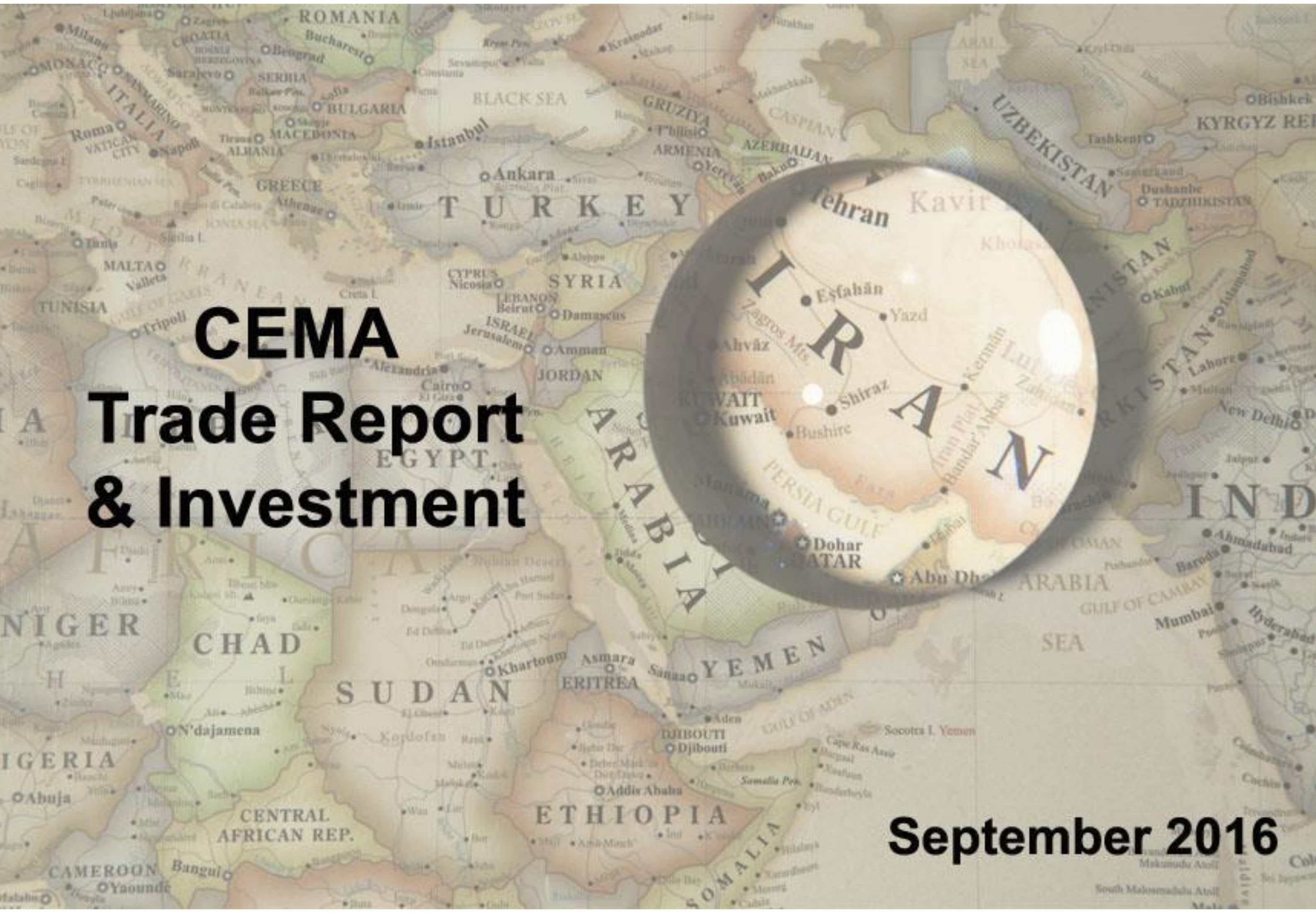
European Agricultural Machinery



CEMA Trade Report & Investment

September 2016

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Foreword

Dear friends and colleagues of CEMA,

I'm extremely honoured to introduce the first trade CEMA report focused on Iran. This report is the outcome of a collective effort and I would hereby like to warmly thank the members of the Public Policy Group for supporting this initiative as well as our CEMA colleague Tim Hamers and my John Deere colleague Nataliya Zinych who actively contributed to this report and who will also co-author the next issues.

The aim of such trade reports is to give a general overview on how the trade climate develops in any non-EU country, which offers a real business potential for our industries.

It is also meant to increase our visibility on trade issues towards EU officials and Brussels-based diplomats who will find here a tribune for expressing their views on market-access in their respective countries.

When we chose Iran for illustrating the first CEMA trade report, I started to review the EU- DG Trade literature available on this country. Below you will find a summary of these summer readings. Hopefully it will give you some insights on how the new cooperation framework will work.

EU trade with Iran: a fresh start based on a robust cooperation framework

Until 2005, the year international sanctions were imposed to restrict Iran's nuclear programme, the EU used to be the first trading partner of Iran. Since then, EU trade with Iran constantly declined. Traditionally, most imports from Iran were energy-related, while EU exports to Iran were mainly high-value goods, such as machinery or transport equipment. Due to the sanctions regime, EU energy imports from Iran came to a complete halt: between 2012 and 2013, EU exports to Iran decreased by 26%, while imports fell by 86%. During, the same period, the United Arab Emirates (UAE) and Turkey became the principal trading partners of Iran, followed by the EU.

In July 2015, negotiations on the Iranian nuclear programme resulted in an agreement on a Joint Comprehensive Plan of Action (JCPOA). The JCPOA aims to ensure the exclusively peaceful nature of Iran's nuclear programme while providing for the comprehensive lifting of all UN Security Council sanctions as well as EU and US sanctions related to Iran's nuclear programme. On 16 January 2016, the EU lifted all its economic and financial sanctions taken in connection with the Iranian nuclear programme.

Since Iran is not a member of the WTO and since there is no bilateral agreement between Iran and the EU in place, trade with Iran is subject to the EU's general import regime. Some trade restrictions will be maintained – like the prohibition of procurement for arms and an embargo on specific products and material – but they should not hamper the European agricultural machinery industry's ability to export to Iran and renew a fruitful relationship with Iranian farmers and importers.

Access to financial markets appears to be a key-factor for developing our business. In this respect, it should be noted that the prohibition of financial transfers to and from Iran (including the notification and authorization regimes) has been lifted. Consequently, transfers of funds between EU persons, entities or bodies, including EU financial and credit institutions, and non-listed Iranian persons, entities or bodies, including Iranian financial and credit institutions are now permitted. The requirements for authorization or notification of transfers of funds are no longer applicable. Banking activities, such as the establishment of new correspondent banking relationships and the opening of branches, subsidiaries or representative offices of non-listed Iranian banks in EU Member States are permitted. Non-listed Iranian financial and credit institutions are also allowed to acquire or extend participation, or to acquire any other ownership interest in EU financial and credit institutions. EU financial and credit institutions are allowed to open representative offices or to establish branch or subsidiaries in Iran to establish joint ventures and open bank accounts with Iranian financial or credit institutions. The supply of specialized financial messaging services, including SWIFT, is allowed for Iranian natural or legal persons, entities or bodies, including Iranian financial institutions. The European Commission is also working with the U.S. Administration so that the United States will soon grant Iran access to American financial markets and the U.S. dollar.

All these recent developments have already led to very significant results: during the last 4 months EU-Iran trade volumes were up by 22%. A promising figure which shows that trade with Iran is gaining momentum – and still holds a lot of potential.

The new spirit of cooperation will persist in the long-term only if all partners can trust each other and if European companies could operate within a robust cooperation framework, which would provide with them the necessary legal certainty to trade.

The parties involved in the shaping of the agreement – China, France, Germany, the Russian Federation, the United Kingdom, the United States, the High Representative of the European Union for Foreign Affairs and Security Policy, and Iran – also reached an agreement on what would happen in the event of a significant non-performance by Iran on its commitments under the JCPOA. After having exhausted all recourse possibilities under the Dispute Resolution Mechanism, the EU could reintroduce the (now lifted) sanctions ("EU snapback"). But the "EU snapback" and the associated sanctions will not apply with retroactive effect. Practically, it means that in the event of the reintroduction of EU sanctions, the execution of contracts concluded in accordance with the JCPOA while sanctions relief was in force will be permitted consistent with previous provisions when sanctions were originally imposed, in order to allow companies to wind down their activities.

This cooperation framework adopted earlier this year should open new business opportunities for our industry. In this respect we can reasonably hope that our equipment will help Iranian farmers to valorize the great potential of Iranian agriculture.

Gilles Dryancour

Chairman of the CEMA Public Policy Group

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Economy

Iran is one of the largest economies in the Middle East with a Gross Domestic Product (GDP) comparable to Austria. Population wise it's the second largest after Egypt and the size of the economy is only superseded by Saudi Arabia.

The Iranian economy is characterized by a large dependency on oil. Due to the low oil prices economic growth was relatively low in 2015. However, there is the expectation it will pick up this year and in the coming years, with growth rates above 4%.

Along with the industries related to oil, there are also other significant industry sectors. The automotive industry is the second biggest in Iran. The overall GDP contribution of industrial sectors amounts to 38.4% as compared with 52.3% from services. The Iranian state is directly or indirectly controlling many parts of the economy.

The Iranian currency, the Rial, is relatively stable with a downward trend in the last three years after a major devaluation in 2013. The devaluation was necessary after the economic sanctions were put in place. Notably, a big discrepancy between the official and free market rate was observed.

Table 1: General economic indicators Iran

Indicator	Iran
Population (2016)	79 million
Total GDP (2015)	394 billion USD
GDP per capita (2014)	5,442 USD per capita
GDP growth, % p.a. (2016)	4.2%
Inflation rate (2015)	13.7%
Currency (2016)	1 euro = 34.107 Iranian Rial
Trade balance (2014)	-7.8 billion EUR
Ease of doing business index (2016)	No. 118

Sources: UN, World Bank, European Commission

Agriculture

Although agricultural production in Iran grew rapidly over the last ten years, it remains rather a complementary part of the economy counting for only 9.3% of GDP. In terms of the agricultural potential, Iran can be compared with Turkey – given a similar amount of arable land, rural and total population, as well as the percentage of agriculture contributing to GDP.

The Iranian agricultural sector is facing significant challenges like other developing economies in the region. Less than one-third of the total country's surface is suited for farmland and of that part large areas are not cultivated. The reason is often the lack of adequate water distribution and poor soil quality.

Furthermore, major structural problems in rural areas are still largely unsolved and agriculture remains quite inefficient with outdated equipment and production methods used. The share of agricultural labour is still relatively high (16.3%). The high unemployment forces many people to work in low-paid agricultural jobs. The availability of cheap labour reduces the need to invest in mechanization. The farm structure with many small

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farm holders and large state-owned farms is also not optimal. The number of farms amounts up to 4 million, whereas an average farm size is ca. 8 ha.

Iranian agricultural policy is developed via Five Years Development Plans (FYDP). The 5th FYDP (2011-2015) included a goal to become self-sufficient regarding food production. Production was supposed to grow via government assistance, tax exemptions, and short-term credit facilities. The latest 6th FDYP (2016-2021) includes the increase of loan provision to farmers and the need to adopt modern technologies in strategic industries like the agricultural sector.

Table 2: Agricultural indicators Iran

Indicator	
Ag GDP share (2014)	9.3% (8.0% in Turkey)
Ag labor share (2014)	17% (men), 22% (women) (15% in Turkey)
Total Agricultural area (2013)	460,900 km² (384,000 km² in Turkey)
Total Arable land area (2013)	144,200 km² (205,500 km² in Turkey)
Arable land per person (2013) (WB)	0.19 ha per person (comparable to Macedonia and Azerbaijan)
Cereal yield (2014) (WB)	1.96 t per ha (comparable to Cyprus and Afghanistan)
Agricultural value import index (2013)	379 (100=2004-2006)
Agricultural value export index (2013)	222 (100=2004-2006)
Crop production index (2013)	116.8 (100=2004-2006)
Livestock production index (2013)	105.4 (100 = 2004-2006)
Ag trade balance (Net exports vs. Net Imports) (2014)	-7.887 billion USD

Sources: World Bank, FAO, WTO

The most valuable agricultural commodities produced in Iran are: chicken, tomatoes, cow milk, wheat, and pistachios. Of these wheat is the staple crop with the biggest production in terms of quantity. Most of the agricultural commodities are produced for internal consumption. The main export products are pistachios and pastry.

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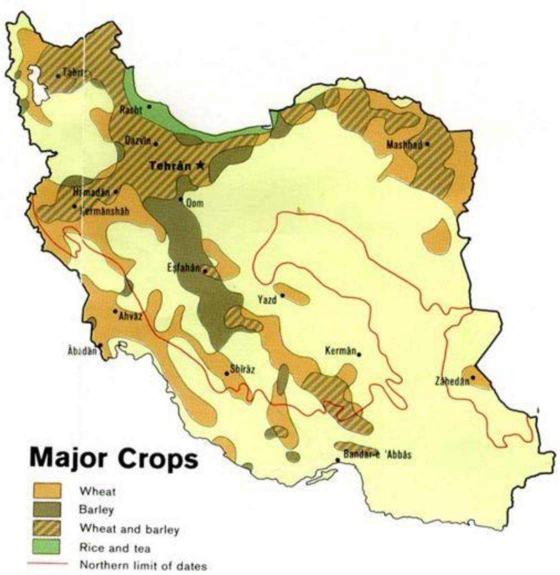
Table 3: Main commodities produced

Commodity	Production value (million USD)	Production quantity (1000 tonnes)
Meat indigenous, chicken	2795	1962
Tomatoes	2281	6174
Milk, whole fresh cow	2137	6850
Wheat	1692	9304
Pistachios	1571	478
Grapes	1169	2046
Potatoes	906	4597
Apples	716	1693
Walnuts, with shell	704	453
Vegetables, fresh nes	687	3646

Source: FAO, 2013

Figure 1: Main crops Iran per region



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Agricultural machinery

Iranian agricultural is less mechanized than Western European markets with only 3.9 tractors per 1000 inhabitants. This level of mechanization is comparable to Bulgaria and Azerbaijan. The machinery market is mostly small tractors with a relatively low value. Export and import of machinery was limited up to recently. For example, the number of tractors imported in 2008 was approximately 2500. It can be expected that the volumes will go up in the coming years.

As the average Iranian farmer is poor and doesn't have access to many funding opportunities purchasing agricultural machinery is difficult. Overall, access to finance remains one of major obstacles to the agricultural economy. The Iranian banking system is still largely disconnected from international financial markets, while Western banks and investor are quite reserved towards re-entering Iran. The EU based companies get now free access to Iranian market, incl. banking operations and 'green-on-green' investments. Yet, they are obviously awaiting more positive signals in terms of mid- and long-term political stability in Iran.

Table 4: Overview agricultural machinery in use (2007)

Machine	Products in use
Agricultural tractors	308422
Combine harvesters - threshers	10880
Balers (straw and fodder balers including pick-up balers)	5050
Ploughs (e.g. reversible and non-reversible ploughs)	289924
Seeders, planters and transplanters	35657
Manure spreaders and Fertiliser distributors	50234
Threshing machines	100748
Milking machines	24065

Source: FAO

Trade

Trade between EU and Iran was rather limited up to the end of the sanctions with total trade in 2015 being 7.7 billion EUR. Over 80% of it was exports from the EU to Iran. It is expected that trade will grow rapidly in the coming years after lifting the sanctions.

The main trading partners for Iranian exports are China, India and Turkey. Imports are mostly coming from the United Arad Emirates and China. Iran experienced large trade surpluses the last fifteen years. However, low oil prices steadily decreased the surplus up to a deficit in 2014.

Exports of agricultural machinery from the EU to Iran were very low. According to figures from DG Trade of the European Commission, the total value of the tractor exports from the EU to Iran was 73 million EUR in 2015. For harvesting equipment, balers, mowers and other agricultural machinery in total the value was 17 million EUR.

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Import duties for agricultural machinery and tractors are ranging from 5% to 15%. The tariffs are often depending on the power of the tractors, whereas smaller tractors face lower import duties. Detailed custom tariffs can be found in Annex I.

Even though most of the sanctions are lifted, several trade restrictions should still be taken into account when trading of Iran.

Annexes VIII and IX to the European Regulation 267/2012 contain a black list. It is prohibited to trade with any of the natural persons or legal entities that are on this list. Furthermore, it is also forbidden to trade with legal entities that are controlled or owned by the persons and entities on this list. The list is mainly targeting the Iranian Revolutionary Guard which is very influential and present in the Iranian economy. Therefore, companies have to be sure about the background of the people they are trading with.

Non dual use items can be exported without any export procedures. Most dual use items can be exported under the same conditions as they can be exported to other destinations. However, there are more stringent procedures for dual use items that can be related to nuclear activities heavy water activities and other specific sectors.

The export of arms or dual use items related to missile technology stays prohibited.

It should be noted that US based companies can still face tougher rules regarding trade with Iran. This is also applicable to companies which are owned or controlled by a US parent company.

There is also the risk of snap-back which is included in the final agreement between the EU/US and Iran. In the agreement it is stated that sanctions can always be imposed again when there is a disagreement about the progress of Iran.

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Annex I

Import duties agricultural equipment Iran

Customs code	Product description	Import duty
8701.00	Tractors (other than tractors of heading 8709):	
8701.1	- Pedestrian-controlled tractors	**5%**
8701.2	- Road tractors for semi-trailers	**20%**
8701.30	- Track-laying tractors:	
8701.30.10	- - Agricultural tractors of a power not exceeding 120 hp	**15%**
8701.30.20	- - Agricultural tractors of a power exceeding 140 hp	**5%**
8701.30.90	- - Other	**5%**
8701.90	- Other:	
8701.90.10	- - Agricultural tractors of a power not exceeding 120 hp	**15%**
8701.90.20	- - Waterproof tractors with special wheels for paddy fields of a power of less than 45 hp	**5%**
8701.90.30	- - Agricultural tractors of a power exceeding 120 hp	**5%**
8701.90.40	- - Agricultural gardening tractors	**10%**
8701.90.90	- - Other	**5%**
8433.00	Harvesting or threshing machinery, including straw or fodder balers; grass or hay mowers; machines for cleaning, sorting or grading eggs, fruit or other agricultural produce, other than machinery of heading 8437:	
	- Mowers for lawns, parks or sports grounds:	
8433.11	- - Powered, with the cutting device rotating in a horizontal plane	**10%**
8433.19	- - Other	**10%**
8433.2	- Other mowers, including cutter bars for tractor mounting	**15%**
8433.3	- Other haymaking machinery	**10%**
8433.4	- Straw or fodder balers, including pick-up balers	**10%**
	- Other harvesting machinery; threshing machinery:	
8433.51	- - Combine harvester-threshers:	
	- - - Wheat combine harvesters:	
8433.51.11	- - - - Of a power of 140 hp or more	**5%**
8433.51.19	- - - - Of a power of less than 140 hp	**15%**
8433.51.20	- - - Track-laying rice combine harvesters with cutting and kernel separating system	**5%**

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Customs code	Product description	Import duty
8433.51.30	- - - Cotton harvesting machines with vaccum mechanism	**5%**
8433.51.90	- - - Other	**5%**
8433.52	- - Other threshing machinery	**5%**
8433.53	- - Root or tuber harvesting machines:	
8433.53.10	- - - Sugar beet combine harvesters	**5%**
8433.53.20	- - - Potato combine harvesters	**5%**
8433.53.90	- - - Other	**5%**
8433.59	- - Other:	
8433.59.10	- - - Vegetable harvesters	**5%**
8433.59.20	- - - Chopper harvesters	**5%**
8433.59.30	- - - Corn harvesters (pickers and huskers)	**5%**
8433.59.40	- - - Corn (seed) harvesters (picker shellers)	**5%**
8433.59.50	- - - Pulse harvesters	**5%**
8433.59.60	- - - Track-laying dates harvesters of a self-propelled type	**5%**
8433.59.70	- - - Harvesters of the shaking and vibrating type	**5%**
8433.59.80	- - - Sugar cane harvesters	**5%**
8433.59.90	- - - Other	**5%**
8433.6	- Machines for cleaning, sorting or grading eggs, fruit or other agricultural produce	**5%**
8433.9	- Parts	**5%**

Source: European Commission Market Access Database

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