

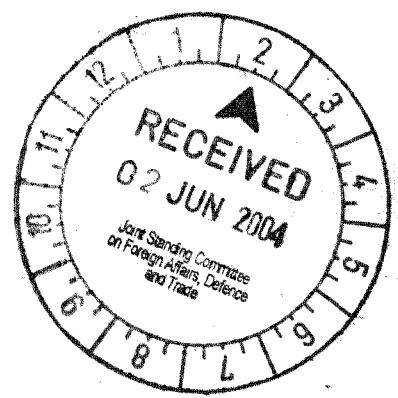


## **Submission No 20**

### **Inquiry into Australia's trade and investment relationship with the economies of the Gulf States**

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25 May 2004

**Committee Secretary**

**Joint Standing Committee on Foreign Affairs, Defence and Trade**

**Parliament House**

**Canberra ACT 2600**

**AUSTRALIA**

I was recently informed that Australia intends to grow the trade and investment relationship in the Persian Gulf States. I, a permanent resident emigrated from Iran last year, am going to participate in the plan in two parts.

The first part relates to my viewpoints and suggestions in the framework of a submission and then follows my expert recommendation for working in the issues of Iran. I think for this important plan having commentary based on environmental recognition and also related skill in law, finance and investment can be useful. In this case, it is attached to my resume for your information.

Your sincerely

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**A Submission to the Joint Standing Committee on  
Foreign Affairs, Defense and Trade**

**Parliament of Australia**

**Inquiry into Australia's Trade and Investment Relationship  
with the Economies of the Gulf States**

**May 2004**

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6/34 Belmore street  
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## **Introduction**

I have been recently informed of the inquiry about Australia's trade and investment relationship with the economies of the Persian Gulf States. It was a valuable opportunity for me to know the other opinions by reviewing the submissions. Therefore, this submission comprises some different aspects and important emphasizes of the subject. As a Preliminary, It seems the environmental information about Iran is not detailed enough in comparison to the other Persian Gulf countries. Some criteria need special consideration and cannot be classified in general categories. Social and political atmosphere in Iran are special issues that affect other matters. Although they are strongly linked to economic aspects and cannot be separately analyzed, social and political challenges are strengthening social rights in Iran. So some progress in economic criteria have resulted from these challenges. Of course, the roles of some international organizations have been effective in economic improvements. But it seems some trade and investment opportunities have been sacrificed because of magnifying the social and political aspects. I think the deficit in Iran's environmental recognition is one of the explanations of unsuccessful Australian trade and investment relationships. Better knowledge and experience about the other Persian Gulf counties makes trading with them seem more convenient in the views of Australian businessmen. Concentration on direct, precise, fair, relevant and up-to-date information can provide beneficial outlines. Some essential reforms in the economic statutory environment, Iran's efforts to attract foreign investment and linkage to international markets, and the absence of USA in Iran's market as the main trade partner of the other Persian Gulf countries, are considerable justifications, which connect Australian priorities with Iran's opportunities.

## • **Spread of reforms in statutory environment**

The necessity for reviewing old regulations, people's needs, matching in global business environment, and external pressure and advice by international organizations has caused Iran to reform and revise some vital laws in recent years. By these extensive changes in some important regulations in the business environment, it's expected a positive movement will result if the other internal and external factors support them. Some of these regulations are as follows:

1. Five Year Economic Development Plan (FYEDP) is one of the key laws that determine Iran's strategy for a period of 5 years. All future trends should be analyzed according to the FYEDP. Current Iranian calendar is the latest year of the Third FYEDP and the Forth FYEDP (1384-1389) is being discussed in Congress for approval to start. Lack of attention to the discussions and the main topic of the Forth FYEDP may waste Australian strategies towards Iran. For example, this draft assumes 12.2% investment growth rate, 6.8% inflation rate, 3.5% productivity rate, 8.4% unemployment rate and US\$ 19 per barrel oil average for the next 5 years.
2. According to one section of the Third FYEDP, the organizational structure of Tax Affairs Organization has been restructured and the new Tax Law approved in 2002. Now the tax rate of companies has decreased from an aggressive rate of ~62% to a fixed rate of 25%, (Australia's rate is 30%). After a significant exemption, the individual tax rate is from 12% to maximum 35%. Article 107 has provided a convenient and minimum tax amount for foreigner's contracting companies in the fields of building and construction, installation, technical training and co operations and know how transition. The tax rate can be 3% of received amounts.

In addition, those activities, which are located in Economic and Commercial Free Zones, have 15 years of tax relief. Money and exchange transfers in the Free Zones are more convenient and compatible with the international trade market. Qeshm Island, Kish Island and Chabahar Port are three important Free Zones in the southern border region of Iran.

3. One obstacle in the economic environment was a range of tolls, quasi-tax and duties, which were taken from manufacturers, importers and distributors. In order to decrease some administrative processes, reduce the governmental business expenses and of course in imitation of WTO provisions and adoption of IMF advice, a new regulation, "Collecting the Tolls and Duties" was approved and is being applied from 21 March 2003. According to this regulation, all the import tolls were to be collected in a 5% Of importing costs, and all the tolls for the local manufacturers and sellers were decreased and merged and fixed at 3% of sale price.
  
4. After the revolution of 1979, the proportion of private sector involvement in the economy decreased. The government established disciplinary and controlling bodies. Since Audit Organization, the only inspecting and auditing body, was affiliated to Ministry of Finance and Economy Affairs, It was criticized for lack of separation between executive and auditing sections while before 1979, private auditing firms were active. In respect to solving this problem, firstly the accounting and auditing standards were ratified in 1999 following UK standards and rules, and then the Iranian Association of Certified Public Accountants (IACPA) was established in 2001 according to a unique Act. Now, there are more than 120 private audit firms, which have authority to audit and inspect the public and private sector and also assess tax independently in accordance with the new Tax Law. Some international audit firms have placed their representatives among these firms.

5. Prevention of Money Laundering and Value Added Tax are two new legislative statutes whose general principles were approved in 2003. Prevention of Money Laundering has been regulated in accordance with the International Convention of Palermo and VAT levels follow recommendations of International Monetary Organizations. The VAT rate is 7% and it's due to start from the first year of the Forth FYEDP (1384). Australia's successful experience in GST could represent an area of cooperation.
6. Law of Commerce is the only old set of statutes that the Ministry of Commerce is re-drafting to present to the Board of Ministers. The first draft of the new Law statutes was not suitable and is being revised according to experts' views. However, this law should change in the near future.
7. A new Foreign Investment Promotion & Protection Act (FIPPA) approved in 2002. Some ambiguity has been eliminated and it's more compatible with the current international business environment. Reviewing the 10 years non-oil foreign investment policy of the Ministry of Finance and Economic Affairs presents a high growth foreign investment area once the new Act is approved. The following table briefly illustrates the data:

### Non-oil foreign investment before and after new Act

Year	Projects Quantity	Value US\$ (million)	Main industry	Main Company/Country
1373	3	187	Motor vehicle	Dae woo –South Korea
1374	7	122	Hotel	Al-tajir Corporation –UAE
1375	12	64	Chemical& petrochemical	Hansa chemie –Germany
1376	21	178	Aluminums	Italian & Belgian Co.
1377	5	4	Ore cutting wire	An Italian company
1378	18	1,000	Exploitation of gold mine	Zarcan Mineral –Canada
1379	18	487	Steel	3 Italian companies
1380	7	67	Milk powder&kid nutrition	Nestle –Switzerland
<b>Subtotal</b>	<b>91</b>	<b>2,100</b>	<b>47.5% of total</b>	<b>Before new Act</b>
1381	30	616	Petrochemical	Russian & German Cos.
1382	51	1,700	Motor vehicle	Renault –France
<b>Subtotal</b>	<b>81</b>	<b>2,316</b>	<b>52.5% of total</b>	<b>New Act period</b>
<b>Total</b>	<b>172</b>	<b>4,416</b>	<b>100%</b>	<b>Total recent 10 years</b>

Persian calendar year starts on 21<sup>st</sup> March. For example year 1382 means 21<sup>st</sup> March 2003 until 20<sup>th</sup> March 2004.

As the table shows, foreign investment has grown after approval of the new Foreign Investment Promotion & Protection Act. The total of approved foreign investment following the new regulations is 52.5% of the total of the 10 previous years. Origin of investors has been European (mostly Germany, Italy, England and France) 60%, Canadian 23%, Asian (mostly UAE and Korea) 17% and just a little by Africans. Australia hasn't participated in this matter. In most interpretations, USA is correctly mentioned as the most important competitor in the Persian Gulf, but Australia's expanding trade and investment relationship is decreasing the power of the USA in the region. But it's different in relation to Iran. Despite Iran's economic fluctuations



and high-risk ranking, it seems Australia hasn't been active in comparison the other countries. In the absence of the USA in the market of Iran and Australia's balancing relationship, Australia hasn't seriously studied Iran's market and used this potential market. Australia has still the chance.

### • **Iran's North Market**

The concentration of economical and business activities on Persian Gulf States may result in neglecting the other related region to the subject that is the newly established Caspian Sea states. The views presented on marine and business economic activities have been only concentrated on the Persian Gulf water, while Caspian Sea states located in north of Iran might possess equal significance. The stretched and fascinating coast of the Caspian Sea is a valuable area for fishery and leisure. Most wealthy people spend their spare time there and also caviar is fished in Iran's north internal waters. Caspian Sea is a potential market for commercial boats and leisure crafts.

The extraordinary geographical location of Iran in relation to CIS countries can provide a unique opportunity for Australia. In other words, any economical on the Caspian Sea market must be done bearing in mind that Iran's route is the closest and fastest way to some CIS countries. The following table illustrates Australia's relations with the selected countries based on DFAT data and fact sheets:

### Australia's Principal Export & Imports for 2003

Country	Population (million)	Australia's main Exports (A\$000)	Australia's main Imports (A\$000)
Armenia	3.4	1,600 -Telecommunications equipment -Butter	136 -Precious stones -Footwear
Azerbaijan	7.8	9,600 -Butter -Mechanical handling equipment	8 -Jewellery
Kazakhstan	15	2,478 -Telecommunications & electrical equipment -Toys, games & sporting goods	3,325 -Pig iron-Copper-Dyeing & tanning extracts-Other inorganic chemicals & non- ferrous base metals
Turkmenistan	4.8	494 -Butter -Tap & valves	164 -Toys -Sporting goods
<b>Subtotal</b>	<b>31</b>	<b>41,172</b>	<b>3,636</b>
Russia	144.9	151,000 -Meat -Raw hides & skins -Photographic supplies -Toys, games & sporting goods -Butter	39,000 -Metallic salts & peroxy salts -Aluminium -Paperboard & paper -Pig iron -Veneers, plywood, particle board
<b>Total</b>	<b>171.9</b>	<b>192,172</b>	<b>42,636</b>

As the above table shows, the level of trade with these countries is not desirable. The cause seems to be the lack of direct physical access to these countries, which has prevented Australia's trade of light commodities and services with these countries. Besides the low level and unstable economic relationship between Australia and Iran, has denied Australia the opportunity of trade with the CIA countries via Iran. Although Australia can have access to Russia through other regions and to some countries such as Uzbekistan indirectly, considering Iran route, with its already established railway, road, and air and waterways, might prove more profitable.

- **The Role of UAE in Relation to Iran**

The USA sanction, the war, internal problems, and unenthusiastic International views about Iran directed some of Iran's international trade to the UAE. These trade activities between Iran and the other countries specially those which follow the sanction are conducted via UAE. Published data of import and export for the year 1381 (21/3/02 to 20/3/03) by Customs of Iran shows that Iran's export to UAE has been US\$ 753.8 million which makes up 16.4% of non-oil exports with the first rank. Second rank of importing countries belongs to UAE valued US\$ 2,152.2 million. In other words, total trade between Iran and UAE (except the oil, gas and services) has been US\$ 2.9 billion. This figure classifies UAE as second trade partner of Iran after Germany.

In respect to the above point, the data can be adjusted and re-analyzed for preventing of duplication of Persian Gulf State data regarding the original and target countries. In this case, Australia can replace some other countries, which export commodities to UAE, destined to Iran. Moreover, by reviewing the UAE and Iran trade transactions and considering this fact that the role of Iranian investors and merchants who are

established their business in UAE is so important in this relation, Australia can obtain more marginal benefit for trading with Iran directly.

- **Banking**

Viewpoints of establishing private and non-governmental banks in accordance with the new regulation and advices by IMF in this matter show the potential business and competition in this matter. Modern methods in banking, revising the systems and equipments in governmental banks and cooperating with new established banks in private sector indicate the importance of this market. According to the new regulations, several private financial institutions and banks are active in authorized activities and with a vaster option in Economic and Commercial Free Zones. Recently shares of two private Financial and Credit Institutes and Bank are dealt in Tehran Stock Exchange. Also, an Australian company has won an international tender in banking sector. This can be a promotional step for investing in this area. In addition, according to Forth FYEDP, foreign banks will have the permission to participate in banking transactions from next year. Some of foreign banks have already established their bureau in Iran. They are engaged in collecting the economic and investing information not banking activities. The ultimate endorsement of their business may facilitate the future international trade.

- **Insurance**

Insurance industry is one of the non-improved governmental sections, which show a promising business. In the present time, some efforts have been taken for establishing private insurance companies especially in Economic and Commercial Free Zones. Insurance industry is following the bank reforms. My experience as an arbitrator in the only Business Interruption Insurance contract and of course dispute between the largest motor vehicle manufacturer and an insurance company in case of fire indicates that there are a lot of opportunities in industries. Because of governmental structure of insurance companies, most of the modern facilities and plans haven't been supplied. Moreover, European insurance companies have usually participated in surplus reinsurance for the important contracts. Although the subject of insurance is taught in universities, the ECO College in English presents particular program to internal and international students in Tehran.

High experience and modern knowledge of Australian insurance companies provides an exceptional opportunity in this potential market.

- **Motor Vehicle**

One of the submissions has pointed to motor vehicle market in Iran. It's a huge market for business with around 700,000 products per year by two main manufacturer poles with their joint ventures, Peugeot and Renault. Although motor vehicle is one of the most important Australia's export items to the Arabian countries of Persian Gulf, Australian companies should be informed the of strong and also traditional joint ventures. Cooperating with internal spare part manufacturers and related services may

be realistic. Nevertheless, those companies originally owned by Americans should be aware of the sanction in this time. For example, when the share of Dae Woo was bought by GM, Iran's Dae Woo factory (Kerman Khodro) was obliged to cease the production according to America's regulation. This company is negotiating with Volks Wagen as new foreign joint venture.

In addition, insurance in the vehicle industry is of an importance too. Annual production, high rate of yearly accident, and expectation of a serious and rapid movement in toward privatization in insurance imply a growth demand in all kinds and options in this industry.

## • **Public Transportations**

It goes without saying that every one's problem can be an opportunity for the others. Iran suffers from insufficient and weak quality of intercity and local transportation systems. Quantity of population, variety and stretch of land and lack of investing in this important area has brought about some environmental problem such as air and sound pollution. Investing in transportation and related aspects are unavoidable. There are signs of necessities of investing in air, land and even sea transportation. The investment should be in both transporting goods and planning of the systems. Iran's roads have been the riskiest and most road accidental country last year. Also, demand of traveling by air has increased, airline companies are not enough and the facilities don't fulfill the need of passengers. In respect to the privatization policy, government has submitted large internal airliner to not private but non-governmental organizations. It's a sign of possibility for cooperating with foreign joint ventures.

Australian hardware and precise management can be considerable for surveying in this infrastructure business.

## • **Education and Employment**

As indicated in most of the submissions, young population of Persian Gulf States and Australian priorities justify the investment in education market. Some other aspects of this area are:

1. Competition for entering universities. Successful students are more than 400,000 including governmental universities.

Although more than 1 million fails in the competition proves the demand for investing in education field, employment is the important related factor. With a 14% high-unemployed rate, universities degrees is necessary not only for obtaining better position in potential market, but also is a reasonable solution for suspending the jobless problem. Otherwise the ratio of Iranian educated people to total of population is comparable with UK. Therefore, concentration on university education may cause a loss in other options. TAFE system training can be bilateral useful options to satisfy some unsuccessful university competitors and those who are not interested in the competition. This investment will facilitate related aspects such as immigration programs, studying in Australian university and inviting the Australian system trained for the Australian local employers. Moreover, establishing the international professional programs can help with other investments. For example, by an agreement between two Iranian professional and educational bodies on the one hand and the Chartered Institute of Management Accountant of UK (CIMA) on the other hand, it has been for almost 5 years that training and examination center is located in Tehran. The international trained can decrease the expenses of international trade.

We should not forget that Monash University and Kish University have recently begun their cooperation in presenting BS in engineering in electrical and computer systems program in Kish island Commercial Free Zone.

2. The role of women is one of different combination of population in Iran. The ratio of acceptance in universities competition has been almost equal between men and women. The presence of women has grown in job market because of increase in their level of higher education and participating in financial burden of family. This fact has accelerated women job demand. It is anticipated that women job demand will increase than that of men during future 5 years.

- **Iranian-Australians**

People who reside in another country can affect the international trade relationship between two countries. In other words, there is a correlation between granted residency persons and international trade transactions of two countries. Of course governmental relationship strongly affect the facilitation or restrictions. Iranians who live or whose business has been established in Canada, UAE and some European countries are the sample and America's sanction is a sample of restriction despite the considerable population of Iranians in USA. Iranians form a recognized community in Australia whereas in the other Persian Gulf States it is not so. Department of Immigration & Multicultural and Indigenous Affairs, DIMIA indicates that Iran-born population was 18840 according to census 2001. This figure should be revised because of granting about 900 residencies per year during the last 3 years to Iranians. In addition, Iranians community isn't restricted to only the Iran-born. It is only an administrative category.



DIMMIA reports 52.4% of Iranian 15 year age and over have educational and occupational qualification compared with 46% of total of Australia. 59.1% of them are classified as skilled occupation compared with 52.6%, average of Australia. The average age of Iranians has been 38.8 compared with 46 and 35.6 of oversea-born and the total of Australia respectively. These criteria are positively assessed for this area. In respect of the above description, Iranian-Australians are an advantage for the Committee's plan. Australia's Interest for investment and trading with Iran encourages them to invest their capital and Australian qualification services in the plan.