

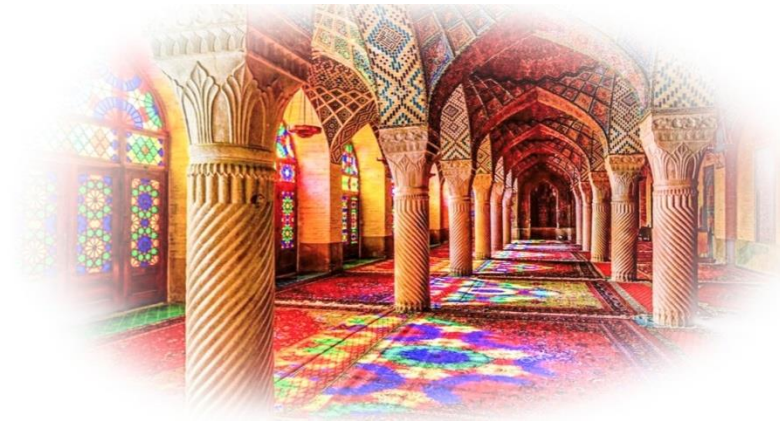
Doing Business in Iran and the Macro Legal Framework

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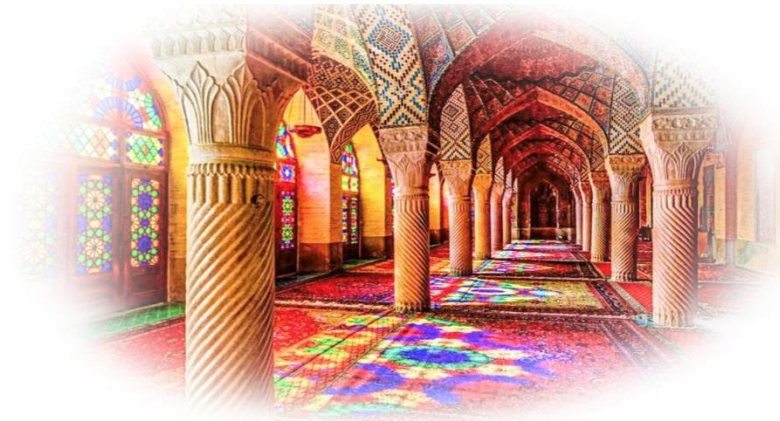
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Iran and Its Geo-Political Situation

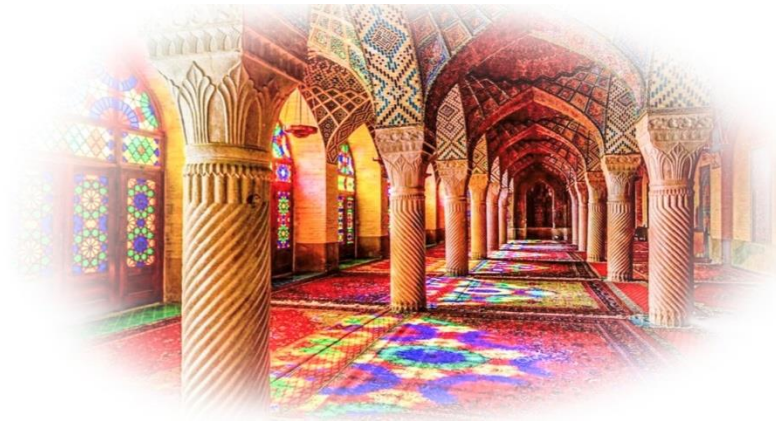
- Iran is a founding member of the UN, ECO and OPEC.
- Its political system is based on the 1979 constitution which combines elements of a parliamentary democracy with a theocracy governed by islamic jurists under the concept of a supreme leadership. Most people are islamic shia and the official language is Persian.



Macro Decision Making

Supreme Leader

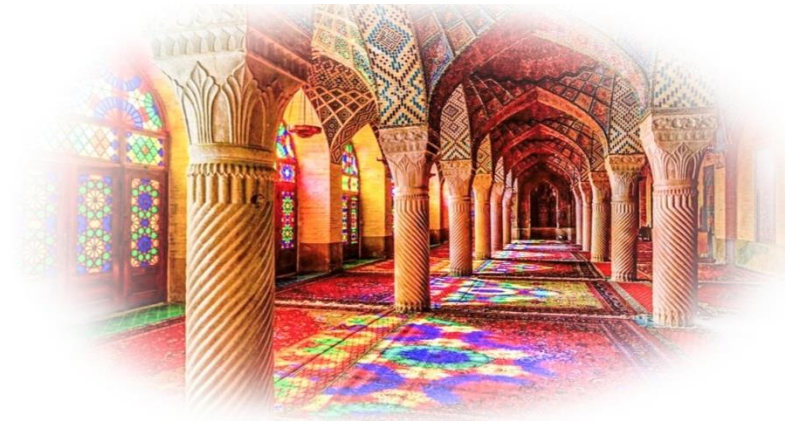
- After February 1979 Islamic Revolution, and based on March 1979 referendum, Iran became an “Islamic Republic”. The fundamental concept of this Islamic government is modeled after Ayatollah **Khomeini’s idea on the rule of the jurisprudent (Velayat-e-Faghih)**. This means that the state is to be guided by a learned religious jurist.
- Having this in mind, the Islamic Republic appears to be a unique form of government where “Islamic “ and “Republican” structures run parallel to each other. Therefore, Iran’s system of government may be acknowledged as a blend of democracy and theocracy with authority derived from the constitution enacted in 1979 and revised in 1989.



Macro Decision Making

Supreme Leader

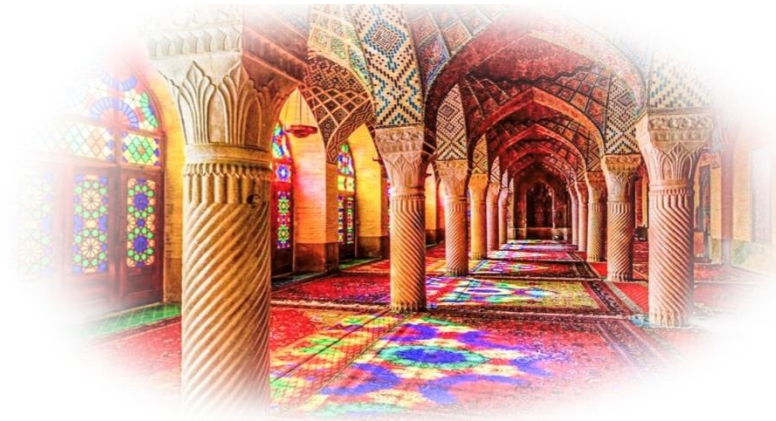
The highest authority in the country is the Leader (Article 5) who exercises combined supreme political and religious power. He can also influence all economic matters according to the powers vested in him by the Constitution (Article 110).



Macro Decision Making

Government of Iran

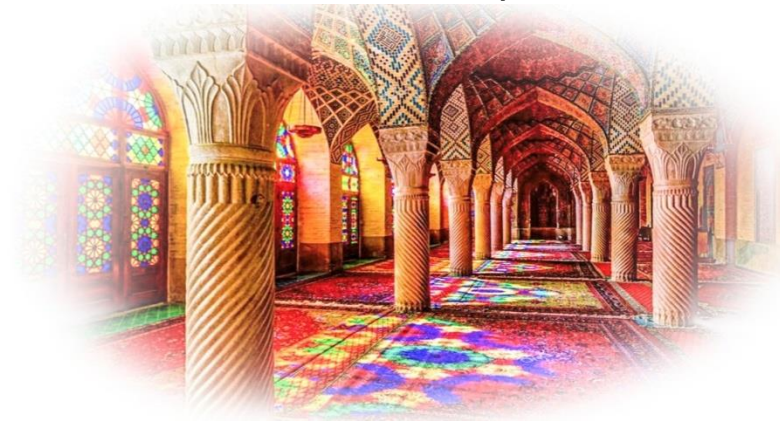
- Under the provisions of the Constitution, the government in Iran is structured to have three branches of authority under the chief of state, as the Supreme Leader.
- These are: **the Judiciary, the Majles (Parliament) and the Executive power**, with the President at its head.
- The Majles and the President are elected through direct people's vote, the head of the Judiciary is elected from the Supreme Leader directly. The Supreme Leader himself is appointed by the Assembly of Experts, members of which are elected again by people's vote.



Makro Decision Making

The President

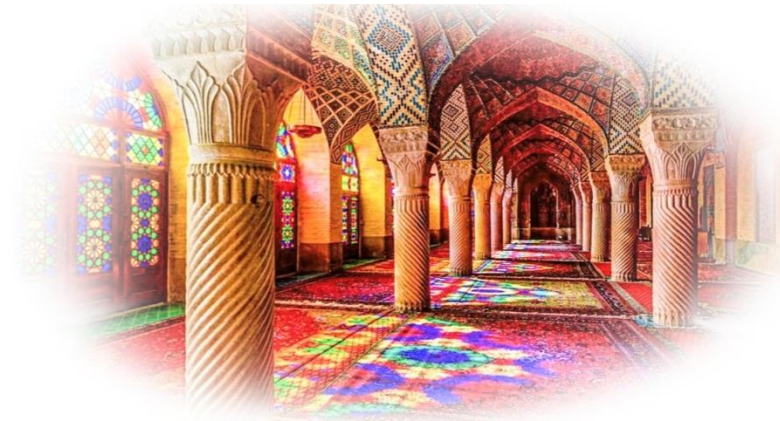
- Next to the Leader, the President is de facto the highest authority in the country (Article 113). Among his diverse responsibilities, the President signs and supervises the implementation of laws passed by the Majles and supervises the implementation of the budget and development plans ratified by the same body.
- He heads the Cabinet and appoints and dismisses Ministers with the consent of the Majles.
- The latter itself has the power to impeach individual Ministers in addition to having the power to impeach the Council of Ministers collectively (Article 89).



Macro Decision Making

The President

- The President's office consists of the **Secretariat, Advisors and Deputies to the President.**
- He also has **seven** aides in charge of the seven institutions administered by him including the Management and Planning Organization (formerly the Plan & Budget Organization).
- The President also acts as the **chairman** to the **Supreme National Security Council** – an influential committee that supervises all government activities related to defense, foreign policy and the like.



Macro Decision Making

Parliament & Guardian Council

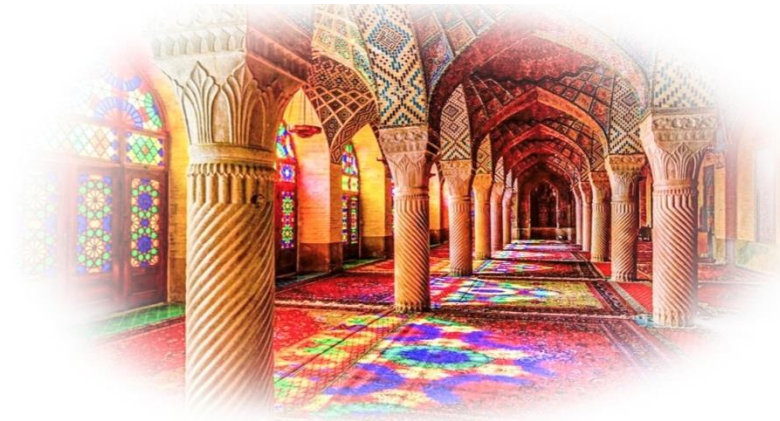
- The legislature consists of the Islamic Consultative Assembly or **Majles (Parliament)** and the **Guardian Council** of the Constitution.
- All legislation must first be approved by Majles and then ratified by the Guardian Council (Article 94).
- The Guardian Council checks all laws passed by the Majles for compatibility with the Constitution and the Islamic tenets (Articles 91 & 94).
- The Council itself has **twelve members**, **six** of whom are **clerical Islamic** canonists appointed by the Leader with the power to rule on the compatibility of all legislation with Islamic principles via simple majority of these six. The other **six** are elected by the Majles from among 12 **jurists whose candidature is put forward by the head of the Judiciary**.



Macro Decisioin Making

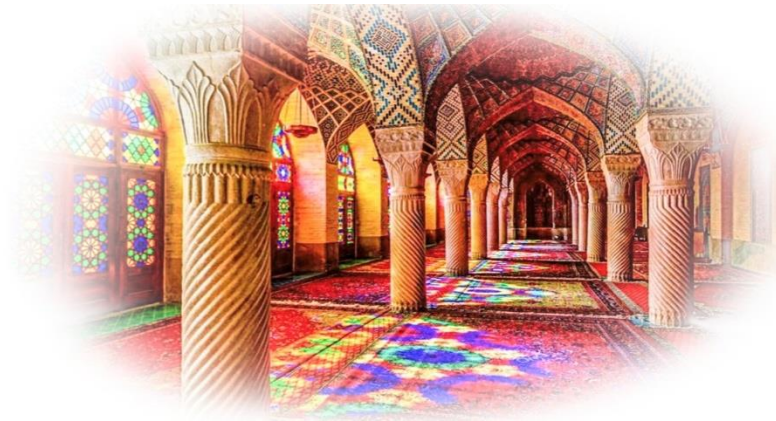
Guardian Council

- The Guardian Council's role is in effect like that of an upper house of parliament that can vote out the lower house's resolution.
- In the case of a disagreement, although the Majles can send the relevant bill back to the Guardian Council for a second reading, the options are open to the Majles, if it still disagrees either to accept the ruling of the Guardian Council or refer to the **Expediency Council**.



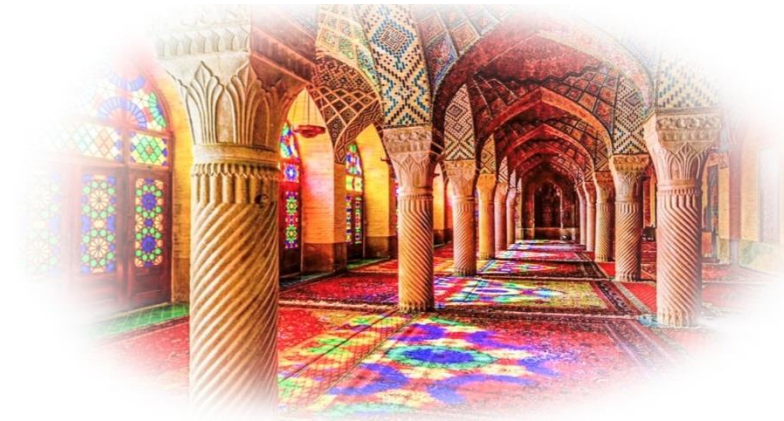
Expediency Council

- The Expediency Council was first established on a temporary basis in February 1988 to **resolve any disputes** that arose between the **Majles** and the **Council of Guardians** as described above.
- Later on Article 112 of the 1989 amended Constitution, made it a permanent institution and added to its duties an **advisory role to the Leader**.
- *The Expediency Council is slowly becoming one of the important actors in the decision-making process of Iran. Besides, it should be noted that this body, to some extent, could overrule the Constitution, if it is expedient and deemed in the interests of the country to do so.*



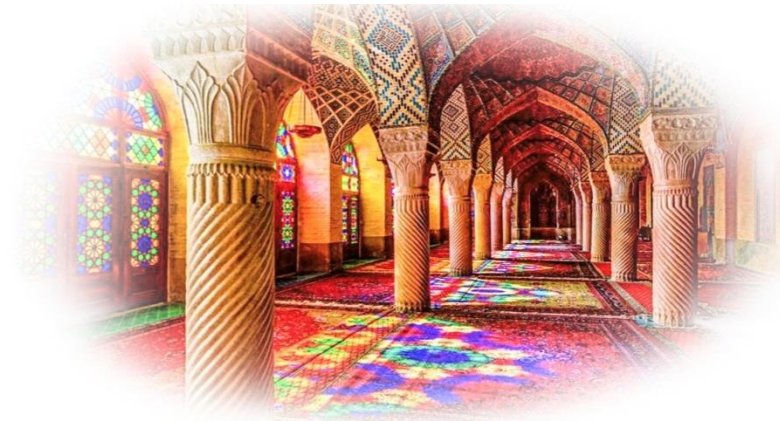
Main Policy Making Constructions

- Main constructs, that help the government set national priorities, to make decisions and implement its economic policies:
 - The Constitution
 - 20 Years Outlook (9 years to go)
 - General Proclaimed Policies (Restrictive Economic Policies – Supreme Leader 2013)
 - Five year development plans (5th Plan in progress till 21.March 2016)
 - Annual budgets



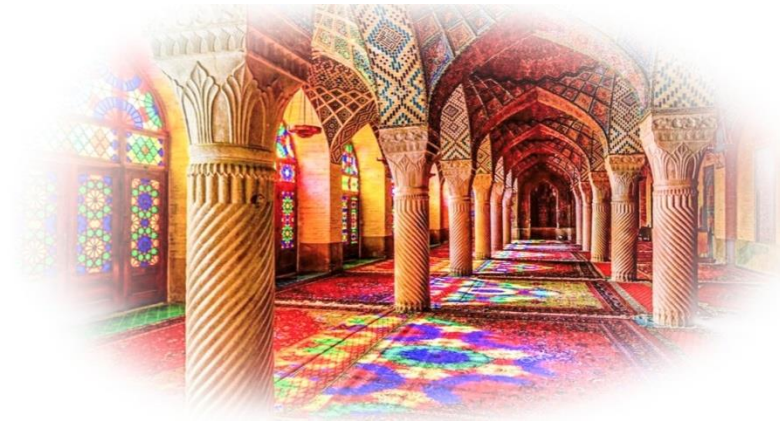
Development Planning

- Five year development plans are the government's main vehicle for implementing structural adjustment policies and economic reforms.
- Iran's planning tradition goes back to 1931. The first serious plan and planning organization were launched in 1949. Iran has experienced five development plans before 1979 and now is at the last year of the fifth development plan after the revolution, which has started in March 2010.



Annual Budget

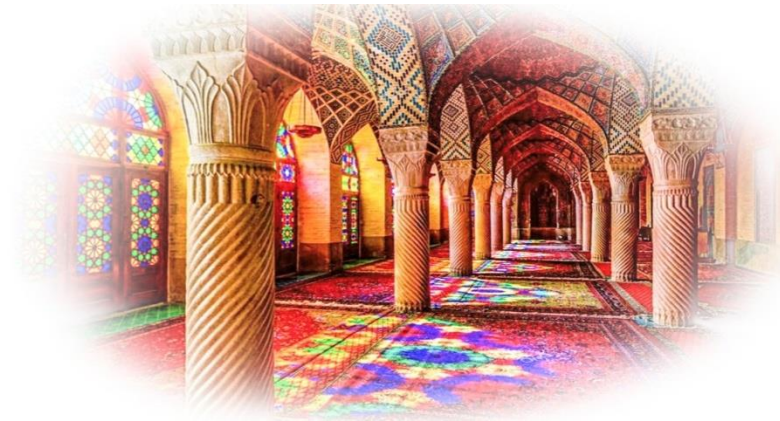
- Iranian Constitution states that the annual budget of the country will be drawn up by the government and submitted to the Majles for discussion and approval (Article 52).
- The President is obliged to sign legislation approved by the Majles, after the legal procedures have been completed and it has been communicated to him. After signing, he must **forward** it to the responsible authorities for implementation (Article 123).
- The main volume of the budget consists of **four sections**. The **first** section presents the **notes**; the **second** section displays the **summary tables**. The **third** section **details the resources** and the **fourth** the **expenses of the government**. The **main part** of the budget, i.e. sections **three and four**, is organized around specific executive bodies, which can be a ministry, province, a public institution, a bonyad or even a library.



Article 44 of the Constitution

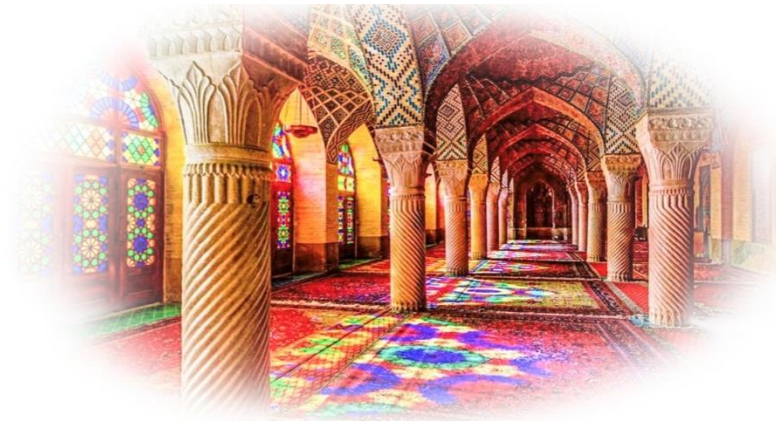
Its importance for the private sector

- Article 44 of the Constitution states that the economic system of the I.R.Iran is based **on public, cooperative and private sectors**, with proper and regulated planning.
- It then defines the public sector to include all **large-scale industries, mother industries, foreign trade, large mines, banking, insurance, provision of power, dams and large irrigation channels, radio and television, post, telegraph and telephone, aviation, shipping, road, railways** and the like, which are public ownership and at the disposal of the government. There have been new interpretations to this part of the Constitution by the Expediency Council, which will be presented later on as it reflects the current on-goings to the privatization of the industries.



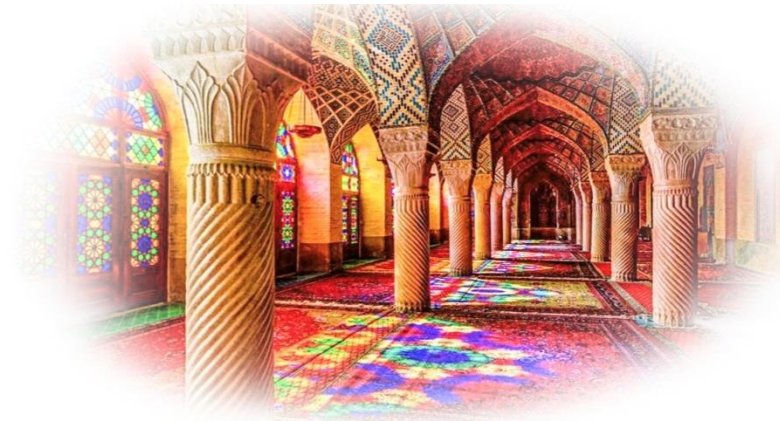
Article 44 of the Constitution

The cooperative sector is defined as one that includes cooperative production and distribution companies and institutions established in cities and villages on the basis of Islamic principles, while the **private sector** includes that part of agriculture, animal husbandry, industry, trade and services, **which complements public and cooperative economic activities**. Thus, the private sector is given only a residual role in the economy (shall be up to 30% mainly through article 44)



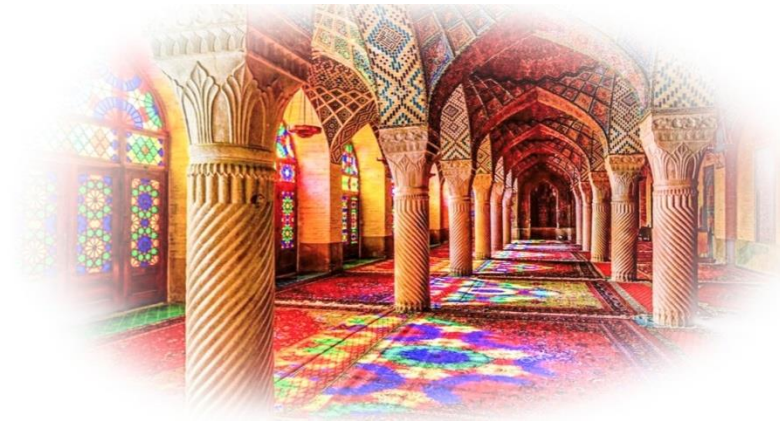
Article 44 of the Constitution

- It is important to note that a strict interpretation of the above definitions **has never been enforced** and due to the developments of new conditions and through the interpretation process, new laws have been passed **allowing the private sector to be able to play a much larger role than is outlined in the Constitution.**
- The private sector's increased participation in **mining, banking, insurance, telecommunication, oil and gas, aviation, transportation etc.** in recent years is an obvious result of this phenomenon.



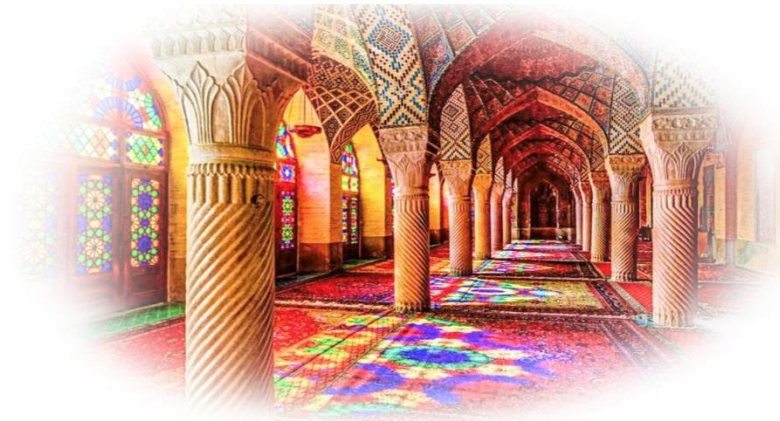
OIETAI

- Any investments through FIPPA will be handled through the Organization for Investment, Economic and Technical Assistance of Iran (**OIETAI**), which was founded in June 1975 and constitutes the foreign investment authority of Iran.
- The head of this body is the vice minister for investments and international affairs of the Ministry of Economic Affairs and Finance.
- The functions of the organization range from investment to financing as well as from bilateral to regional and international relations.



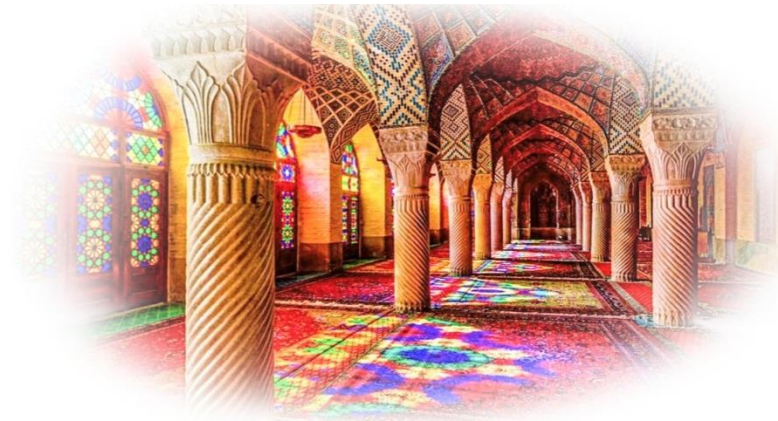
FIPPA

- The Foreign Investment Promotion and Protection Act (FIPPA) consists of 7 Chapters and 25 Articles
 - Chapter 1: Definitions (Article 1)
 - Chapter 2: General Conditions for Admission of Foreign Capital (Articles 2-4)
 - Chapter 3: Competent Authorities (Articles 5-7)
 - Chapter 4: Guarantee and Transfer of Foreign Capital (Articles 8-10)
 - Chapter 5: Provisions for Admission, Importation and Repatriation of Foreign Capital (Articles 11-18)
 - Chapter 6: Settlement of Disputes (Article 19)
 - Chapter 7: Final Provisions (Articles 20-25)



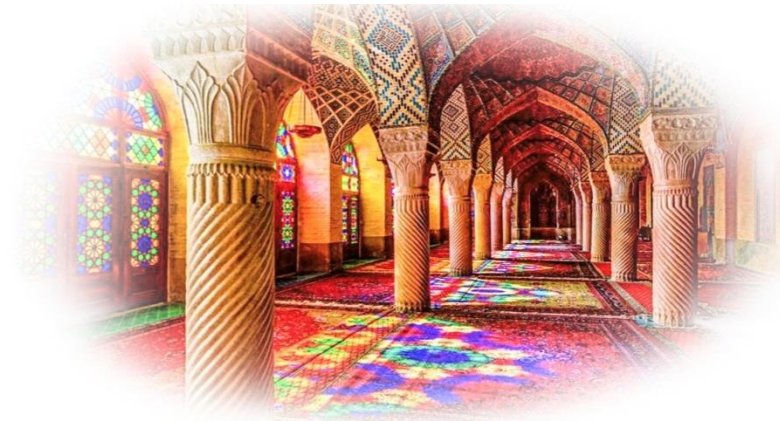
Economic Activities in Iran

- Establishing networks: Relationship-building
- International experience is not always given
- Mostly limited foreign language knowledge
- Calculate duration of negotiations
- Preferably draft easy contracts
(LoI or MoU in advance)



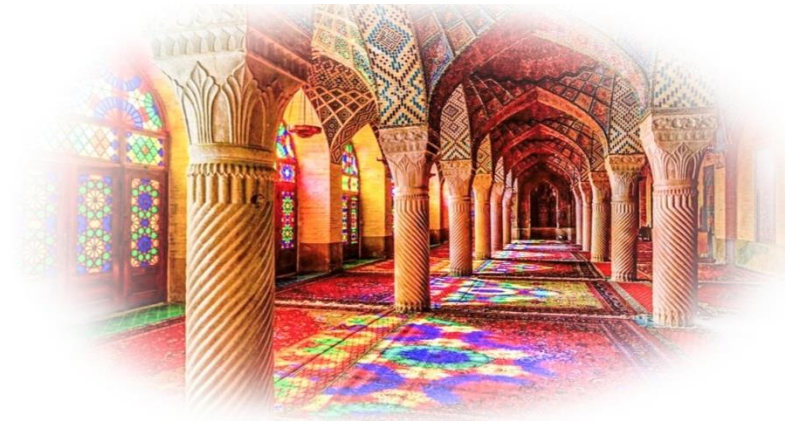
Opportunities

- 14 years of deprivation of regular purchases for the Industries (mashineries and spare parts)
- Aviation, Automotive, Health Sector, Tourism and Oil/Gas, Mining...
- Natural boom in respect to consumer business
- Shopping malls, retail chains, specialized centers
- Tourism would be to the benefit of the private sector



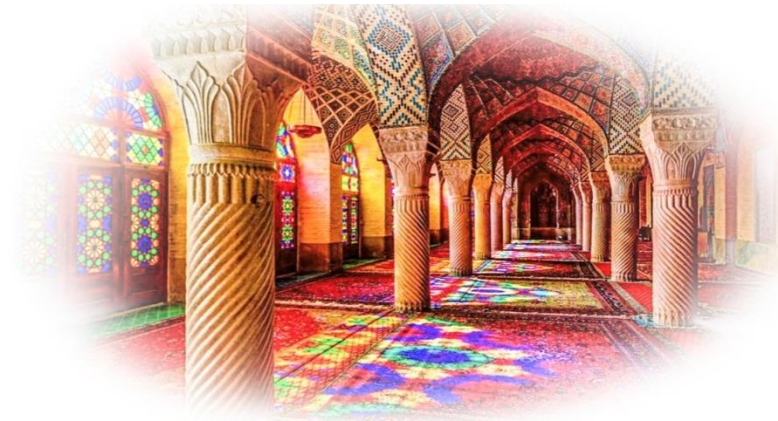
Economic Activities in Iran

1. Distributors /Agents
2. Branch Office
3. Full Scale Iranian Co. (up to 100% - FIPPA!)
 - a) Limited Liability (Ltd.)
 - b) Private Joint Stock Co. (PJSC)



Corporate Laws

- The Iranian Commercial Law is based on the French Commercial Law and is enacted in May 1932
- Intellectual Property Law (Madrid Protocol)
- Labour Law (short and long term contracts)
- Article 120 Iranian Labour Law:
 - *„Foreign citizens shall not be engaged in any sort of work in Iran unless first they have an entry visa entitling them to specified work and second have obtained a work permit in accordance with the relevant laws and regulations“.*
- Tax Law (direct taxation Law) – 25% tax flat and 9% VAT
- SSO (Social Security)

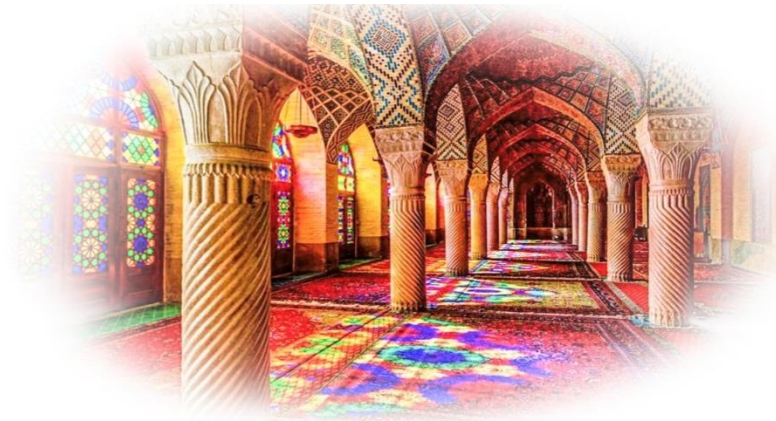


Contract Law

- **Article 10 Civil Code on contracts:**

„Private contracts shall be binding on those who have signed them, providing they are not contrary to the explicit Provisions of a law.“

- Contracts are as per law either oral or written
- Tendency of the recent years towards written ones; international contracts written
- Language of the contract to be specified
- Signatory according to articles of association
- Iranian tend to re-negotiate:
- Contract points should be clear and terms and conditions defined



Contract Law

➤ Applicable law:

- **Article 968 of the Civil Code of Iran**

*“Obligations arising out of contracts are subject to *lex loci contractus* (the laws of the place of the signing the contract) except where both of the parties to the transaction are both foreign nationals and have explicitly or impliedly declared the transaction to the laws of another country.*

- Iranian court to decide for Iranian laws, if no arbitration clause
- In case of arbitration clause, the law of choice

Thank You!

