

# Things to remember when starting business in Iran, FAQ

## **1. Money transfers:**

Our recommendation is to have a discussion with your own bank at a very early stage. Not all banks operating in Finland accept money that originates from Iran. Banks can also give confusing messages: for some companies they accept Iranian business, for others not. There are reasons for this: Iran is still at a risk category 5 by OECD standards (max 7). Due to this, most banks have set a limit for the volume of business they are willing to do with Iran. They start filling this quota with their largest customers first, because:

- A) The big customers have resources to do proper compliance studies about their customers.
- B) The big customers are banks' key customers who they want to serve as well as possible.
- C) The business of the big customers tends to involve big transactions. For each new transaction the bank has to do a costly compliance study. If the transaction is small, the cost of the compliance study reduces the margin for the bank, making the business transaction unprofitable for the bank.

Most of the larger international and commercial banks do not work with Iranian businesses. The ones that do, tend to be second tier, regional or local banks.

## **2. Method of payment:**

Letters of credit (L/C) can be opened by Iranian banks to banks operating in Finland, but Iranian banks cannot open confirmed L/C:s. It is possible to apply for an export guarantee from the Finnish Export Guarantee agency, Finnvera. Cash payments or advance payments are also possible, but the exporting company must confirm with their bank that the bank accepts payments originating from Iran.

## **3. Product checks:**

The exporting company is responsible for verifying that their product or service is not under any remaining sanctions. There are still sanctions in place for products related to military use, human rights concerns, funding terrorism and money laundering.

Some products are so called dual use items. The original use of the product might be innocent and not under sanctions, but the product can also be used for a purpose that is still under sanctions.

Questions related to the sanctions can be directed to the legal department of the Ministry of Foreign Affairs (MFA) at [Pakotteet.UM@formin.fi](mailto:Pakotteet.UM@formin.fi). Questions related to dual use items can be directed to the Vientivalvontayksikkö of the MFA of Finland at [vientivalvonta.um@formin.fi](mailto:vientivalvonta.um@formin.fi) or by phone +358 295 351 139.

## **4. Background checks:**

The exporting company has a responsibility to do background checks for their counterparts in Iran (customer, representative, importer etc.). It is the exporting company's responsibility to make sure that the company, their bank or any person within the company is not subject to the remaining sanctions. This can be a difficult task from Finland, and therefore the Embassy has, in co-operation with the Business Finland organization, selected a number of so-called "Evaluated Consultants". These are both Iranian and Finnish companies that provide background checks and make statements regarding these. Naturally this will not give a 100% guarantee but it will show that the company has done their utmost to check the background of their counterparts.

Contact information and recommendations regarding these consultants can be received from Commercial Counsellor at [Kimmo.laaksonen@formin.fi](mailto:Kimmo.laaksonen@formin.fi) (+98 21 23 512 000) at the Embassy of Finland in Tehran.

## **5. Logistics:**

It is recommended that the exporting companies review the different ways of shipping goods from Finland to Iran. It is possible to transport goods in containers by sea, but the fastest shipments take some 45 days with the transshipments. This concerns only to the seaside ports, such as Bandar Abbas. It is also good to remember that the transportation from the port to, for example, Tehran can be as expensive as the sea freight. Some companies use direct truck transportation for speed, but this is quite expensive (approx. EUR 7000 per truck). Another possibility is to ship the goods by boat along the rivers in Russia to the Caspian Sea and then across the sea to Iran. Train transportation is also possible through Russia and Azerbaijan to Iran, but only across the border to Iran. From there the containers have to be moved forward by trucks as the rails are not complete all the way to Tehran. There are also Ro –Ro ships from the Russian port at the north end of the Caspian Sea to an Iranian port in the south end.

## **6. Customs and other regulations:**

Finland and Iran have signed a customs agreement in 2017. Despite of this, Iran still protects its own industries, companies, jobs and products by setting high customs duties for products that compete with local products. Some products are completely banned from being exported to Iran and other products must be partially produced in Iran.

## **7. Special economic zones:**

There are a number of special economic zones in Iran. If a foreign company is based in these zones, it does not need to pay duties before the product is shipped to another part of the country. If the company produces its products in these zones and exports them to other countries, it is exempt from paying taxes. More information about these zones can be provided by the Embassy.

## **8. Investments:**

Finland and Iran have had an Investment Protection Agreement in place since 2004. Iran prefers Foreign Direct Investments (FDI). Iran's preferred operating model is Build Operate Transfer (BOT). This means that a foreign company invests, for example, in a factory and then operates it for an agreed period of time in order to make a profit that covers the investment, after which it sells the factory to a local operator at a predetermined price. Other possibilities are Joint Ventures (JV). As the business life in Iran is very different from Finland and Europe, it is recommended that Finnish companies have a local partner when investing in Iran.

## **9. Networking and contacts:**

Business in Iran is still business with people. To succeed it is very important to have the right contacts. A lot of business is still controlled and regulated by the government. Getting access and appointments to the correct authorities can be difficult for private companies. The embassy is able and willing to help in organizing meetings with authorities.