

Machinery and Related Industries in Iran

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EUROPEAN PRESENCE

In the last decade, machinery has accounted for nearly 40% of European Union (EU) exports to Iran and represents one of the top 3 key export sectors alongside agricultural and chemical products. The Iranian market has long favoured European machinery for their high-quality and advanced technology, but trade in capital goods such as machinery remains highly vulnerable to secondary sanctions and economic volatility.

Nonetheless, European machinery producers have enjoyed in the past strong partnerships with local manufacturers, and demand for spare parts or maintenance of older European machinery still exists in the country. Companies like Deutz, ZF Group, Berco, Siemens, Alstom, Liebherr, New Holland, Volvo, Sanko have in the past entered partnerships with large Iranian companies like HEPCO or continue to export their products to Iran through various trading companies.

KEY MARKET DETAILS

Considering Iran's drive to diversify its economy away from oil in the past decades, demand for machinery in the country has been high and domestic production has often not kept the pace. As a result, machinery has consistently accounted for 10-20% of overall imports in Iran in the past decade and represents an annual market worth between 4.3bn to 7bn euros¹. A large portion of machinery imports are related to industrial production lines, road construction, as well as the mining sector which has substantial growth potential considering that Iran has one million square kilometres of land suitable for mineral exploration². Importantly, Iran's acute demand for machinery is compounded by the fact that secondary sanctions have further boosted its industrial sector, which currently represents 30.3% of Iran's GDP and should reach 37.4% in 2025³. In fact, the drop in purchasing power has decreased labour costs and rendered industrial production more competitive, also because local manufacturers have to substitute for many goods that are no longer imported from abroad. Accordingly, it is believed that there are 1012 knowledge-based companies in Iran that are currently active in the machinery sector and a 2015 parliamentary report showed that 10% to 15% of Iran's industrial companies were related to the industry.

KEY STAKEHOLDERS

Due to its key role in the development of Iran's non-oil economy, state actors such as the Ministry of Industry, Mine, and Trade (MIMT), particularly its Office of Machinery and Equipment, the Trade Promotion Organisation and the Iranian Customs are heavily involved in the sector and exercise a high degree of control through directives and customs tariffs. For instance, on 22 December 2018, the Customs Authority banned the export of foreign and domestic machinery for road construction, production lines and mining, in order to ensure that domestic demand could be met. Equally, the import of industrial and mining machinery had been banned by the MIMT from late 2019 until June 2021 to support domestic production. For more information on latest updates on tariff codes, please visit the Tehran Chambre of Commerce, Industries, Mines and Agriculture, which lists machinery products from the code 73141200 to 988429. Other websites such as Iran Dastgah or IR Factory provide lists of machinery products manufactured domestically.

Due to the high capital requirements of machinery production, the sector is dominated by a few large domestic companies, prime of which is the Heavy Equipment Production Company (HEPCO). Other producers include Deltarah, Zolghadri, AMS Industrial Group, Masaelli Machines and Tractor Manufacturing Industrial Machinery Company, whose main competitors are often trading houses importing foreign machinery equipment and parts. Machinery manufacturers are represented in several associations such as the Iran Industrial Equipment Manufacturers Association (SATSA), which has approximately 180 members and aims at promoting the localisation of machinery technology, developing trading relations and increasing the share of manufacturing in Iran's economy.

Regarding mining, the Iranian Mining and Mining Industries Development and Renovation Organisation (IMIDRO) remains a key stakeholder and client for road and mining machinery. For instance, IMIDRO mining and steel companies signed in mid-2020 a Memorandum of Understanding with its former subsidiary HEPCO to produce 200 road building machinery in the first year, followed by 700 more units in the second year – with the possibility of adding mining machinery in the near future⁴. The Iranian Judiciary is also an important stakeholder in the industrial field, since many companies have gone through bankruptcy and were restructured back to the public sector. This has been the case for HEPCO, which has now 52% of its shares held by the Social Security Organisation and shows that privatisation in Iran can be provisional if the sector is deemed strategic.

Finally, as seen in the previous newsletter on agricultural and agri-food industry, agricultural machinery is also an important sector to further the mechanisation of Iran's agricultural sector. With 90% of agricultural machinery produced domestically and the rest being high-tech machinery imported from Europe and other countries⁵, domestic producers are also well represented through the Iran Agricultural Machinery Manufacturers Association (ATMAK), the Union of Producers and Exporters of Agricultural Machinery and Tools, the Agricultural Mechanisation Centre, and the largest producer, Iran Tractor Manufacturing Company.

TRADE BETWEEN EUROPE & IRAN

Accounting for about 40% of EU exports to Iran over the last decade, EU machinery represents a top preference for Iranian companies that favour high-quality and traditional partnerships. The demand for European machinery is historically correlated with the evolution of oil revenues and, of course, is directly impacted by international sanctions.

Over the last decade, this can be seen for the periods 2012-2015 and 2018-2021 when international and secondary sanctions were respectively implemented. Following the reimposition of US secondary sanctions against Iran in 2018, Iran's imports of European machinery dropped from 3,957,723,351 euros in 2018 to 1,058,044,931 euros in 2020.

Currently, most of the EU machinery exports to Iran consist of non-electrical machinery and transport equipment.

Iran's difficulties in accessing machinery markets, caused mainly by payment requirements, have affected demand not only for European goods, but also for Japanese, Indian and South Korean machinery producers. At the same time, deepening trade ties between Iran and China have promoted China as the first supplier of machinery for Iran. As Iran has recently joined the Shanghai Cooperation Organisation (SCO)⁶ and has continued to deepen trade relations with members of the Eurasian Economic Union (EEU) after the signing of a preferential trade agreement in 2018¹⁰, the share of China and Russia in Iranian imports is expected to increase.

Regarding Iranian exports of machinery to the EU, the figures are lower and concentrated on exports of non-electrical machinery and transport equipment. However, the fact that Iran no longer exports oil to the EU has meant that the share of machinery in Iranian exports to the EU has risen from 0.2% in 2011 to 2.8% in 2019. In nominal values, larger exports are directed to Iran's neighbouring countries where the low prices of Iranian products make them very competitive.

OPPORTUNITIES & CONSIDERATIONS FOR EU EXPORTERS

Overall, although European exports of machinery have significantly dropped since 2018 and Iran is pursuing import substitution policies, there is still ample opportunity for European machinery producers. Current shortages and recent lifting of import bans will most likely bring a new push to Iranian demand. Whilst current financial limitations keep the number of orders low, any unfreezing of Iran's foreign exchange assets will lead to a significant increase in demand for foreign machinery. European companies are well-placed in Iran's market due to their reputation for high quality and could see significantly higher demand in the medium term.

Of note, European companies, particularly SMEs, should understand that Iran's drive to indigenise machinery production is likely to be long-term. Being able to market oneself as a foreign company able and willing to provide know-how on the ground could constitute a key marketing tool.

EU machinery imports from Iran million euros



Identifying Growth Segments for European SMEs

- Dump trucks
- Excavators
- Loaders and mini loaders
- Graders
- Backhoe loaders
- Rubber-track excavators
- Rollers
- Bulldozers
- Tractors with engines superior to 300hp
- Automatisations machinery for factories
- Auto parts
- After sale services such as repair and maintenance
- Consulting services to optimise lines of production in factories
- Specialised training courses on machinery utilisation and machinery designing
- Joint Ventures with Iranian machinery manufacturers
- Consulting services and know-how to develop an Iranian "Mittelstand" of local machinery parts manufacturers

UPCOMING INTERNATIONAL EXHIBITIONS¹¹

- International Exhibition of Pipes, Fittings and Related Machinery (10-13 October 2021) - Tehran International Exhibition Centre
- 21st International Industry Exhibition (10-13 October 2021) – Tehran International Exhibition Centre
- International Exhibition of Doors, Windows and Related Machinery (26-29 October 2021) – Tabriz International Exhibition Centre
- International Exhibition of Machinery, Fittings, and Raw Materials for the Wood Industry (26-29 October 2021) – Tabriz International Exhibition Centre
- International Exhibition of Wood, Related Machinery and Fittings (26-29 October 2021) – Shahr Aftab International Exhibition Centre in Tehran
- International Exhibition of Mine, Mining Industry, and Related Machinery and Devices (29 October – 01 November 2021) – Tehran International Exhibition Centre
- International Exhibition for the Local Substitution of Industrial Parts' Production Lines, Industrial Devices and Machinery (29 September 2021 – 01 November 2021)
- International Exhibition of Heating and Cooling Installations and Equipment (09-12 November 2021) – Fars International Exhibition Centre in Shiraz
- International Exhibition of Mining, Geology, and Related Industries (09-12 November 2021) – Mashhad International Exhibition Centre
- International Exhibition of Machinery, Roadbuilding, Construction, and Rail building (09-12 November 2021) – Mashhad International Exhibition Centre
- International Exhibition of Metal, Steel, Metallurgy, Moulding, Blacksmithing, Casting and Related Industries (09-12 November 2021) – Mashhad International Exhibition Centre
- International Exhibition for Industrial Automation (09-12 November 2021) - Mashhad International Exhibition Centre
- Floor Coating, Moquette, Machine-made Carpet Packaging (16-19 November 2021) - Tehran International Exhibition Centre
- International Exhibition of Food Machinery and Packaging (17-20 November 2021) Mashhad International Exhibition Centre
- 5th Conference on Technology Development in Mechanical and Aerospace Engineering (17 November 2021) – Haft Tir Square, Ghaem Magham Farahani Street, 3rd Street, No. 16. Flat. 1.
- International Exhibition of Airports, Planes, Flight, and Related Industries and Devices (02-05 January 2022) – Iran International Exhibition Centre in Tehran
- International Exhibition of Cement, Concrete, Manufacturing Technologies and Related Machineries (02-05 January 2022) - Tehran International Exhibition Centre
- International Exhibition of Printing and Related Machineries (11-14 January 2022) - Shiraz International Exhibition Centre
- 10th International Exhibition of Machinery, Fittings, Furniture Devices, Wood and Related Industries (January 2022) – Iran International Exhibition Centre in Tehran
- Iran Agri Show – International Exhibition for Agriculture, Agricultural Machinery, Mechanisation and Water Systems (27-30 January 2022) - Mashhad International Exhibition Centre
- International Exhibition of Mine, Mining, Mining Industries, Mineral Processing, Machinery and Related Equipment (16-19 February 2022) - International Exhibition Centre of Sistan and Baluchistan in Zahedan
- International Exhibition of Machinery, Roads, Mining and Construction (22-25 February 2022) - Fars International Exhibition Centre in Shiraz
- International Exhibition of Stones, Mining and Related Machinery (22-25 February 2022) - Fars International Exhibition Centre in Shiraz

«Ultimately, it's not going to be about man versus machine. It is going to be about man with machines.»

Satya Nadella

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 5 Tasnim, January 2019, Export of Iranian tractors to Europe and Latin America, <https://bit.ly/3ABZkX6>
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 11 Namayeshgaha, June 2021. Available at <https://www.namayeshgaha.ir/green-iran/>

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