

# Easing sanctions will unleash Iran's logistics potential

*by John Manners-Bell, Ti*

**W**ith an economy just outside the Top 20 largest in the world, and with only Saudi Arabia bigger in the Middle East, in more normal times a country the size of Iran would represent a major opportunity for Western investors. After all, the country is endowed with considerable natural resources, it has a large and growing middle class, a well-educated work force and a diversified manufacturing base. In terms of trade, exports are dependent on oil revenue and imports are largely made up of industrial goods as well as cars and pharmaceuticals, mainly shipped from China and India.

However Iran's economic significance has been very much overshadowed by the concerns of international community over what many countries see as attempts to destabilise the region through nuclear ambitions. This has led to a package of international sanctions being implemented which have severely limited the ability of companies to do business in the country and isolated Iran from many of its trading partners. As well as targeting Iran's oil industry, all financial transactions between US/EU companies and Iranian companies are banned.

There is, however, a growing chance that in the not-so-distant future this situation could change. In November 2013 an interim deal between the EU, US, China, Russia and Iran was reached which led to the suspension of Iran's nuclear enrichment activities and the subsequent lifting of some sanctions. Further talks are due in Spring 2014 and the EU's foreign policy chief, Baroness Ashton, has visited Iran in order to better relations ahead of the next round of talks.

If – and it is a very big if – sanctions are lifted, Iran's development as a major consumer market in the region would bring about enormous supply chain opportunities. It is inconceivable that the major consumer goods manufacturers are not already eyeing up the market and working out ways in which they can distribute their products throughout the country.

However from a logistics and transport point of view it is its potential as a major international hub which is most exciting should political barriers to re-integration in the global trading community be overcome. In fact Iran already has major plans to capitalise on international flows of goods in order to leverage its geographical location on east-west and north-sea axes.

Should sanctions be lifted, the country offers alternatives to conventional shipping routes between Asia and eastern Europe and the CIS countries. By by-passing the Suez Canal considerable time – and money – could be saved, utilising rail and short sea shipping across the Caspian Sea. Some estimates put the time savings at as much as 40% and cost savings at 30%.

This however would rely on significant investment in ports on the Persian Gulf. Its largest port in Bandar Abbas in the south cannot come close to accommodating the world's largest ships and hence transshipment is required in Dubai. Such volumes fell by almost a fifth in 2013 as a result of the EU and US sanctions.

There are plans in place, backed by India, to expand another port in the region, Chabahar. Unlike others in Iran, this is east of the Straits of Hormuz, and theoretically would offer a better alternative by avoiding

this bottleneck. India's interest is to create a route to market for its exports in eastern Europe and Central Asia which doesn't require the transit of the Suez Canal.

As well as investment in ports, rail infrastructure is also a priority. The Iranian government has allocated \$605m to improve the rail network, largely focused on projects which will facilitate international flows of goods. A rail link to Turkmenistan and Kazakhstan is a good example of this, and it should be complete by the end of 2014. It is expected to carry 5m tonnes of freight annually from Europe to the Persian Gulf and this could rise to 12m if international relations improve.

Some sanctions have already been lifted and although it is too early to say whether relations with the West are thawing, the transport and logistics industry has much to gain from a normalisation of trade and investment, both from exploiting Iran's domestic market and using the country as a major international hub.

***For more information on the supply chain and logistics industries in Iran and other countries in the Middle East, order Middle East Transport and Logistics Report 2014 and attend Ti's Emerging Market Logistics Conference, Dubai, June 4/5 2014. More details on [www.transportintelligence.com](http://www.transportintelligence.com).***

## About the Author:

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John started his working life as an operations manager in a freight forwarding and road haulage company based in the UK. Prior to establishing Transport Intelligence, he worked as an analyst in consultancies specialising in international trade, transport and logistics. He also spent a number of years as European marketing manager for UPS Supply Chain Solutions working at locations across Europe including France, Netherlands and Germany.



He holds an MSc in Transport Planning and Management from University of Westminster and is an Associate of King's College London. He is a Fellow of the UK Chartered Institute of Logistics and Transport and a Member of the Logistics Global Advisory Council of the World Economic Forum. John has travelled widely, undertaking research and speaking at conferences in countries including China, Hong Kong, India, Japan as well as in the Middle East, USA and extensively throughout Europe. He is regularly quoted in the international and trade media as well as on radio and television.

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