Conditions of Iranian international trade in terms of lifting the sanctions: A case study of Polish-Iranian trade perspectives

The main aim of the paper is to identify the areas and determine the feasibility of trade between Polish and Iranian companies in relation to historical and cultural conditions. The authors describe the complexity of the issue of foreign trade, the determinants of relations between Poland and the Islamic Republic of Iran, and the Iranian economy – its features, strengths and weaknesses, and consequences of the recent UN, EU, and US sanctions. They analyse Iranian international trade in recent years, with particular focus on countries with the largest share of import and export, and trade between Iran and EU countries (including Poland). They also describe the most promising sectors from the point of view of Polish exporters as well as prospective sectors for the import of commodities from Iran to Poland. The authors use primarily descriptive statistical methods of analysis, based mainly on literary research and the latest available statistics published by international organisations. The studies show that there are many areas in which cooperation between Polish and Iranian companies would be possible and profitable for both parties. However, measures should be taken to further remove trade barriers and facilitate the establishment and development of bilateral trade relations.

Keywords: trade, Iran, Poland, sanctions, perspectives

JEL classification: F40
Introduction

Trade is defined as an economic process consisting in the sale or exchange of goods and services for money or for other goods and services (barter). The fundamental aim of trade is to gain profit. Its functions include [Białecki, Januszkiewicz, Oręziak, 2007]:

- directing the flow of goods over time,
- directing the flow of goods in space,
- developing commodity structure by type and range.

Depending on the type and scope of activities, trade can be classified as wholesale or retail.

One of the varieties of trade is international trade, which can be defined as the exchange of goods or services with participants whose permanent residence is located outside the customs border of a particular state. In a narrow sense, international trade refers only to material goods and is conducted in order to [Rymarczyk, 2005]:

- provide the supply of foreign products within the country or sell goods abroad,
- achieve the benefits, which are the result of the export gained as the advantage in production costs over international partners,
- achieve the scale of production that ensures its profitability.

The extended definition also includes asset turnover, credit, and current turnover, and consists in purchasing and selling not only goods, but services and other intangible assets as well. International trade also consists of liabilities resulting from the cross-border movement of people, maintaining diplomatic missions, annuities, pensions, and other expenses.

Supportive arguments for a broad definition of international trade include [Białecki, Januszkiewicz, Oręziak, 2007]:

- the resulting possibility of alternative use of the economic resources of a country in all fields of international division of labour,
- the observation that individual components of the entire economic turnover are substitutable and complementary, and, as such, they should be treated as equal sources of foreign exchange and considered inseparably.
Another important concept which should be taken into consideration is indirect export, i.e., export conducted through intermediaries such as professional foreign traders or international companies. A common example is the export of Polish products to the intermediary based in the United Arab Emirates (UAE), which was usually limited to slight tolling, repacking, or even direct shipping to Iran [Bonikowska, Szczygielski, Turkowski, 2016]. Another example could be the transmission of the Russian natural gas to Ukraine through other European countries.

From the research point of view, the sanctions limited the access to the Iranian statistical data. Thus, although the authors used all available data, it has to be said that some data periods could be considered random.

1. Historical conditions

Polish-Iranian relations have a long history. The two states first established contact in 1474 and concluded an alliance in the 16th and 17th century. What is more, Persia never accepted the partitions of Poland. In 1919, the Persian Empire recognised the Polish state unconditionally, and in 1927 both countries signed the bilateral ‘Treaty of Friendship’, which remains in force until today. During World War II, Iran maintained diplomatic relations with the Government of the Republic of Poland in exile in London [Sasnal, 2014].

In 1979, the Polish government acknowledged the victory of the Islamic Revolution in Iran and, by the same token, the legitimacy of the new authorities and the newly-established Islamic Republic of Iran. In the 1980s and early 1990s, the Polish-Iranian trade volume peaked rapidly, reaching US$ 500mn per year in 1991 and 1992 [Vejdani, 2015].

After the social and economic transformation in Poland, both partners experienced a reduced intensity of diplomatic relations. The main reason was a change in priorities of the Polish government, which now turned its attention towards reforms and Polish accession to the European Union and NATO. In 2003, Polish authorities terminated the 1973 trade agreement due to the EU accession requirements.

At the beginning of the 21st century Iran violated the provisions of the Treaty on the Non-Proliferation of Nuclear Weapons by working on uranium enrichment despite the UN Security Council resolutions and decisions of the International Atomic Energy Agency (IAEA). Since Iran undoubtedly sought to have its own nuclear arsenal, sanctions had to be imposed [Zakrzewski, 2012].
2. The economy of the Islamic Republic of Iran

The economy of the Islamic Republic of Iran is one of the fastest growing in the Middle East – and it is not limited to the crude oil industry.

In 2016, despite the 4.5% GDP growth, unemployment stood at 10.7% and inflation was high at ca. 8% (compared to 13.7% in 2015). However, it should be mentioned that the macroeconomic situation is still much better than a decade ago and it is expected to improve in the nearest future. Iran’s GDP per capita in 2016 reached ca. US$ 5,500, yet many Iranians live in poverty. Noteworthy is the accessibility of education (99.8% of children start primary education) and medical care. Iranian society is relatively young – the median age is 29.4 years, which is significantly less than in the EU countries (42.2) [World Bank].

Iran is in possession of the fourth in the world, in terms of its size, discovered oil deposit and the second biggest natural gas reserves. The vast majority is exported. Another important sector is agriculture. Iran is the world’s largest producer of pistachio nuts and the second largest producer of dates. Other exported products include chemicals and plastics [Moshiri, 2014].

Apart from oil and gas production, the most important branches of Iranian economy are textile, chemical, and car manufacturing industries. Iranian factories annually produce more than a million vehicles. Most of them – including both local-brand cars as well as Peugeot and Mercedes vehicles under license – is manufactured by the Iran Khodro company. In addition, there are traditional crafts such as weaving carpets or pottery.

Iran imports machinery, electronics, and various types of appliances. Recently, a controversy was raised by the growing import of technologies for nuclear power plants. Another inhibiting factor is the embargo on aerospace products, which adversely affects the size and safety of air transport [Gambrell, 2016].

The large-scale industry is dominated by the state sector, while small and medium-sized businesses are privately owned. A very important economic role is played by the local markets (the bazaars), where small and medium traders conduct operations in their stalls [Payvand, 2008].

2.1. The impact of sanctions on the Iranian economy

Sanctions are a form of coercion aimed at increasing the cost of the activities held by the particular entity and, consequently, prompting the change. Sanctions are an essential tool in international politics and a relatively inexpensive way to express disapproval of the actions of the authorities of a specific country or organisation. More narrowly, sanctions are measures taken by the United Nations Security

The EU sanctions on Iran were adopted as part of an integrated policy to both pressure and be an incentive. The UN Security Council also adopted several resolutions requesting Iran to cease enriching uranium for proliferation reasons, starting from 2006 and gradually exerting increasing diplomatic pressure. However, the UE itself made one step further, and not only implemented the sanctions imposed by the UN, but also imposed a wide range of autonomous economic and financial sanctions, including [Fiedler, 2013]:

– limiting trade in certain commodities,
– restrictions on the financial sector,
– measures for the transport sector,
– travel restrictions and the freezing of assets of persons and entities.

Since January 2014 some of these sanctions have, however, been suspended as a result of the interim agreement called the ‘Joint Plan of Action’, signed by Iran and the EU in 2013. The Council extended the suspension of the sanctions until January 2016 in order to provide Iran with time to identify solutions and prepare for the introduction of the plan [EU, 2016].

At the beginning of January 2016, the International Atomic Energy Agency (IAEA) confirmed that Iran implemented the required measures, and the Council could therefore lift the EU economic and financial sanctions against its nuclear program. However, some restrictions still remain in force.

The imposed sanctions significantly influenced Iran’s trade policy, both domestic and international, resulting in the increased trade in goods and services with Asian countries (mainly China and Turkey) and the decreased import from the EU. Since the introduction of the first sanctions with regard to the nuclear program, the importance of the UAE as a major exporter to Iran have grown incomparably. Its position made it possible mainly to re-export products from other countries, which enabled some European countries, including Poland, to trade with Iranian partners through intermediaries [Sasnal, 2014].

The main difficulty posed by the trade sanctions was payment settlement. In order to circumvent the restrictions, most new entities were established in the UAE. This practice allowed the liberal approach of its authorities to accept the financial transactions between Iran and other worldwide partners. To circumvent restrictions on funds transfers, a number of entities used Chinese and Pakistani banks, as well as the traditional Islamic system of transferring money by bypassing banks based on the word of honour, called *hawala*. In addition, Iran creatively effected transactions with other countries, e.g. India, by accepting payments in Rupees, and Turkey, by receiving payment in gold, which were then used in transactions with China. For instance, in 2012 Iran was supported by US$ 6.5bn
worth of Turkish gold used to replenish reserves and financing payments. Various companies trading with Iran also used to avail themselves of the old-fashioned method – barter trade.

The sanctions that hindered oil exports from Iran meant that the authorities had to take measures to increase exports of other products. There was an increase in exports of iron ore, urea, methanol, tar, and cement [Sasnal, 2014]. In the long term, diversification of sales can reduce the dependence of the economy on oil sales. In recent years, as a result of a significant decline in revenues from sales of crude oil, Iran struggled with stagflation as well as a decline in real GDP caused by high inflation. The problems of the Iranian economy also indicated the necessity to subsidise food and fuel for the poorest citizens and thus extended bureaucracy and increased mismanagement [Wilkin, 2015]. As a result, the former president Ahmadinejad increased public sector debt to the domestic banking sector and state-owned commercial banks, getting them into financial trouble. In addition, prescriptive lending to consumers and businesses weakened the whole banking system and led to a rise in inflation even prior to the imposition of sanctions. Reduced oil sales and the negative effects of government economic policy were reflected in the GDP growth, as shown in Figure 1.

![Figure 1. GDP growth (in %)](source: [Trading Economics Database].)

Currently, a major concern of the Iranian economy is high inflation. The increasing prices of basic goods are not followed by an increase in wages. At the same time, the unemployment rate has raised. The inflation rate is shown in Figure 2. Thus, from the macroeconomic point of view, such situation can cause several problems in the future and may be a threat for the stability of the Iranian economy.
Another problem is the unstable exchange rate of the Iranian rial (IRR) to the US dollar (US$). For a long time, it remained relatively stable at ca. IRR 10–12,000/US$ 1. However, the impact of sanctions depreciated the rial dramatically. In July 2013, it fell in value from IRR 12,200 to 24,980/US$ 1. At the same time, the market rate stood at 26,500 IRR/US$ 1. Despite the many government interventions, the value of the rial is still decreasing. At the beginning of 2017, it fell to ca. 32,000 IRR/US$ 1.

Lifting the sanctions could lead to a rapid improvement in the economic situation of Iran, not only by removing the barriers to international transactions, but also by enabling foreign entities to invest on the territory of Iran and thus increasing competitiveness i.a. in the key mining sector.
3. Trade exchange

Iran presents a positive balance of trade measured as the difference between a country’s exports and imports. Countries with the largest share of Iranian exports are presented in Figure 4.

![Figure 4. Top 10 Iran export partners in 2011](source)

Figure 4. Top 10 Iran export partners in 2011
Source: [Global Edge Database].

![Figure 5. Top 10 Iran import partners in 2011](source)

Figure 5. Top 10 Iran import partners in 2011
Source: [Global Edge Database].
Noteworthy, about 54% of total exports is received by three countries: China, Iraq, and the United Arab Emirates.

The leader in the supply of goods and services to Iran is the UAE (as much as 32% of the total value of imports), followed by China, South Korea, and Germany (nearly 72% in total). The top ten also included four partners from Europe, which seems promising for Poland as well.

Figure 6. Top 10 Iran export goods in 2011
Source: [Global Edge Database].

Figure 7. Top 10 Iran import goods in 2011
Source: [Global Edge Database].
The structure of Iranian exports is dominated by different types of fuel (including chemical industry products). The structure of imports is much more fragmented, with noteworthy shares of machinery and equipment, steel, vehicles parts, cereals, and food.

Figure 8 shows the volume of trade of the EU with Iran. A significant drop in both imports and exports can be observed after 2012 (the year of tightening the sanctions, which clearly limited the import of Iranian products to the EU). Lifting the sanctions is expected to substantially increase the trade volumes over the next few years at least to the 2005 level; according to many forecasts, historical levels should also be exceeded.

4. Prospects for the Polish-Iranian trade

In 2011, the total value of bilateral trade between Poland and Iran reached EUR 167mn. In 2014, however, the value of Polish exports to Iran was EUR 34.9mn and the value of imports – EUR 22.4mn (trade turnover exceeded EUR 57mn). Year 2015 did not bring recovery in economic relations – the value of trade exchange slightly exceeded EUR 60mn. Looking at the volume of trade between Iran and Lithuania – with ten times less population, but the value of exports to Iran amounting to US$ 264.3mn in 2012 – it is clear how much remains to be done by Polish entrepreneurs [MTRP, 2015].

Figure 8. EU trade of goods: Flows and balance, 2005–2015 (US$ mn)
Source: [EU, 2017].
The undeveloped activity of Polish entrepreneurs and diplomats could be seen during the Iran Agro 2016 – the biggest food fair in the Middle East, which took place in May 2016 in Iran. One of the authors of this article had the opportunity to participate in Iran Agro 2016 and lead conversations with many entrepreneurs, both Polish and Iranian. The Polish delegation consisted of only a dozen exhibitors from the food, agricultural, and drink sectors. Unfortunately, there was no visible diplomatic support despite the activity of the Polish Embassy in Tehran, which seems important from the business culture point of view. The delegations from Germany, Italy, or France, were much more numerous; tens of German exhibitors presented advanced products, e.g. assembly lines for the production and packaging of food. What is more, exhibitors from China, Turkey, or India also had very large and diverse delegations.

An important segment for the development of bilateral economic relations is shipping. The Iran–Poland route is serviced by transoceanic vessels, including container ships, operated e.g. by Maersk. The company has used the facilities of DCT Gdansk, which, after its expansion, gained a second biggest wharf in Poland equipped with appropriate infrastructure to accommodate an increased volume of cargo. The other container terminal used by the Iranian companies is located in Gdynia.

The other issue important for the Polish-Iranian trade relationship is the so-called ‘New Silk Road’ – a land trade route from China to Europe, through Iran. In the long term, it may provide an alternative for maritime transport [Shepard, 2016].

The imposed sanctions required that Iranian banks were disconnected from the SWIFT system, used for the exchange of information between banks. In prac-
tice, it meant blocking the possibility of transferring funds to or from Iranian banks. In February 2016, PKO BP SA as the first Polish bank exchanged SWIFT keys with several Iranian banks, thus creating the possibility of settlements between Polish and Iranian businessmen. Another obstacle to extending economic cooperation was overcome [PKO BP, 2016].

Iran should be seen by Polish companies as a big potential market of 80 million inhabitants, still poorly penetrated by firms from other countries, in particular from the EU and the US. The most promising sectors from the Polish point of view are [Bonikowska, Szczygiel, Turkowski, 2016]:
- agri-food (Iran imports ca. US$ 8bn worth of food products per year, which represents 85% of the agri-food products on the market; the most attractive Polish export products may be grains, fruits, preserves and frozen food, dairy products, sweets),
- cosmetic and pharmaceutical (in high demand in Iran, caused by the lack of sufficient technology to produce advanced drugs and cosmetics),
- mining equipment and machinery (Iran is rich in resources, and the mineral industry requires investment in new equipment),
- machinery and equipment for many sectors, including the agriculture and food industry,
- furniture (Poland is one of the largest exporters in the world) [Sztandera, 2016],
- means of transport, in particular locomotives, trams, railway cars [JMCatalysts, car parts and other automotive goods (the average car in Iran is 17 years old; 1/3 of vehicles are older than 20 years),
- medical and diagnostic equipment (Iranian hospitals require investment in technologically advanced equipment).

When it comes to the import, the most perspective sectors are:
- petrochemicals: oil, natural gas, etc. (Iran is in possession of 11% of the world’s oil reserves and 15.3% of natural gas reserves),
- plastic acquired from hydrocarbons (e.g. petroleum), relatively low-priced in the Iranian market,
- dried fruit, nuts, etc. (Iran is the world’s largest producer of pistachios and at the forefront of manufacturers of raisins, dates, etc.),
- stone,
- metals (Iran is a major exporter of iron ore and a major manufacturer of aluminium).

Conclusions

Lifting the sanctions against Iran opened new opportunities for dynamic development of its economy. At the same time, it is a chance for Polish entrepreneurs
to deliver their products and technology to a relatively new market. Iran has also already delivered a wide range of goods to customers in Poland (e.g., petrochemical products have been received by Lotos and Orlen – two largest Polish petrochemical companies) [Trusewicz, 2016]. Nonetheless, trade can still reach a greater level, if only the existing barriers are eliminated and new opportunities created. Due to historical reasons as well as its good economic and political situation (e.g. membership in the EU, WTO, and OECD), Poland can become a key partner for Iran, facilitating the access to foreign exchange markets. In addition, it is also the responsibility of public organisations to promote export, analyse the demand, and enable entrepreneurial cooperation. Identification of the most promising areas for economic cooperation could give the crucial impulse for Polish companies to increase their activity in the Iranian market.

In the opinion of the authors, it is necessary to engage in collaboration with local chambers of commerce and private companies involved in building business relationships and organizing B2B events. Without a doubt, the support of diplomatic personnel of the Polish Embassy in Tehran and the Polish authorities should also be considered indispensable for building mutual trust and long-term business relationships, which could be extended in the future. Polish companies could thus not only attempt to effectively sell their products but also more actively participate in the Iranian market.

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