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Mining in Iran: Post-deal Opportunities

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US$20 billion worth of investment opportunities in Iran's mining sector has piqued the interest of international mining companies

Opportunities were presented by Iran's Minister of Industry and Mines at an investment conference in Vienna following the Iran nuclear deal reached in July 2015. In the weeks following the deal, high-level government and private delegations from Asia and Europe visited Iran to explore political and business opportunities.

What prompted this heightened interest? Iran is expecting relief from certain US, UN and EU sanctions which will open up its economy, including its mining industry. This relief has been agreed between Iran and the P5+1 (China, France, Germany, Russia, the UK and the US) in exchange for Iran curtailing its nuclear program.

The timing of sanctions relief hinges on the adoption of necessary measures by the UN, US and EU, Iran's implementation of the nuclear measures and the International Atomic Energy Agency's verification of such implementation. On 20 July 2015, both the UN Security Council and European Council endorsed the deal and put in place the mechanisms required for its implementation. Once the review process of US Congress is successfully concluded, the IAEA could verify Iran's implementation by early to mid-2016 (estimates vary). Upon IAEA verification, the sanctions relief will become effective.

Relief will be provided from US "secondary" nuclear-related sanctions (which apply to non-US actors with no US nexus). With certain limited exceptions, US "primary" sanctions (which apply to US persons) will remain in place. Relief from UN and EU sanctions is clearer, with all nuclear-related sanctions (which cover the majority of transactions) to be lifted. As a result, non-US companies can expect to resume normal business dealings with Iran upon implementation of the deal, so long as such dealings do not involve any US persons (including US banks) or other US nexus. Here are some examples of what would be possible in Iran's metals and mining industry:

- ownership of mines by foreign companies (including exploration and extraction);
- financing of mining projects; and
- import and export of precious metals, graphite, raw and semi-finished metals (such as iron ore, aluminium, steel and coal).

Here we look at the current state of Iran's mining industry, the regulatory framework and expected areas for growth.

Lay of the land

Iran ranks 10th in the world for mineral variety, with 68 types of minerals estimated to be worth US$700 billion. As the 15th largest mineral holder globally, Iran's 37 billion tons of proven reserves and 57 billion tons of potential reserves are real pull factors. The industry comprises a staggering 5,000 plus active mines and employs 620,000 people. So it is no surprise that 25% of the market value of the Tehran Stock Exchange is generated by the mining sector.

Copper: 75% of the Middle East's total copper ore production comes from Iran. The country's reserves are estimated to be 2 billion tons. In 2014, Iran's copper (cathode) production totalled 194,000 tons. The country has big plans for the commodity and is aiming to quadruple annual production to 800,000 tons by 2025.

Aluminium: Iran aims to produce 1.5 million tons of aluminium by 2025. The country's local supplies are supplemented by small-scale imports from India and Australia, which together satisfy 300 kilotons of demand each year. To date, Chinese, German, French and Italian entities have been involved in aluminium production in Iran. These companies will find it easier to ramp up investment in the post-sanctions environment.

Zinc: With 300 million tons of proven zinc reserves, Iran sits behind China, Kazakhstan and India as the world's fourth biggest producer of lead and zinc concentrate. Only 5.1 million tons have been extracted – less than 0.5% of what is available.

Iron ore: Iran has impressive deposits of iron ore in Kerman, Yazd and Khorasan. Major iron ore mines feed the domestic steel industry. Globally, Iran was the world's 15th largest steel producer country in 2013. It produced 15.4 million tons of crude steel, to meet the country's 20 million ton domestic demand. By 2025, Iran is aiming to produce 52 million tons, which is more than three times 2013 levels. With increasing demand in Asia and the Middle East, Iranian iron ore producers are well positioned for the next uptick in demand.

Regulation and the Regulators

Iran's Constitution and Mining Code regulate the mining sector. Formation and implementation of Iran's mining policy is undertaken by the state-owned holding company Iranian Mines and Mining Industries Development and Renovation Organisation (IMIDRO). This includes setting policy on mineral exploration and extraction, construction and development and royalty levels.

IMIDRO promotes and incentivises foreign and private sector investment by acting as a partner for foreign investors and participating as a shareholder in joint venture companies. Since its inception in 2001, IMIDRO has invested US$17 billion in 69 mining projects, with another US$9 billion currently being invested to implement 29 new projects. The state's involvement in mining initially assisted private companies with project funding shortfalls. With added private and foreign funding, the state has announced it would be happy to sell stakes in its various mining projects.

Private companies can apply to the Ministry of Industry, Mine and Trade (MIMT) for exploration licences. Once minerals are discovered, MIMT issues a discovery certificate which can be transferred to another party or used to apply for an extraction licence. Unlike Iran's oil and gas sector, where the foreign ownership of resources is strictly regulated, there are no restrictions preventing ownership of mineral rights by foreign companies or individuals. Extraction licences are issued by MIMT and prescribe the quantity of the minerals that can be mined. Royalties are determined on a case by case basis and the sums are modest (typically less than US$1 per ton).

Foreign investment is facilitated and protected under Iran's Foreign Investment Promotion and Protection Act 2002. Foreign companies were involved in Iran's mining industry in the past. For example, Mehdiabad zinc project was developed with the cooperation of Austrian and Australian partners in 2006. Foreign participants began scaling back their activities in 2010, but are again approaching Iran with newfound enthusiasm in light of recent developments. In August 2015, Kobe Steel and state-run Japan Oil, Gas and Metals National Corporation (JOGMEC) met with IMIDRO in Tehran to discuss participating in Iran's mining sector through technology transfer and the financing of iron ore, copper, coal, titanium and potash projects.

Next steps and draw cards

New entrants to Iran's mining sector will need to learn the ins and outs of the market and legal environment, including foreign investment and ownership of natural resources, sanctions, employment, tax and dispute resolution. The learning curve may be shortened by collaborating with a strong local partner. This approach, combined with thorough due diligence and continued compliance with sanctions, should set companies in good stead to navigate this new market.

Even with the lifting of nuclear-related sanctions, doing business in Iran may be challenging. But the country's strategic location, domestic growth prospects and significant resources are compelling draw cards.

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