



## The British-Iranian Chamber of Commerce

# Economic Headlines: 13 June – 7 July 2008

**Oil & Gas exploration and production.** Norwegian and Italian companies are showing continuing interest in oil sector projects, even though Total announced withdrawal from further energy sector investments. NIOC has agreed that the Mostazafan Foundation may have a wider role in international oil and gas markets.

**Oil & Gas sales.** Iran is discounting the price of its heavy crude by US\$3.92/b. India has not met the deadline to respond to its involvement in the IPI project. The IPI gas price formula will need renegotiation if Iran is to achieve market prices for the gas. The US Energy Information Bureau reports that Iran's oil revenues in 2008 will be double those in 2007.

**Regional energy relationships.** Iran is negotiating to buy 700MW of electricity from Azerbaijan. Iran will start drilling in the Caspian in September. NIOC and Gazprom have signed a comprehensive agreement for energy sector developments.

**Other Projects.** A ministerial working group has been established to progress the completion of the long-delayed Tehran-North Highway project.

**Trade.** In the first quarter, Iran's non-oil exports at US\$6 billion were 37 per cent higher than in the same period last year. The US Statistics Bureau reports US trade with Iran has increased to US\$318 million in 2007, US\$75 million higher than in 2006 – US exports were US\$148 million.

**Economy.** The IMF ranks Iran as the 10th largest economic power among developing nations, surpassing South Africa, Egypt, Venezuela and Thailand in the last seven years.

**Economic Restructuring Plan.** The President has proposed an "economic surgery" plan, intended to eliminate subsidies, restructure banks, and for taxation and customs. Many MPs are sceptical and a Majlis Commission has been set up to investigate the proposal and other problems (principally inflation and unemployment) in the economy. The CBI is establishing a working party to study the plan's inflationary effects.

**Real Estate.** CBI reports that real estate price inflation has been 24 per cent over the last year. The government is considering a value added tax on the accumulation of real estate gains resulting from trading in property.

**National Development Fund.** The Expediency Council has proposed an NDF, to replace the OSF, over which the government will have no control. 40 per cent of oil and gas revenues, after production costs, will be deposited in the NDF; the remainder will be available to government for fiscal, capital and other expenditures.

**Shortages and drought.** Blackouts due to electricity shortages are occurring in Tehran for as long as five hours at a time. The rural population has moved significantly to the towns in the past year because of the drought. Petrochemical complexes are near closure due to the shortage of gas supplies.

**Government changes.** Rahmati has been dismissed as Minister of Transport; Hashemi as the director of the Iran Customs Administration; and Ghanimi-Fard has been moved from his post as International Affairs deputy for NIOC.

**Inflation and price increases.** Inflation was 26.4 per cent at the end of June. Food prices have risen 30.5 per cent in the year to May and there have been further rises since then. A planned increase in the price of milk will increase the price of dairy products by 35 per cent.

**Rationing and subsidies.** US\$8 billion is needed to continue importing gasoline this year. Ahmadinejad has promised to start distributing cash subsidies in March 2009, just before the next presidential election.

**Banking.** The CBI seems to have won the argument over interest rates: they will remain at 12 per cent and government will pay the subsidy intended for certain sectors directly to the borrowers. CBI reports that government has agreed to repay its outstanding debts to the banking sector.

**TSE.** The beginning of July saw a record market value of US\$67 billion on the TSE and TEPIX standing at its highest in three years, since before the last presidential election.

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