

The Executive-By-Laws of

The Law on Attraction and Protection of Foreign Investment

(Unofficial Translation)

No. H27032T/32556
Date: Oct. 15, 2002 (23.07.1381)

To: The Ministry of Economy and Finance

In the course of a session held on September 15, 2002 (24.06.1381), pursuant to Proposal No.29778 dated August 14, 2002 (23.05.1381) forwarded by the Ministry of Economy and Finance, and by virtue of Article 25 of the Law on Attraction and Protection of Foreign Investment, approved in 2002, the Council of Ministers ratified the executive by-laws of the said Law, as follows:

Chapter 1: Definitions

Article 1- All the definitions and terms in Article 1 of the Law on Attraction and Protection of Foreign Investment shall have the same meaning in these By-Laws.

Other terms and expressions used in the present Executive By-Laws shall have the following meanings:

- a. By-Laws: means these Executive By-Laws of the Law on Attraction and Protection of Foreign Investment.
- b. Corporation: means an Iranian company, already or newly established, in which the foreign capital shall be utilized in conformity with a method prescribed in the Law.
- c. Non-Government sector: means the private and cooperatives sectors, as well as the non-government public entities and institutions.
- d. FISC: means the Foreign Investment Services Center, which shall be set up, pursuant to Article 7 of the Law, at the place of OIETAI (the Organization for Investment, Economic and Technical Assistance of Iran).
- e. Official Monetary Network: means the banking system (including the Central Bank of Iran as well as the government and non-government banking systems) and the non-bank credit institutions engaged in monetary and foreign currency activities, upon CBI's approval and authorization.
- f. Auditing Institute: means an auditing institute to be appointed by OIETAI from among the auditing institutes membering either the Iranian Chartered Accountants Society, mentioned in the Law on Utilization of Specialized and Professional Services Rendered by Competent Accountants as Chartered Accountants, approved in 1993 (1372), or the ones which member the Auditing Organization.

Chapter 2- Foreign Capital Admission Criteria

Article 2- The foreign capitals which shall be admitted in the Islamic Republic of Iran, in conformity with the Law on Attraction and Protection of Foreign Investment shall be entitled to the facilities and protections described in the Law. The admission of foreign capitals shall be subject to the general terms and conditions concerning admission of such investments, provided that an application in writing shall be submitted by the foreign investor, in compliance with the criteria and provisions made in the present By-Laws.

Article 3- The admission of foreign capitals, in conformity with the Law as well as the criteria laid down in the present By-Laws, shall comply with one of the methods outlined below. The schedule of foreign investment methods, the specifications as well as the facilities to be rendered in compliance with the Law on Attraction and Protection of Foreign Investment shall be drawn up and subsequently notified by the Ministry of Economy and Finance.

A. Direct Foreign Investment

B. Foreign Investment within the Scheme of "Build-Operate- Transfer" (BOT), "Buy-Back" and "Civil Partnership" Contracts

Article 4- The investments mentioned in Article 3 above, shall enjoy certain facilities in common, though each method shall separately be given certain exclusive benefits and facilities, in terms of the manner of investment and statutory protections.

A. Facilities and Benefits in Common

1. Foreign investors shall be equally treated compared with domestic investors.
2. The import of foreign capitals in cash or in kind shall exclusively comply with the investment authorization,

which shall be given to this end. Accordingly, no other authorization shall be required.

3. The amount of foreign capitals shall not be subject to any restriction whatsoever.

4. Foreign capitals shall be guaranteed and secured against nationalization, expropriation and dispossession. Accordingly, the foreign investors shall be entitled to claim compensation for damages, if sustained under such grounds.

5. It shall be authorized to export the principal capital and the profit generated through exploitation of the capital, in the form of a foreign currency or commodities, as the case may be, in conformity with the method, which shall be specified in the investment authorization.

6. The authorization and freedom of the export of commodities to be produced and manufactured by the corporation, which shall admit the foreign capital, shall be totally guaranteed. However, if the export of such commodities shall be prohibited in the future, the commodities shall be domestically sold in order to transfer abroad the proceeds in the form of a foreign currency through the official monetary network of Iran.

B. Exclusive Facilities and Benefits

1. Direct Foreign Investment

1-1 It shall be authorized to make investments in the fields and areas already authorized for the Iranian private sector.

1-2 No restriction or limitation whatsoever shall be placed on the percent of participation of the foreign investor.

2. Investment within the Scheme of BOT, Buy-Back or Civil Partnership

2-1 The government shall guarantee to indemnify and compensate the losses and damages sustained by a foreign investor as a result of a legal prohibition or termination of the financial agreement by virtue of a new legislation or enactment of a new decree by the government, maximally to the amount of due instalments.

2-2 In the case of BOT and civil partnership contracts, the government shall guarantee procurement of the commodities and services produced in a project in which a government organization, as a party to such contracts, shall make investments, provided that the government organization concerned shall be the exclusive purchaser or supplier of the commodities and services at the subsidized rates and prices.

Article 5- The Iranian natural persons and legal entities applying for investments in Iran shall be required to produce and submit documents or evidence demonstrating their economic and commercial activities abroad, in order to be entitled to and take advantage of the facilities and protections described in the Law.

Article 6- In the case of those foreign investors which have earlier made investments in Iran but which are not protected by the Law, they shall be authorized to apply for the admission of their foreign capital. If their investment shall be found admitted, their principal capital shall be subject to the protections mentioned in the Law. After an investment authorization shall be issued to such investors, they shall be entitled to the legal benefits and facilities including the authorization for transfer of the profit. Such investments shall generally be considered as "existing investments" and shall accordingly be subject to the general criteria applicable to admission of foreign capitals.

Article 7- Foreign investments which may be made in the existing corporations through purchase of stocks or increase in the capital and/of a combination of such methods, shall be subject to the facilities and benefits mentioned in the Law, if they pass through the admission stages, and on condition that such investments shall result in and generate value-added. Value-added may be generated as a result of increase in the capital of the corporation and/or through attainment of objectives such as promotion of management, expansion and development of exports and/or technological improvements in the corporation.

Article 8- Upon review and examination of the, foreign investment applications made for issuance of the required authorization, the FIB (Foreign Investment Board) shall approve and verify the proportions laid down in Clause (d) of Article 2 of the Law, in conformity with the following criteria:

a- The specifications of the project proposed including the type and amount or the services and commodities to be produced, the time schedule for implementation and exploitation of the project, the forecast for domestic sale and/or exports shall be registered on the investment application forms.

b- Official statistical figures prepared by competent authorities concerning the value of services and commodities supplied in the domestic market prevailing in the time of issuance of the authorization, with due regard to the sector and the field concerned, shall be collected by the Economic Affairs Deputy of the Minister of Economy and Finance. The statistical figures and data, which shall be furnished and submitted by the said Deputy to OIETAI before the end of the first quarter of each year, shall serve as the basis and criteria for the decisions to be made by FIB.

c- The sectors and economic fields and areas shall be separated and specified in compliance with the list and schedule attached to the present By-Laws.

d- The amount of investment in each and everyone of the sectors, fields and areas shall be determined and specified by the FIB, duly observing Clauses (a), (b) and (c) above, with due regard to the value of the services

and commodities supplied in the domestic market, and in conformity with cancellation of the limitations on the investments made for the export of services and commodities produced through foreign investments. Upon approval and endorsement of the project proposed, the required investment authorization shall be issued.

Note- Changes and fluctuations in the value of services and commodities produced through foreign investments, and/or changes in the value of the services and commodities supplied in the domestic market, which have earlier served as the basis for the approval by FIB of issuance of the investment authorization, shall not affect, in any manner whatsoever, the validity of the investment authorization given earlier.

Article 9- The proprietary or acquired rights shall be transferred to the Iranian party specified in BOT contracts, either gradually during the contract period or all together (in a lump sum) upon termination of the contract period, as per the mutual agreement by the parties to such contracts.

Article 10- In the case of BOT contracts, it shall be authorized to transfer the proprietary rights of the foreign investor to the entity financing the sources required for the investment, upon confirmation and approval by the FIB.

Article 11- In the case of those investment projects where a government organization shall be the exclusive purchaser of the services and commodities produced, and in cases where the services and commodities produced through the investment project shall be supplied at subsidized prices, the government organization concerned shall be authorized to guarantee the procurement of the services and commodities, in conformity with the quantities and prices specified in the relevant contract, duly observing the applicable laws and regulations .

Chapter 3- Admission System

Article 12- In addition to the duties and obligations undertaken in connection with the admission and protection of foreign investment in conformity with the Law, OIETAI shall be responsible to render activities, both domestically and internationally, in order to promote and encourage foreign investment, to brief the investors with regard to the statutory benefits and facilities and opportunities, to carry out applied studies and researches, to hold seminars and conferences, to cooperate with international organizations and entities concerned, to make contacts and coordination with various bodies and entities in charge of collecting, processing and furnishing the data relevant to foreign investments.

Article 13- The FIB shall undertake and be responsible to review and examine all investment applications, including the ones relevant to the admission, import and utilization of the foreign capital as well as the export of the principal capital and the proceeds generated.

Article 14- The permanent members of FIB shall be the four (4) deputy ministers mentioned in Article (6) of the Law. The meetings shall have a quorum with the presence of at least three (3) permanent members, and the resolutions shall be valid if approved by three members. The deputy ministers concerned shall be authorized to attend FIB meetings, upon an official invitation by the chairman of the FIB, having the right to vote. Under such circumstances, the resolutions shall be valid and binding with the relative majority of the votes.

Article 15- The investors shall submit to the OIETAI their application in writing enclosed with which shall be the documents and evidence specified on the application form. After having made the required investigations and upon approval of the application by the ministry concerned, OIETAI shall submit to FIB the investment application together with its expert comments, within but not later than fifteen (15) working days, in order for the FIB to examine the investment application. In case the ministry concerned shall fail to advise their comments within ten (10) days after the date of receipt of the enquiry, the investment application shall be considered to have been approved by the ministry. Based on the decision which shall be made in this manner and which shall be approved and confirmed by the relevant foreign investor, the investment authorization shall be prepared to be duly signed for approval by the Minister of Economy and Finance and shall subsequently be issued to the investor(s).

Note- Specified on the investment authorizations shall be detailed information concerning the particulars of the investors, the kind and manner of foreign investment, the mode of transfer of the proceeds and profits, as well as the terms and conditions applicable to the approval of the foreign investment concerned.

Chapter 4- Foreign Investment Services Centre

Article 16- In order to facilitate and accelerate the performance of legal duties and obligations undertaken by OIET AI with respect to the promotion, attraction, admission and protection of foreign investments in Iran, the Foreign Investment Services Centre (FISC) shall be set up at OIET AI's place, where the representatives of the organizations and entities concerned shall convene meetings. The FISC shall be the centre to which all investment applicants shall seek recourse.

Article 17- The Ministry of Economy and Finance (the State Taxation Affairs Organization, and Iran Customs Affairs), the Ministry of Foreign Affairs, the Ministry of Commerce, the Ministry of Labour and Social Affairs, the Ministry of Industries and Mines, the Ministry of Agriculture Jihad, the Central Bank of Iran, the Registrar of Companies and Industrial Ownership, the Environment Protection Organization, as well as other executive organizations specified by the Minister of Economy and Finance shall appoint and recommend to OIETAI their plenipotentiary representatives under the hand of the highest ranking executive authority of the organization concerned. Such representatives shall be subject to the employment regulations of their respective organization. However, they shall be present and take part in the meetings to be held by FISC, upon OIETAI's notification, at the regular intervals proportionate with the number of foreign investment applications submitted and on the occasions such foreign investors shall seek recourse to the FISC, in order to discharge their duties in conformity with the present Article 17.

Article 18- The representatives, who shall be appointed by the executive organizations in charge, shall carry out and attend to the executive and services affairs relevant to such organizations in connection with foreign investments.

For the good implementation of the duties assigned to the representatives pursuant to the Law and the represent By-Laws, the executive organizations shall be required to communicate to the departments and entities affiliated to them, the duties, obligations, responsibilities and powers of the representatives.

Further such organizations shall revise the process and the trend of executive affairs which may be in connection with foreign investments and which may fall under the scope of the responsibilities in such a manner as to facilitate the discharge of the duties by their representatives in the FISC.

Article 19- In order to guarantee and ensure smooth flow of services and executive activities in the FISC, the executive organizations concerned shall appoint, in addition to the representatives they shall appoint, another representative having the same qualifications as a substitute who shall represent the organization concerned in the absence of the prime representative. The executive organizations shall be authorized to appoint a maximum number of two experts who shall discharge the executive duties in the FISC, in connection with their respective organization, if necessary.

Article 20: The duties and functions of FISC shall as follows:

1. To give the required advice and information to the foreign investors.
2. To make the necessary coordination with regard to the affairs relevant to obtaining the licenses and authorizations, as required, including establishment notices, authorizations of the Environment Protection Organization, water, electricity, gas and telephone subscription permits, mine excavation and exploitation permits from the organizations in charge prior to the issuance of investment authorization.
3. To make the necessary coordination with respect to the affairs relevant to the issuance of visas, work and residence permits to the natural persons who may be in collection with the foreign investment.
4. To make the necessary coordination on the affairs relevant to the foreign investments, after the investment authorization shall be issued, such as registration of the joint venture, orders registration as well as the issues being in connection with the import and export of the capital, customs and taxation affairs, etc.
5. To create the necessary coordination by the representatives of the organizations concerned, among the executive departments of the organizations in collection with the needs and requirements of foreign investors.
6. To exert control and supervision over good implementation of the decisions made in connection with foreign investments.

Chapter 5- Regulations on Import, Appraisal and Registration of Foreign Capitals

Article 21- The regulations concerning the import, appraisal and registration of foreign capitals, both in cash and in kind, shall be as follows:

A. Capital in Cash

1. The foreign currency in cash mentioned in Clause (a) of Article 11 of the Law which may be imported into Iran in a lump sum or frequently on different occasions with the purpose being to exchange same with rial, shall be registered by OIETAI in the name of the foreign investor and shall accordingly be covered and protected by the Law as of the date such sums shall be exchanged with Iranian rial, in conformity with a certificate produced by a bank. The rial equivalent of the foreign currency so imported into Iran shall be deposited in the bank account of either the corporation intended to utilize the foreign capital or the account of the project being the object of the foreign investment.

2. The foreign currency in cash mentioned in Clause (b) of Article (11) of the Law which may be imported into Iran in a lump sum or frequently on different occasions, but which shall not be exchanged with Iranian rial shall be deposited in the foreign currency bank account of either the corporation utilizing the foreign capital and/or the project being the object of the foreign investment. Such sums shall be registered, beginning as of the date they shall be deposited, in the name of the foreign investor and shall accordingly be protected by the Law. The said sums shall be utilized for the orders and procurements of materials from abroad in connection with the foreign investment, under the supervision and control of the OIETAI.

Note- With regard to the foreign currency orders and drafts meant for foreign investments, the official monetary network of Iran shall directly advise to OIETAI the facts and circumstances specifying the name of the entity ordering the transfer, the amount and the kind of foreign currency, collection date, exchange date, the name of the corporation intended to utilize the foreign capital, and rial equivalent of the foreign currency so imported, if exchanged.

B. Non-Pecuniary Capital (Contribution in Kind)

The foreign non-pecuniary capital described under Clauses (b), (c) and (d) of Article (1) of the Law, shall be imported, evaluated and registered in the following manner:

1. With respect to the foreign non-pecuniary capitals described in Clauses (b) and (c) of the above-mentioned Article 1 (including machinery, equipment, accessories, spare parts, tools, materials, additives, and subsidiary materials) after the OIETAI shall approve the import of such foreign contributions in kind, the Ministry of Commerce shall proceed to register the order, subsequently communicating the facts to a customs bureau concerned for the assessment and clearance of the items so imported.

The assessment made by the customs bureau concerned as for the price and value of the items so imported shall be considered as "acceptable." Accordingly, upon a request by the investor, the value registered on the importation permit, in addition to transportation and insurance charges shall be registered in the name of the foreign investor and shall be protected by the Law as of the date of their clearance from the customs. In case there shall be a discrepancy or difference between the amount assessed by a customs bureau and the price mentioned in the detailed schedule approved by the FIB, the evaluation and assessment rendered by customs shall serve as the basis for registration of foreign capital with the OIETAI as well as the Registrar of Companies and Industrial Ownership.

Note 1- The Ministry of Commerce and OIETAI shall, within one (1) month after the date of notification of the present By-Laws, prepare and draw up a special sample form meant exclusively for statistical registration of the orders placed for items of foreign contributions in kind mentioned in Clause (1) above.

Note 2- Iran Customs Administration shall evaluate the second-hand and used machinery and equipment relevant to foreign investments on the basis of the rates and prices prevailing for used machinery and accessories.

Note 3- If it shall be established that the foreign contributions in kind imported into Iran are defective, damaged or unusable or if their technical specifications shall not comply with the ones already confirmed by the FIB, the subject shall be set forth and examined by the FIB and that portion of the value of imported items which shall not be confirmed by the FIB, shall be deducted from the account of the capital imported into Iran.

2. With regard to the items mentioned in Clause (d) of Article (1) of the Law (including patent rights, technical know-how, trade names and marks as well as the specialized services) the OIETAI, after having carried out the required reviews and examinations, shall prepare a report and submit to the FIB, on the fulfilment and performance of contractual obligations described in the technical know-how and service contracts. The sums which shall be confirmed in compliance' with the directives to be drawn up by the FIB in order to be approved by the Minister of Economy and Finance, shall be registered by the FIB as the foreign capital and shall accordingly be protected by the Law.

Chapter 6- Regulations on the Export of Capital and Proceeds

Article 22- The applications for the transfer of the capital, the profit as well as the proceeds generated through increase in the value of the capital mentioned in the Law should be supported by a report drawn up by an auditing institute, after having deducted the legal deductions.

Article 23- It shall be authorized to transfer the principal, the profit as well as the proceeds generated through the increase in the value of the capital mentioned in Clause (a) of Article 3 of the Law, either in the form of a foreign currency, or upon a request by foreign investors, through export from Iran of authorized goods and commodities. It shall be authorized to export the capital as well as the proceeds generated through the investment described in Clause (b) of Article 3 of the Law through the foreign currency earned through the export of the commodities produced and/or through the foreign currency resulting from the services rendered by the corporation utilizing the foreign capital, and/or through the export of any other authorized commodities. Based on a report which shall be prepared by an auditing institute concerning the latest information as for the amount of the principal capital, the profit as well as the proceeds of the foreign investor, the FIB shall proceed to issue the required authorizations for the export of such sums, as the case may be.

Note- With respect to the investments mentioned in Clause (b) of Article 3 of the Law, if, as a result of prohibition of the exports, it shall be required to supply foreign exchange for such transfers, upon the approval of the circumstances by the FIB, the required foreign currency shall be supplied and provided through the banking system.

Article 24- If the investment authorization shall be issued by virtue of Clause (b) and/or Clause (c) of Article 17 of the Law, such an authorization shall be considered as "authorization for exports." Hence, it shall be authorized for the corporation to deposit the foreign currency earned through exports in an escrow account with a domestic or foreign bank, in order to directly draw down the amounts required to be paid to the foreign investor, in conformity with the amount specified in the investment authorization.

However, the amount of the foreign currency being in excess of the sums authorized to be utilized, shall be subject to Iran's foreign currency regulations. However, after having paid the relevant amounts, the corporation utilizing the foreign capital shall be duty-bound to report in writing the facts and circumstances to OIETAI, producing certificates demonstrating the exports.

Article 25- The foreign currency earned through the export of commodities and services produced through foreign investments shall be exempt, in conformity with the amounts and instances of utilization as specified by the FIB, from the regulations restricting exports as well as the foreign currency rules and regulations including submission of a letter of undertaking for the return to Iran of the foreign exchange earned through exports, in conformity with both the existing legislation as well as the ones which may be enacted in the future.

Article 26- If certain legal restrictions and limitations shall be enacted or enforced by the government as a

consequence of which the corporation utilizing the foreign capital shall be unable to export its services and products, such corporations shall be authorized to sell their products in the domestic market, as long as legal restrictions or prohibition of exports shall continue to be enforced by the government, Under such circumstances, against the deposit of rial equivalent of the amount of foreign currency registered on the investment authorization, the corporation concerned shall be authorized either to procure the required foreign currency from the banking system in order to transfer same abroad or to export the authorized commodities to this end.

Article 27- The sums authorized to be transferred as per the Law, shall be procured by the foreign investor from the banking system to be transferred abroad, upon confirmation by the FIB, To this end, CBI shall put the required foreign currency at the disposal of the banking system.

Article 28- If a foreign investor shall not transfer abroad the sums authorized to be so transferred within six (6) months after the date of termination of the relevant administrative formalities, such sums shall no longer be subject to the Law. However, it shall be authorized for the FIB to extend the period of time so that such sums shall continue to be subject to the Law.

Article 29- Foreign investors shall be authorized, if willing to do so, to allocate, either totally or partially, the sums authorized to be transferred abroad as per Articles 13, 14 and 15 of the Law, in order to be added to the amount of their investment in the same cooperation, or to be utilized for a new investment, duly observing the legal formalities required for the issuance of investment authorization.

Article 30- In conformity with Article 138 of the IRI's Constitution, the government shall handover to the ministers membering the Foreign Investment High Council, the authority and the power to specify the scope and the type of the admissible commitments and undertakings mentioned in Note 2 of Article 17 of the Law.

The FIB shall be authorized to specify the amount of the losses and damages arising out of statutory prohibition or termination of the financial agreements, not exceeding the amount of the matured or accelerated commitments, in conformity with the limits admitted by the Foreign Investment High Council and already mentioned in the investment authorization,

With regard to the power and authority mentioned in the present Article 30, the resolutions and the decisions to be made shall be approved by the majority of the minister membering the FIHC. Upon endorsement by the president, the decisions so made shall be notified in conformity with Article 19 of the Council of Ministers' Internal Procedure.

Article 31- If a foreign investor shall insure its investment in Iran, and if, in conformity with the relevant insurance policy, the insurance company shall substitute the investor with respect to the compensation to be paid in return for the losses and damages resulting from non-commercial risks, the insurance company as a substitute shall be entitled to the same rights on the strength of which the compensation shall be made. However, such substitution shall not be considered as the transfer of capital, unless the provisions made in Article 4 or Article 10 shall be complied with, as the case may be.

Chapter 7- General Regulations

Article 32- Foreign investors shall be required, within a respite which shall be specified and laid down by the FIB with due regard to the requirements and conditions applicable to the investment project, to import into Iran a part of its capital in order to demonstrate its determination and resolution for implementation of the project, However, if the foreign investor shall fail to do so within the specified respite, and if such an investor shall fail to extend the respite upon submission of convincing proofs and evidences, the investment authorization issued shall be revoked and shall accordingly be considered null and void,

Article 33- Foreign investors shall be required to communicate to the FIB, any changes or alterations in their name, legal status and/or any changes affecting their ownership in excess of 30%.

Article 34- In cases where the foreign investment shall involve and result in the establishment of an Iranian company, it shall be authorized to acquire a piece of land in the name of the Iranian company, proportionate in area with the investment project, at the discretion of OIETAI.

Article 35- The executive organizations concerned including the Ministry of Foreign Affairs, the Ministry of the Interior, the Ministry of Labour and Social Affairs and the Law Enforcement Force shall proceed to take the required actions for the issuance of visas, residence and work permits to the foreign investors, managers, directors and experts and their relatives of first degree being in connection with the investments subject to the Law, upon application made by OIETAI. The Ministry of Foreign Affairs shall proceed to grant entry visas in compliance with the following procedure:

a. Upon confirmation by the OIETAI, the Ministry of Foreign Affairs shall authorize the IRI's foreign missions to grant multiple-entry visas valid for 3 years, permitting a 3-month stay at each instance of entry into Iran.

b. Upon entry into Iran, the persons so recommended shall be authorized to seek recourse to the Passport and Visa Department of the Ministry of Foreign Affairs in order to have their residence permits extended for one year, upon submission of OIETAI's confirmation. In order to extend the residence permit of such persons, their passport shall be stamped "Frequent-Traveller: Valid for One Year," so that it shall not be required for them to apply for a visa at each instance of arrival and departure.

Article 36- The OIETAI's responsibility as for the release to the public of the information mentioned in Article 21 of the Law, shall comply with the limits considered as normal practice in trade. The responsibility of authorizing

publication of such information shall rest with FIB.

Article 37- In order to discharge the duties and obligations provided for in the Law as well as the present Executive By-Laws, the OIETAI and FIB shall be authorized to utilize and take advantage of the professional auditing institutes and organizations membering Iran Chartered Accountants Society as well as other private and cooperatives entities.

Article 38- The provisions made earlier in the Council of Ministers' decrees in connection with foreign investment which may be contradictory to and inconsistent with the present.

Executive By-Laws, shall be revoked and abrogated as of the date of enforceability of the present Executive By-Laws.

First Vice-President; M. R. Aref

Sectors, Areas and Fields Mentioned in Clause (d) of Article 2 of the Law on Attraction and Protection of Foreign Investment

Sector Sub-Sector

Agriculture - agriculture and horticulture- livestock, aviculture, silkworm, apiculture, hunting- jungles, woods, pastures- fishing, pisciculture, breeding of aquatic creatures

Mine - crude oil & natural gas (rigging, exploitation and transfer)- mines and quarries (rigging, exploitation and transfer)

Industries - food, beverage and tobacco industries- textile, cloth and leather industries , - cellulose industries (wood, paper, etc.), printing & publishing industries- chemical industries, oil products; elastic and plastic products- non-mental mine-products industries (excluding oil and coal)- basic metal industries- machinery, equipment, accessories, metal tools and products industries- transportation and car manufacture industries- electric and electronic machinery industries (including manufacture of radio and television sets and telecommunication equipment and accessories)- electric and electronic machinery industries (not included under other sectors and sub-sectors such as manufacture of home appliances)- medical and optic equipment, accessories and precision tools manufacture industries

Supply of Water, Electricity and Gas - collection, purification, supply, transfer and distribution of water and sewage- generation, transfer and distribution of electricity- refinement and distribution of natural gas construction

Construction of Foundations - construction of foundations- construction of houses and establishments- construction materials

Transportation & Telecom. - railway transportation- road transportation- pipe transportation- trans-shipment- air transportation- support services- mail services and telecommunications

Services - financial services (including insurance and banking services, etc.)- tourism- public affairs- urban services- education and research- other services (engineering, design, etc.) .

No Restrictions on Foreign Investment in Iran

The executive by-laws of the Law on the Attraction and Protection of Foreign Investment, approved recently by the Council of Ministers was communicated, for due implementation, to the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI).

According to a newspaper report, the said executive by-laws which was drawn up and prepared comprising 33 articles, was approved late September 2002 by the Council of Ministers, after minor changes were made therein to increase the number of articles to 38.

In conformity with the said by-laws, foreign capitals will be admitted into Iran in the form of either "direct foreign investment" or "investment within the scheme of build-operate-transfer, buy-back or civil partnership contracts." Accordingly, the foreign investment methods as well as their specifications and the facilities scheduled to be given to such investors are due to be shortly prepared by the Ministry of Economy and Finance. Article 4 of the by-laws provides that foreign and domestic investors will be equally treated, and that capitals in cash and contributions in kind, will be admitted and imported into Iran exclusively on the strength of the investment authorization, and that the amount of foreign capital will not be subject to any restriction in any sector or sub-sector. Further, it provides that foreign investments will be secured and guaranteed against nationalization, expropriation and dispossession, and also that the foreign investors shall be entitled to claim compensation for damages. A provision is made in another clause of Article 4 to the effect that foreign investors will be permitted to export and transfer the principal capital and the profit as well as the proceeds generated through exploitation of the capital, either in the form of foreign currency or in the form of authorized goods and commodities, and also that it will be permitted to export the commodities manufactured by the corporation which will utilize the foreign capital. However, if it ever becomes prohibited to export such products, they will be domestically sold in order to exchange the proceeds with Iranian rial for the transfer abroad of the same through Iran's official monetary network.

With regard to the exclusive benefits and facilities stipulated for direct foreign investment, a provision is made to the effect that it will be authorized to make investments in the fields and areas already authorized for Iran's private sector, with no restriction or limitation to be placed on the percent of participation of the foreign investor.

As for the investments to be made within the scheme of BOT, buy-back and civil partnership contracts, a stipulation is made to the effect that the government will guarantee to compensate the losses sustained by a foreign investor as a result of a legal prohibition or termination of the financial agreement, maximally to the amount of instalments due.

Further, concerning BOT and civil partnership contracts, the government, as a party to such contracts, will guarantee to procure the services and/or commodities produced in a project, should the government be the

exclusive purchaser or supplier of the commodities/services, at subsidized rates and prices.

Based on Article 5, Iranian natural persons and legal entities applying for investment in Iran will be required to submit documents demonstrating their economic and trade activities abroad, in order to be entitled to the facilities and benefits stipulated in the by-laws.

Somewhere in Article 7 of the said by-laws, it reiterates that the foreign investments which shall be made in the existing corporations through purchase of stocks or increase in the capital of the corporation, or a combination of both options, will be entitled to the legal facilities and benefits provided for to this end, on condition that such investments will be legally admitted and also that they generate value-added as a result of materialization of objectives such as promotion of management, development of exports and/or technological improvement in the corporation.

The provisions made for the transfer of capital and capital proceeds reiterate that any application for such transfer should be supported by a report prepared by an auditing institute membering the Iranian-Chartered Accountants Society. Upon deduction of the legal levies specified by an auditing entity, authorization will be given for such transfer.

Foreign investors shall be required, within a respite to be specified by the Foreign Investment Board to import into Iran a part of their capital in order to demonstrate determination for implementation of the project. Otherwise, the investment authorization will be nullified.

In compliance with Clause (d) of Article 2 of the Law on Attraction and Protection of Foreign Investment, foreign investors will be authorized to make investment in sectors including agriculture, horticulture, aviculture, livestock, apiculture, pastures, pisciculture, mines, crude oil, natural gas, industries, foodstuff, beverage and tobacco industries, cellulose industries, chemical and petrochemical industries, non-metal mine industries, machinery, equipment and accessories production, car manufacture, electric and electronic industries, home appliances, water, electricity and gas supply and distribution, transportation, telecommunication, financial services, etc.

On Large-Scale Industries Controlled by the Ministry of Industries and Mines

According to Article 44 of the Constitution, the economic system of the Islamic Republic of Iran is based on public, cooperative and private sectors.

The public sector has been defined, in the above Article, to include "all large-scale industries, mother industries, foreign trade, large mines, banking, insurance, provision of power, dams and large irrigation channels, radio and television, post, telegraph and telephone, aviation, shipping, roads, railway and the like, which are public domain and ownership and at the disposal of the government."

Recently, according to a Decree of the Council of Ministers No.H25420/1122 dated April 8, 2002 which was published through Official Gazette No.16642 dated April 20, 2002, the list of names of large-scale industries under the control and management of the Ministry of Industries and Mines was published.

Considering that large-scale industries, in accordance with the Constitution, must remain under the ownership of the Government, it may be, therefore, deducted that the industries included in the list shall not undergo any privatisation scheme in future and shall always remain government owned entities.

The following is a translation of the full text of the above Decree:

The Ministry of Industries and Mines

The Council of Ministers, in a session held on April 3, 2002, on the basis of a proposal made by the Ministry of Industries and Mines through letter No.1012275 on October 14, 2001, and by invoking Clause 22 of Article 1 of the Law on Concentration of Affairs Relating to Industries and Mines and Formation of the Ministry of Industries and Mines, approved 2000, resolved that the following are large-scale industries under the management of the Ministry of Industries and Mines:

a. Definition of Large-Scale Industries:

The industries producing the essential metals of steel, copper and aluminium from ore extracting stage or from the stage of processed ores up to and including the stage of producing the said metals in the form of bullions (bars) in case any such industries shall have a capacity to produce forty (40) percent or more of anyone of the metals required by Iran, shall be considered as large-scale industries.

b. The Names of Large-Scale Industries:

1. Mobarakeh Steel Joint Stock Company;
2. Isfahan Iron Melting Joint Stock Company;
3. Khuzestan (Ahwaz) Steel Company;
4. Sarcheshmeh Copper Complex;
5. Soungoun Copper Complex Company; and
6. Iran Aluminium Industries Company (IRALCO).

M. R. Aref - First Vice President

CBI on Short-Term Inter-Bank Credit Lines for Re-Finance Importers

The Foreign Exchange Policies and Regulations Department of the Central Bank of Iran communicated Circular Letter, No.60/1036 dated July 27, 2002 (03.05.1381) as follows: Further to Circular No.60/1182 dated February 26, 2002 (07.12.1380), below please find part (d) of "Foreign Exchange Facilities" under Section IV of "Foreign Exchange Regulations" with regard to the conditions on utilization of short-term inter-bank credit lines for re-finance importers. Please communicate the following conditions to the branches of banks for due implementation.

d. The conditions on utilization of short-term inter-bank credit lines (maximally valid for one year) for re-finance importers as well as the manner and conditions pertinent to utilization of such credit lines for the establishment of letters of credit for the import of goods and commodities are as follows:

1. All importers who ordinarily import materials, spare parts and machinery for industrial production lines or for trade purposes shall be authorized to open letters of credit, in conformity with the conditions and criteria laid down below, using inter-bank credit lines.

Note: The companies and organizations affiliated with the government and mentioned in Article 4 of the State Audit Act shall be subject to the provisions made in these Regulations, provided that, upon confirmation either by the State Management and Planning Organization or by the auditor of the organization concerned, such companies and organizations do not utilize and take advantage of public budget resources in general or do not utilize such resources in particular for a certain order registrations, whether an Item Number in budget bills appropriated to them or not.

2. Rial equivalent of the letters of credit, which shall be established using re-finance credit lines shall be collected from the applicants in the following manner:

a. An amount equal to five percent (5%) of rial equivalent of the principal and interest amount of the L/C shall be collected upon establishment of the L/C.

b. An amount equal to five percent (5%) of rial equivalent of the principal and interest amount of the L/C shall be collected upon negotiation of the documents.

c. The remaining ninety percent (90%) of rial equivalent of the principal and interest amount of the L/C shall be collected upon repayment to the agent of instalments on maturity of payment of foreign exchange.

The following points shall be taken into consideration and duly observed when implementing the above provisions:

2-1 Upon establishment of letters of credit, to insure collection of the required A amounts in rial, sufficient securities and guarantees shall be collected, proportionate with the applicant's credit, at the sole discretion of the bank.

2-2 The foreign exchange, equal to the amount of advance payment laid down in Clause (a) above, shall be sold at the rate prevailing on the date the value of letter of credit shall be deposited in the account of the bank. Accordingly, the settlement of accounts shall be considered to have been final on such date.

2-3 The foreign exchange, equal to the amount of rial equivalence collected already in the amount laid down in Clause (b) above, shall be sold at the rate prevailing on the date the documents shall be negotiated. Accordingly, the settlement of accounts shall be considered to have been final on such date.

2-4 For the balance of rial equivalence of the L/C value, as mentioned in Clause (c) above, the foreign exchange shall be sold to importers at the rate prevailing on the date of maturity of payment of foreign exchange amount of the L/C to the agent, i.e., maturity of instalments and final settlement of accounts shall be carried out with importers.

Note 1: If the importers shall undertake all the responsibilities and obligations relevant to and arising out of changes and fluctuations in foreign exchange parity rates (notwithstanding payments made earlier in conformity with above), it shall be authorized to proceed to final settlement of accounts with the applicant in the amount being equal to one hundred percent of the sums paid (on maturity of instalments) at the rate prevailing on repayment date.

Note 2: Applicants shall be duty-bond to finance and pay the rial equivalent in the amount and on the dates as prescribed.

However, if there shall be delay in the financing of rial equivalent instalments, banks shall collect the potential charges, costs and delay penalties, in conformity with the contracts concluded as well as the level of relations between the applicant and the bank.

3. Banks shall be required to dispatch to Foreign Exchange Credits Finance Department, the applications made for utilization of credit lines concluded by the Central Bank of Iran, with respect to each and every instance of order registration. Accordingly, the said Department shall proceed to specify the credit line and reserve same and shall subsequently notify the facts and circumstances to the advising bank. The advising bank, after having established the letter of credit, shall forward a copy of the L/C text to the Foreign Exchange Credits Finance Department for issuance of the Letter of Instructions.

4. Banks shall be authorized, at their own risk, to conclude short-term (maximally valid for one year) finance agreements (Re-Finance Agreements) with agent banks (both Iranian and foreign), upon agreement and approval by the Foreign Exchange Credits Finance Department. Evidently, under such circumstances there shall be no requirement to issue a Letter of Instruction.

5. The charges applicable to utilization of such facilities shall be borne by importers on the basis of one hundred percent of the sum of documents negotiated. In addition to the fees and charges laid down already, banks shall be authorized to claim and collect charges proportionate with the credit risk as well as the services rendered to the applicants.

6. The above facilities shall be granted in conformity with the authorized ceilings laid down with regard to the facilities to be granted by banks, duly observing the individual and sectoral ceilings and the rules, regulations and directives instructed by the CBI's various departments and units. Utilization of re-finance credit lines shall be considered as final grant of facilities to customers beginning as of the date of negotiation of documents.

Iran Customs Administration: Import/Export Regulations Still Valid in 1381

The Import -Export Bureau of Iran Customs Administration notified Letter No. 20015226 dated March 17, 2002 (26.12.1380) forwarded by the Ministry of Commerce, through its Circular Letter No. 448/73152011131312190 dated March 18, 2002 (27.12.1380), as follows:

Please duly advise all executive customs bureaus that until such time when new decrees, directives and circulars shall be issued and notified for Iranian year 1381, the current import-export regulations which were valid until the end of the Iranian year 1380 (March 20, 2002) shall continue to remain valid and enforceable.

CBI: Import/Export Regulations Still Valid

The Foreign Exchange Regulations and Policies Department of the Central Bank of Iran communicated Circular Letter No. 6011000 dated March 26, 2002 (06.01.1381) as follows:

In conformity with Letter No. 20015226 dated March 17, 2002 (26.12.1380) forwarded by the Import-Export Regulation, Administration General of the Ministry of Commerce, please be advised as follows:

Until such time when new decrees, directives and circulars shall be notified in 1381, all import-export rules, regulations and laws which were valid at the end of Iranian year 1380 (March 20,2002), shall continue to remain valid and enforceable. Please notify the above provisions to banks' foreign exchange branches for due implementation.

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