

Submission

Partial suspension of sanctions against Iran

Senate Standing Committee on Foreign Affairs,
Defence and Trade



**The Voice for
Australia's exporters**

Export Council of Australia

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Partial suspension of sanctions against Iran

In response to the Senate Foreign Affairs, Defence and Trade References Committee's invitation, the Export Council of Australia (ECA) is pleased to submit our views on the partial suspension of sanctions against Iran, with specific regard to:

1. the adequacy of the explanatory statements accompanying the regulations for the removal of certain activities and entities from the sanctions regime;
2. the impact of lifting sanctions on the conduct of Iran in international affairs and on Australia's national interest; and
3. the Australian Government's decision to re-open a trade office in Iran.

The ECA is in the process of completing a study, supported by Austrade, that outlines the commercial opportunity that exists for Australian businesses in Iran, as well as the challenges that remain in doing business with Iran.

A brief summary of the ECA and our work follows this submission.

We are encouraged by the repeal of nuclear-related sanctions on Iran by Australia and the international community, as well as the repeal of many of Australia's autonomous sanctions on Iran. These new freedoms should go some way toward restoring our once strong trading relationship with Iran.

Our perspective on the above points follows below.

1. The ECA feels the explanatory statements accompanying the regulations for the removal of certain activities and entities from the Iran sanctions regime are adequate in informing relevant parties of business dealings which remain restricted or prohibited between Australia and Iran.

The explanatory statements via the Department of Foreign Affairs and Trade's (DFAT) Iran sanctions regime website are concise and present information on the regime in a clear and accessible manner, including relevant implementing legislation. Links to related information and systems such as the Online Sanctions Administration System (OSAS) are provided in appropriate and intuitive places (though OSAS' main page is lacking an update regarding the repeal of restrictions on financial transactions with Iran).

While adequate, one recommendation to improve the available information on the Iran sanctions regime would be to create a summary of some sort that succinctly outlines trade

which is still restricted or prohibited with Iran, rather than requiring users to scroll through the entire regime webpage to get a full picture of the situation. Considering relatively few sectors and activities remain restricted or prohibited, this may go some way toward provide a clearer picture of the sanction regime's current status.

We also recommend that a summary of the US and other international sanctions regimes on Iran be included, particularly any extra-territorial aspects of these regimes, or at least that links to relevant information on these regimes be placed on DFAT's Iran sanctions regime and FAQ pages.

A warning that Australian sanctions are not the only ones that need to be considered for some Australian companies should be found in prominent places as well, as companies may not be aware of this potentially large impediment to trade with Iran.

Regarding OSAS, the ECA recommends that DFAT also consider a review of the use and user satisfaction with the system, as increased trade with Iran will likely result in an increase in its use. The possibility of providing some sort of preliminary advisory service which helps to determine whether OSAS use is required at all would also be beneficial to companies.

Businesses both in Australia and overseas have taken issue with the lack of clarity on many sanctions-related concerns, though this are largely a result of a lack of clarity on the part of the United States and American institutions, considering the extra-territorial impact of the US sanctions regime on non-American firms.

In general, the ECA has found that a lack of clarity and specificity with sanctions has been one of the biggest barriers nationally and internationally to increased engagement with Iran following the nuclear agreement.

The political situation in the United States is also creating significant uncertainty as to trade with Iran, considering the questionable support the incoming American administration may have for the nuclear accord, based on candidates' statements to-date.

2. The ECA feels lifting nuclear-related sanctions on Iran is in-line with Australia's national interest, insofar as it allows Australian businesses to re-establish what was once our biggest trading relationship in the Middle East.

Beyond trade, Australia and Iran enjoy common interests in counter-terrorism operations in Iraq and Syria, and in the area of people smuggling and illegal immigration. Much of these issues enjoy bipartisan support, and were also highlighted as common blocks on which to rebuild our relationship during the recent visit of Iranian Foreign Minister Mohammad Javad Zarif to Australia.

However, despite Iran's strategic importance in the region, its strong potential as a commercial partner and these common interests, there are of course many issues at which Australia and Iran are at odds. These include support for groups labelled as terrorist organisations as well as ongoing human rights concerns.

The impact of lifting sanctions on Iran's conduct in international affairs is vague and difficult to predict at this point. Many parties have voiced concerns that allowing Iran greater access to

international trade and finance could result in increased support for organisations fuelling conflict in the wider region.

Iran would not be alone in this regard however, as many other countries – include some considered Australian allies – also raise international concerns in a similar fashion.

Australia has been able to separate trade and politics with Iran in the past, as studies such as a 2013 report by Melbourne University's Professor Shahram Akbarzadeh have shown.¹

Professor Akbarzadeh notes trade relations suffered following the Iran-US hostage crisis in 1980-81, but were swiftly restored once hostages were released.² Iran became our top Middle Eastern export destination years later, when our commercial relationship withstood international turbulence generated by the Iran-Iraq war as well as by Ayatollah Khomeini's fatwa on author Salman Rushdie.³

Australian officials of various stripes have supported trade with Iran, emphasising the importance of pragmatically separating business from politics. Over the years this group has included former Deputy Prime Minister Tim Fischer, former Foreign Minister Gareth Evans – who recognised that trade gives Australia leverage over Iran – as well as former Industry Minister Ian MacFarlane, who once noted "we don't want [the Australia-Iran relationship] endangered by politicking and trade sanctions."⁴

There is an argument to be made that economic engagement rather than sanctions is the best way to encourage Iran toward a less confrontational and more open path over the medium and longer terms.⁵

The ECA is therefore encouraged by the hope that a pragmatic approach to our commercial relationship with Iran may evolve once again.

3. The ECA welcomes the Australian Government's decision to re-open a trade office in Iran, and we expect this will encourage Australian businesses to actively seek out opportunity in the market.

Iran is a largely unknown market for many Australian businesses, and remaining US sanctions and numerous other issues mean it is still very challenging to do business there. A physical on-the-ground Australian presence should help businesses feel more comfortable and make initial connections to help guide their path to market.

An Austrade office also signals to the Australian business community that the Government takes market potential in Iran seriously, and is willing to provide assistance to business interested in engaging there. It puts Iran on par with Kuwait, Saudi Arabia and the United Arab Emirates with an Australian trade presence in the Gulf.

Our bilateral trading relationship has nowhere to go but up, and the Austrade office should be crucial in helping achieve this growth.

Australian exports to Iran are about one-third of what they were at their height. Goods exports totalled just AUD 114 million in 2014-15 – dominated by wheat and wool – and service exports were a little bit higher at AUD 141 million.⁶

Sanctions were part of the reason for this decline in trade, though they did not affect our key exports to Iran of wheat and meat. Other factors influencing this decline include drought in the early 2000's, a desire to curry American favour for Australia's seat on the United Nations Security Council, a strengthening AUD, and an inability of Australian industry to generate sufficient volume for export.⁷

Agricultural commodities dominate our current goods trade, but levels are still at a relatively low level despite strong demand in Iran. It is one of the largest food and beverage markets in the region, supported by strong population growth.

Iran cooperates under the ECAS supply chain assurance system for livestock exports, presenting a significant opportunity for Australia, especially in light of challenges in the Saudi Arabian market. Iran was once the largest importer of Australian sheep, when trade exceeded three million head, and current demand projections stand at around one million head of Australian sheep annually.

Iran is mineral-rich and a source of significant untapped potential for Australia's mining and related METS knowledge and expertise, considering how underdeveloped and underfunded the sector is in Iran.

Unlike its neighbours in the Gulf, Iran boasts a vibrant manufacturing sector – including in automotive – and is keen on developing an advanced manufacturing capability with foreign assistance. This creates opportunity for Australia's manufacturers and manufacturing expertise.

Service exports currently exceed our goods exports to Iran, and is an area we see growth opportunities in a number of sectors where enjoy a competitive advantage.

Iranians are highly educated and appreciate the value of education, one of our most important exports. There is potential to not only increase the number of Iranian students studying in Australia (currently around 3,500), but also to pursue skills training opportunities, partnerships with Iranian schools and the possibility of joint or overseas campuses – an area where Australia has historically been a trailblazer in the Middle East.

Health, medical and aged-care services are another area of Australian competitive advantage, and is a sector where we could excel in Iran.

Figure 1 provides a snapshot figure on the value of the Iran opportunity, according to projections by market analysis firm Frost & Sullivan:

Market potential in Iran by sector	
• Healthcare and pharmaceuticals:	USD 50-60 billion
• IT, ICT and telecommunications:	USD 30-40 billion
• Infrastructure (aviation, maritime, rail and road):	USD 250-300 billion
• Manufacturing:	USD 150-200 billion
• Mining and related industries:	USD 30-40 billion
• Oil and gas (upstream):	USD 250-300 billion
• Petrochemicals:	USD 70-100 billion
• Power generation, dams and waste treatment:	USD 120-150 billion
• Residential, commercial and entertainment buildings:	USD 350-400 billion
• Tourism and hospitality:	USD 30-40 billion
Source: Frost & Sullivan	

Figure 1: Potential market value in Iran, by sector⁸

These are just some examples of the many potential bright spots for Australian business in Iran. An on-the-ground Australian presence will help our businesses tap into this opportunity by providing trusted assistance that may not otherwise be available.

Iran's market potential for Australia is explored in more detail in the ECA's upcoming report, *Iran: The Final Frontier*, supported by Austrade.

In-line with the opening of a trade office in Iran, with the expectation that Australian trade activity with Iran will increase, and in recognition of the remaining complexity of doing business with a nevertheless very promising market, we recommend that a specific Iran page be created which takes a comprehensive look at trade with Iran – possibility developed in collaboration with Austrade. This could potentially include online tutorials and presentations on specific opportunity in the market, as well as information in Australian and international sanctions regimes, as well as potential use of OSAS for businesses unfamiliar with trading with such a complex market.

Considering the size of the market opportunity and the excellent complementarity between Australian capability and Iran's needs, any sort of additional support that makes it simpler for businesses to appreciate both the opportunity and how to do business with Iran would be very encouraging from the ECA's perspective.

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About the ECA

A non-profit, membership-based organisation, the ECA is the peak industry body representing Australia's exporters and importers. With a membership base of 1,000 and reach of 15,000 businesses, the ECA represents companies of all sizes across a wide range of industry sectors. Our activities include research, advocacy, skills development and events.

Examples of the ECA's work include:

- Regular submission to government in response to various reviews and parliamentary enquiries;
- *Annual Trade Policy Recommendation* reports;
- *Australia's International Business Survey*, the largest longitudinal survey of Australia's international business activity of its kind, conducted annually with Austrade, Efic and the University of Sydney;
- Large-scale research reports on international opportunity for Australian business, including reports on the Shanghai Free Trade Zone, Korea for service exporters, and Mexico as a gateway to the Americas, all supported by public and private partners including Austrade and HSBC;
- Our cornerstone *Advancing Trade Development* report, which examines international trade promotion efforts with a view to enhancing Australia's own approach to trade promotion.

¹ Akbarzadeh, Shahram. “Australia’s Relations with Iran.” Melbourne University National Centre of Excellence for Islamic Studies, October 2013.

http://www.deakin.edu.au/_data/assets/pdf_file/0009/166662/SA_PolicyPaper_No_1.pdf.

² Ibid.

³ Ibid.

⁴ Ibid.

⁵ “The Iran nuclear agreement: You can’t expect people to walk on water.” Middle East Eye, April 13, 2015.

<http://www.middleeasteye.net/columns/iran-nuclear-agreement-people-iran-cannot-walk-water-1973515559>.

⁶ “Iran Fact Sheet”. Australia Department of Foreign Affairs and Trade, last updated December 2015.

<https://dfat.gov.au/trade/resources/Documents/iran.pdf>.

⁷ Akbarzadeh, Shahram. “Australia’s Relations with Iran.” Melbourne University National Centre of Excellence for Islamic Studies, October 2013.

http://www.deakin.edu.au/_data/assets/pdf_file/0009/166662/SA_PolicyPaper_No_1.pdf.

⁸ “Iran’s USD1.5 Trillion Multi-Industry Investment Opportunities Ripe for the Picking by Australian companies, says Frost & Sullivan.” Frost & Sullivan, March 9, 2016. <http://www.prnewswire.com/news-releases/irans-usd15-trillion-multi-industry-investment-opportunities-ripe-for-the-picking-by-australian-companies-says-frost-sullivan-300233873.html>.