Iran drives to be Middle East’s automotive hub
The automotive market in Iran is an exciting one, and by far the biggest in the Middle East with more than 16 million (mn) vehicles in operation. Iran is also the largest automobile manufacturer in the Middle East. With the easing of sanctions and the January 2016 implementation of the Joint Comprehensive Plan of Action, Iran is attracting brands and companies from all sectors, and the automotive industry is paying particular attention.

According to the International Monetary Fund (IMF), Iran could now boost its GDP growth from its near zero position to circa five per cent in 2016-2017. It is definitely a market to watch.
According to GfK, the Statistics Center of Iran predicted that 40 per cent of the country’s 78.5 million strong population would be in the 20 to 40 age bracket by 2015 and 72 per cent would live in urban areas. This is clearly an attractive consumer base for the automotive market.

Cars are in high demand in Iran and an easier auto loan scheme which was introduced for potential car owners in late 2015, valid only for the purchase of locally produced vehicles, will help to further drive this demand.

As of 2015, Iran ranked 79th in the world by automotive per capita. The automotive industry is the country’s second most active industry after oil and gas. According to the World Bank the Iranian automotive sector accounts for 10 per cent of the country’s GDP and employs four per cent of the workforce, or circa 700,000 people.

Local automobile production enjoyed a steady growth trajectory between 2005 and 2011, where it peaked and then dramatically dipped as a result of the sanctions in 2012. In 2014, as a result of the Geneva Interim Agreement, production recovered to 2008 levels and it is likely to once again enjoy a steady growth trajectory in the coming years.

What is particularly exciting about Iran’s automobile sector is that international automotive giants are queueing up to re-enter the market. According to GfK insights, car manufacturers are also showing interest in potentially “using Iran as a hub for exporting their products to neighbouring countries such as Iraq, Azerbaijan, Syria and Afghanistan…”. This would transform it into a “regional centre for car manufacturing and exports”.

An exciting prospect indeed.
According to GfK’s 2014 figures, Iran was the largest auto manufacturer in the Middle East and probably the 18th largest in the world. At its peak in 2011 it was ranked as the 11th biggest market in the world. It is now considered fifth in the world in terms of fastest growth.

According to Frost & Sullivan data, Iran had approximately 860,000 vehicle sales in 2014. This is forecast to grow nearly three-fold to reach an incredible 2.3 million units by 2020. Furthermore, when it comes to manufacturing, by year end 2015, Iran was predicted to have manufactured 1.4 million cars. With a renewed push for local manufacturing in the automotive sector, authorities aim to increase this to three million units per year by 2021, supported by international collaboration and knowledge transfer.

GfK estimates that the Iranian automotive parts industry consists of 1,200 companies that operate circa 15,000 factories, predominantly Original Equipment Manufacturer (OEM) suppliers producing parts for auto makers and After Market Parts Manufacturer (AMPM), producing replacement parts. On the other hand, as this local production is under license of foreign countries, these spare parts are exported to in excess of 39 countries. This means that 60 per cent of auto spare parts used in Iran are actually imported.
The opportunities to drive growth

GfK lists a number of key factors as potential driving forces in what could be a very lucrative market for the global automotive aftermarket:

- **Government Supporting Policies**
- **Big Booming Market**
- **Well-Established Industry**
- **Generates Acceptable Revenues**
- **Low Labour Cost**
- **WELL-EDUCATED ENGINEERS**
- **Abundance of Raw Material**
- **Geographical Proximity to a Combined Population of 400 Million**

According to opinion analysis from the experts at Frost & Sullivan, fast moving vehicles in Iran remain basic and do not meet global standards, particularly in terms of safety, performance and value for money. This is partly due to the dramatic drop in production after 2011 which also lead to a drop in quality and increased costs for inefficient after sales services.

Car manufacturers, OEMs and service providers are amongst the businesses that can seize opportunity in this promising growth area by offering knowledge transfer and increased capacity and know-how to improve standards. The global giants are already getting in on the act. As reported in Al-Monitor, auto giant PSA Peugeot Citroen has already obtained a license from the Iranian government to invest in Iran Khodro Co. (IKCO), the biggest car manufacturer in the country. According to the report they have also already “resumed deliveries of auto parts, after a four-year hiatus.”

It is believed that other international car manufacturers are also in the process of negotiating deals in a bid to ensure their footing in what is expected to be a high output market for the coming years, with production expected to be in excess of one million units by the end of 2016. Such activity indicates promising times for the sector and international players are making strategic moves to capture a share of the market.

Local partnership is also a real possibility for the spare parts sector as it is likely to take time before Iran will be self-sustained in this area. From a trading perspective, there is opportunity for spare parts manufacturers to establish distribution networks, particularly so for those who can enter into local partnership agreements.

Transportation fleets such as taxis and buses are also considered below global standards and opportunity exists to work with local players in an effort to modernise public transport fleets.
Not all plain sailing

While sanctions have been lifted in Iran, there are still many grey areas. The banking sector, for example, remains reluctant to re-engage in Iranian business and for those that do have the capital to invest, navigating Iran’s legal and regulatory regime can prove highly complex. Furthermore, many of the country’s factories have been in service for two decades leaving the country with aged technology and production methods with little investment since the sanctions were imposed in 2011. Iran is mandating stringent preconditions before allowing global players back in the market. This may deter initial international investment back into Iran.

All of these factors coupled with fragmented distribution and supply networks and resistance from political opponents make it a difficult market to navigate.

But in summary…

Foreign direct investment and technology transfer is likely to give a big boost to Iran’s automotive market. With international players eager to recapture market share since January’s implementation of the Joint Comprehensive Plan of Action and Iranian authorities keen to boost production capacity, it is very possible that Iran could become the Middle East hub for the automotive sector.

While there are still challenges to be overcome, opportunities do abound in Iran’s automotive aftermarket, particularly for players who can secure local partnerships and enter the market as early as they can.