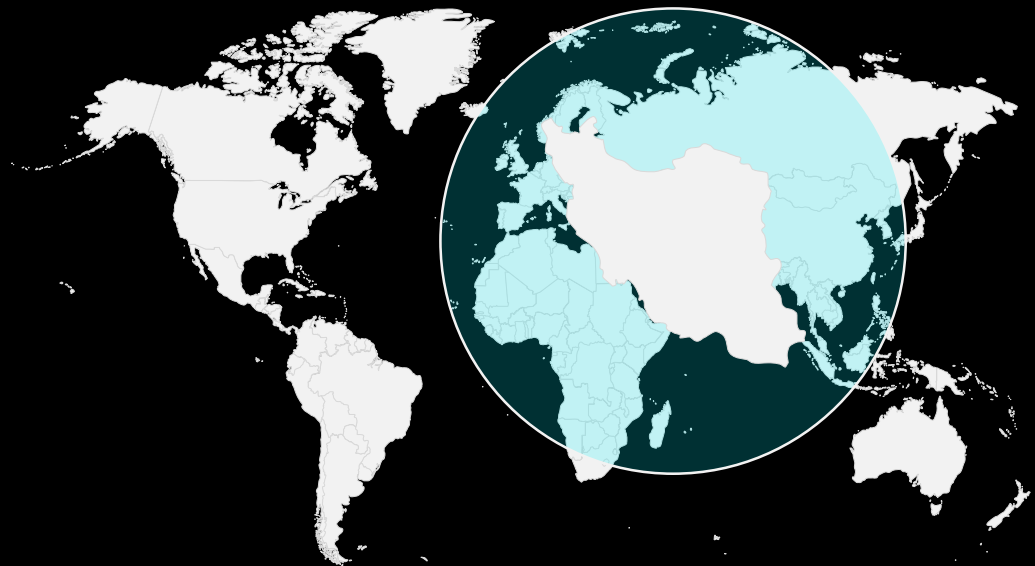


# Iran

## Automotive Industry Outlook 2025



**January 2016**

All statements of fact, opinion, or analysis expressed in ILIA white papers are those of the respective analysts. They do not necessarily reflect formal positions or views of ILIA. The information used and statements of fact made are not guarantees, warranties or representations as to their completeness or accuracy. ILIA assumes no liability for any shortterm or longterm decision made by any reader based on analysis included in our white papers. Copyright restrictions (including those of third parties) are to be observed.

# Table of Content

## AUTOMOTIVE INDUSTRY IRAN – PAST TO PRESENT

4

The Iranian automotive industry with total sales of 12 billion USD, makes up for approximately 19% of the countries total industry, as well as for approximately 2.5% - 3% of Iran's GDP. Furthermore it is responsible for 14% added value creation contribution to the whole industry.

## SANCTION SITUATION AND IMPACTS

7

After new sanctions were imposed on Iran in 2007, the automotive industry faced numerous challenges and total production decreased by approximately 50%. However, after recent agreements between Iran and the P5+1, the Iranian automotive sector will once again be a key driver of the Iranian industry as a whole.

## FUTURE OF THE IRANIAN AUTOMOTIVE INDUSTRY

10

According to Iran's Vision 2025, the automotive industry is aiming for a total production of 3 million units. However, according to current trends and assuming that no further sanctions will be imposed on Iran, ILIA expects that Iran will produce up to 2 million PV by 2025.

## OUTLOOK

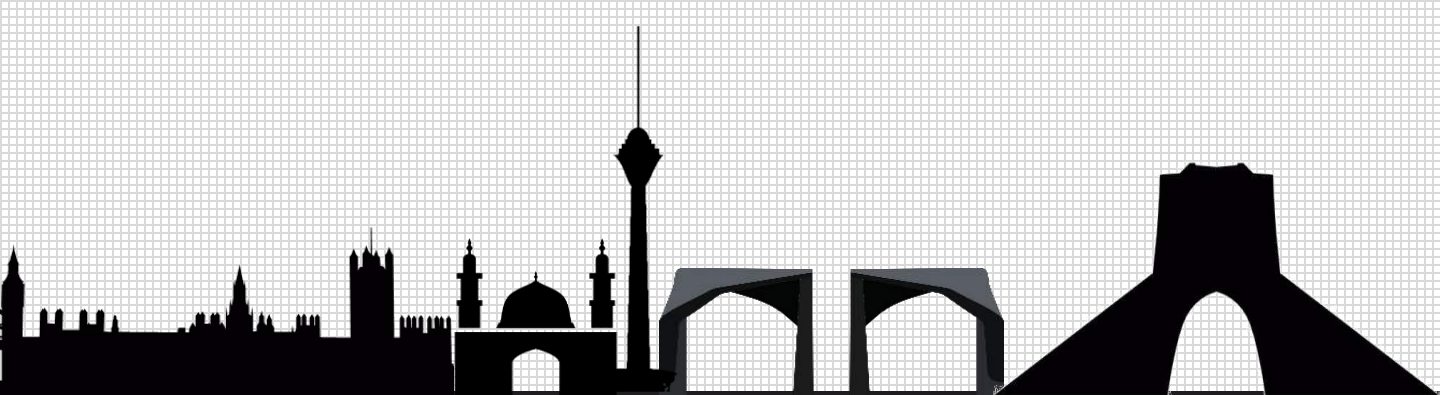
12

ILIA anticipates that the industry will collaborate with German and French companies under joint venture agreements, and that the Chinese will continue pushing their products into the market. ILIA is of the firm opinion that no matter the direction that the Iranian automotive industry will take, it is certain that the government will continue to directly and indirectly support it.

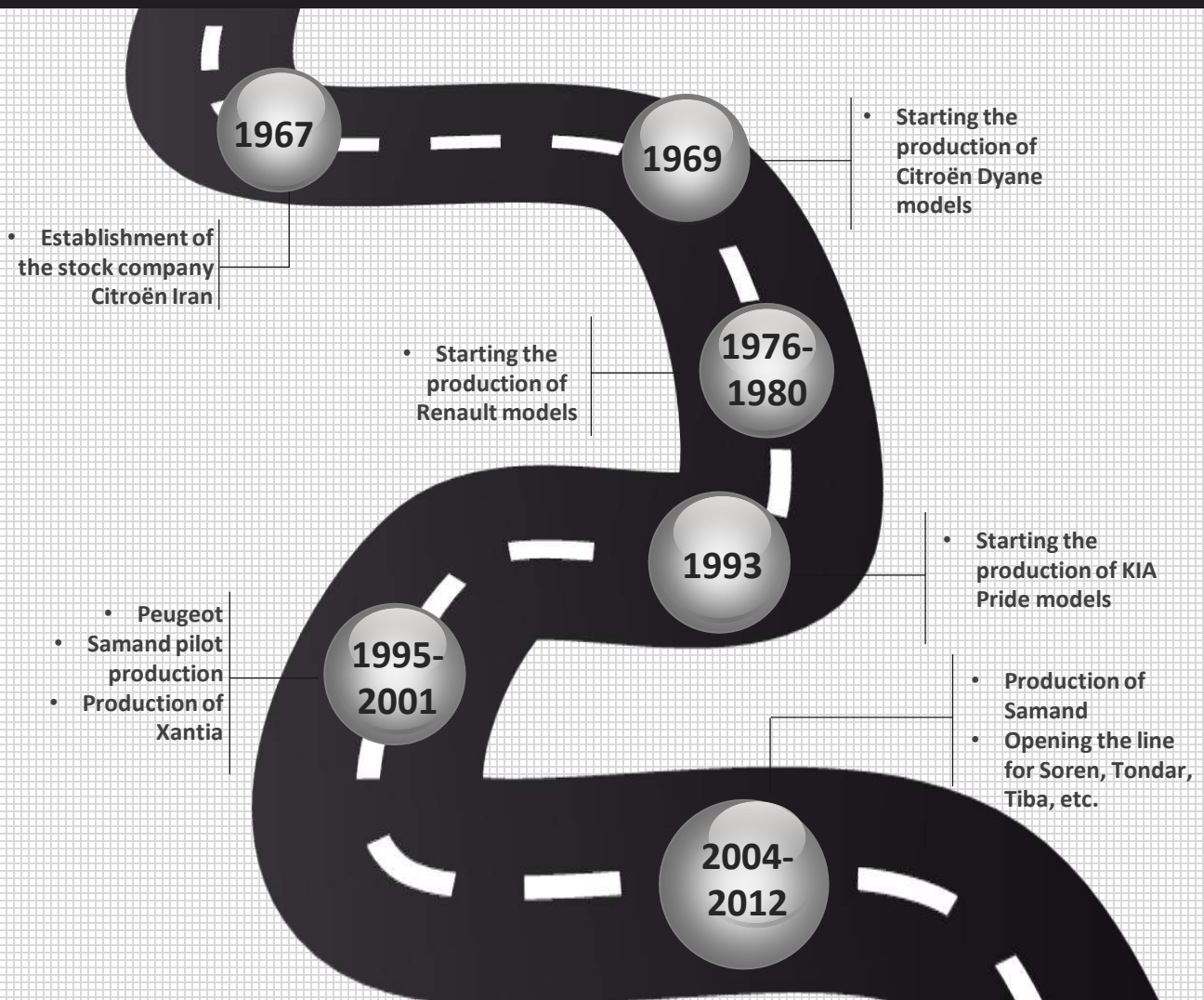
## ABOUT US

13

ILIA Corporation advises clients on market entry, strategy, and operations. We develop practical, customized insights that enable clients to act upon and transfer skills that are market specific. Founded in 2008, ILIA has offices in Iran, Germany, and China.



# Iran Domestic Automotive History



## Impact Factors on Automotive Industry



# 1. Automotive Industry Iran – Past to Present

The Iranian automotive industry, with a turnover of approximately **12 billion USD**, is one of the focal points in the minds of the country's policy makers. It is the country's second-largest industry after oil and gas.

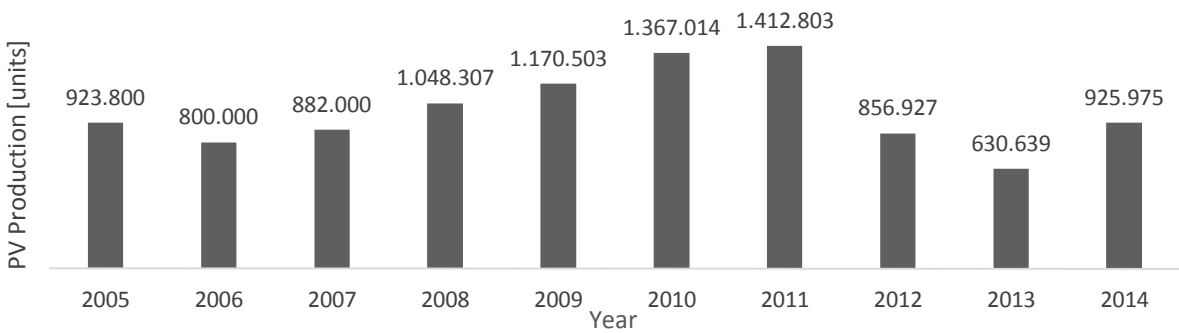
The benefits of developing a domestic automotive industry are significant. The worldwide automotive industry is estimated to have a total cash flow of more than 2,790 billion USD with a total production capacity of approximately 90 million (PV\* and CV\*\*) and it employs more than 48 million people (directly and indirectly). Accumulated this would make up for the 7<sup>th</sup> biggest economy of the world.

The first Ford Model T's arrived in Iran in the 1930s and by 1955 annual imports had soared to approximately 10,000 units. Nowadays the domestic Iranian automotive industry is estimated to have a yearly nominal production capacity of 2 million cars (PV and PC combined) of which around 1.09 million units of PV and CV production capacity is being utilized. It employs more than 1.5 million people (directly and indirectly) making up for 12% of the countries workforce. Furthermore it has a daily nominal production capacity of 10 million components whilst drawing input from sixty related industrial fields.

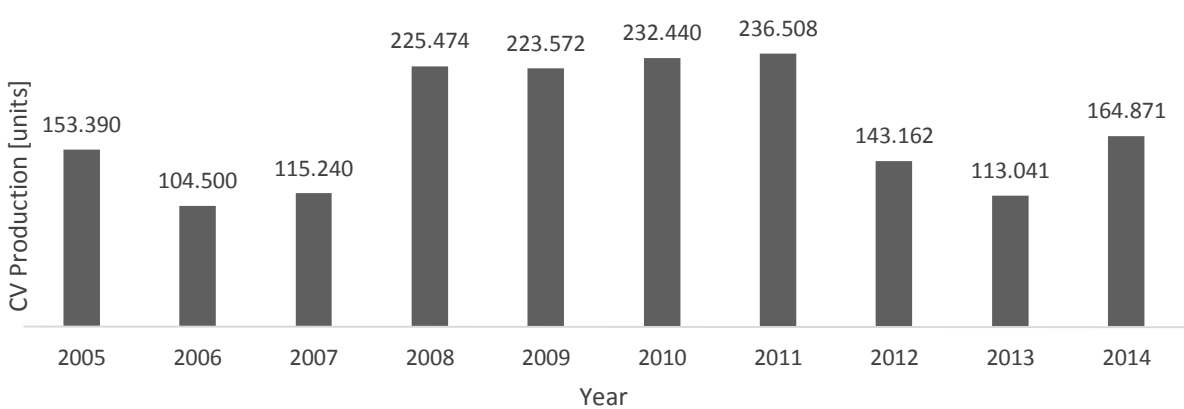
With total sales of 12 billion USD it makes up for approximately 19% of the total industry, as well as for approximately 2.5% - 3% of Iran's GDP. Furthermore it is responsible for 14% added value creation contribution to the whole industry. The average profit of the industry is 4.5%. The Iranian automobile industry makes up for 1.2% of world production, and currently holds rank 18 to 20.

\*PV=Passenger Vehicle  
\*\*CV=Commercial Vehicle

PV\* Production in Iran [units]

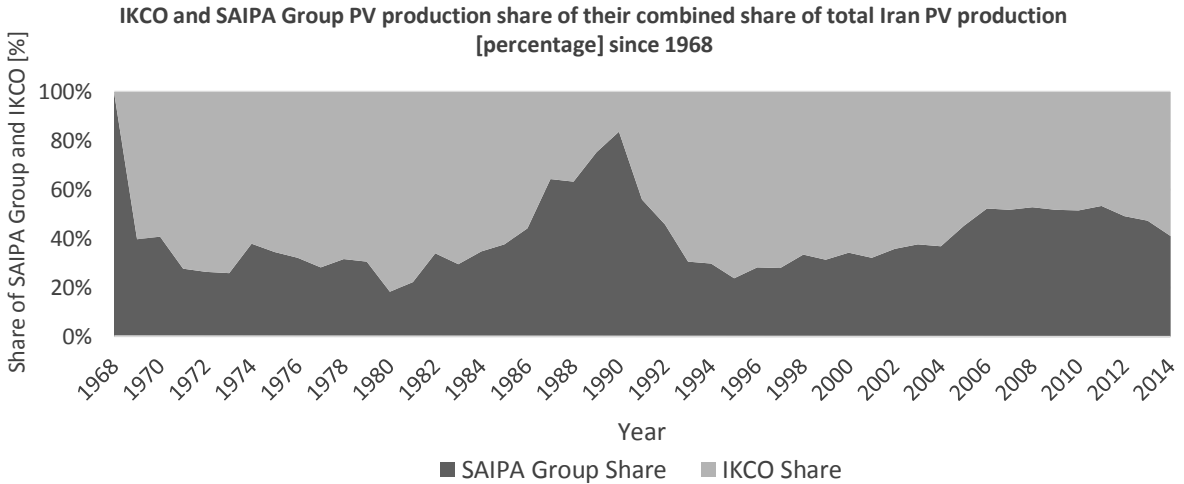


CV\*\* Production in Iran [units]



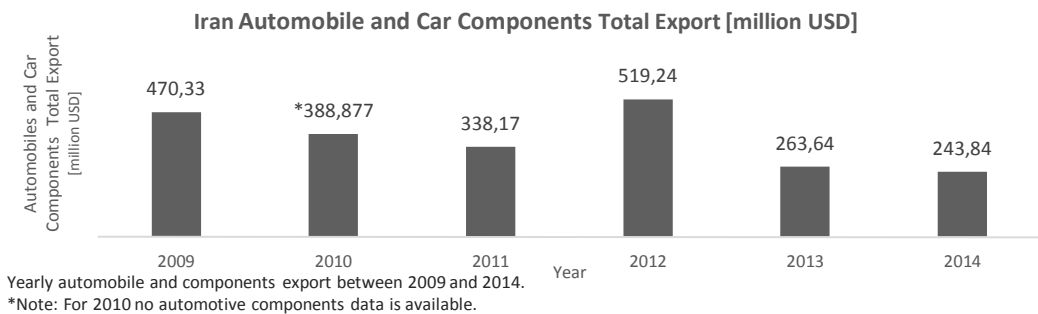
## Key Players

Several national brands exist, such as IKCO, SAIPA, Pars Khodro, Kerman Khodro, and Bahman that produce a variety of different models (such as Samand, Tiba, Dena, etc.). IKCO and SAIPA are the biggest automotive manufacturers and together own more than 79% of the total market share.

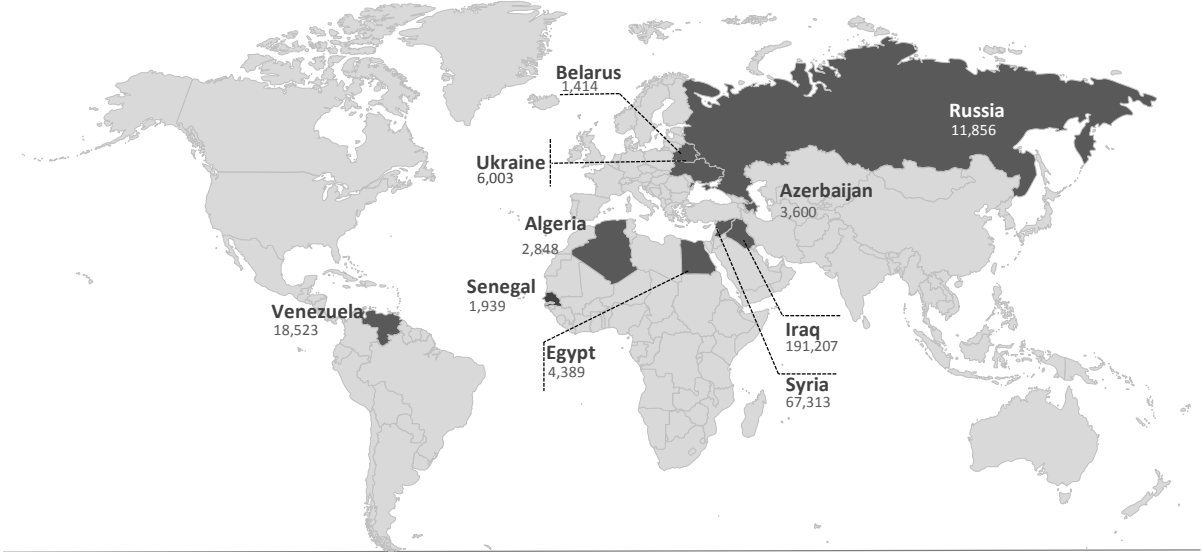


## Export

Iran also looks at its automotive industry as an important sector for exporting its products to neighboring countries. In 2012 Iran exported 520 million USD worth of automobiles and car components. The situation for car and component manufacturers worsened in the following years, leading to a diminishing export value by 2013 to 263 million USD. In 2014 Iran's share of exporting automobiles and car components was announced to be at 243 million USD. There are several reasons for the drop, however, experts concur that the key reasons are low quality and at the same time a high price.



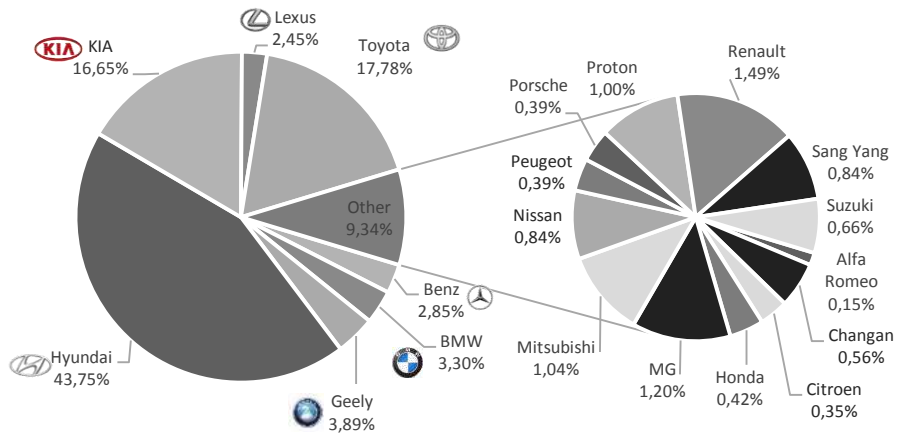
**Total PV exports [units] to different markets during the period from 2005 to 2013**



**Import**

Currently the Iranian automobile import market is ranked on 75<sup>th</sup> place worldwide, making up for less than a percent of the global automobile and component importing market share. In 2010, its market share was 0.2 percent with a total value of 2.5 billion USD. During 2011 the market share did not change, however, the total value of it increased to 2.9 billion USD.

**Import of PV brands to Iran over the past ten years**



Economic sanctions were a big setback for Iran’s automotive industry, especially at a time when the industry was ready for major expansion. Since the year 2012 the production output decreased by approximately 50% (from 1.4 million to 0.7 million), whilst at the same time the price of cars increased radically by about 300%. Furthermore the quality of Iranian-made cars dropped at a similar rate as well.

# Iran Sanction Type

## 2. Sanction Situation and Impacts

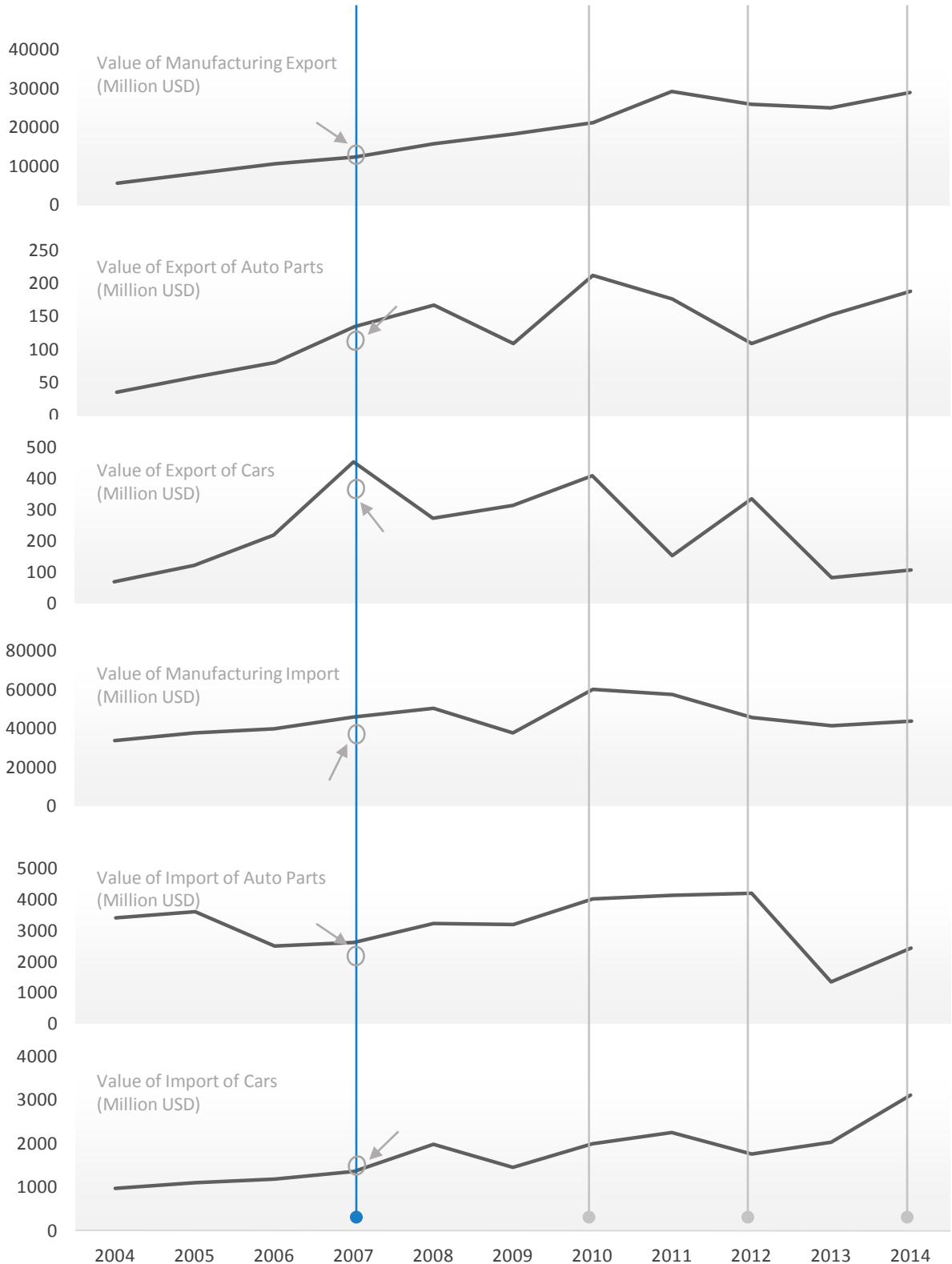
Over the past years sanctions have had a serious effect on Iran's economy and its people. Since 1979 the United States has led international efforts to utilize sanctions in order to influence Iran's policies, including Iran's uranium enrichment program which Western governments fear is intended for developing the capability to produce nuclear weapons. Iran counters that its nuclear program is for civilian purposes, including generating electricity and medical purposes.

|  |  |
|--|--|
| <p><u>EU Sanctions</u><br/>Started since 2007<br/>Intensified since 2008</p> | <p><u>Prohibitions and / or restrictions on:</u></p> <ul style="list-style-type: none"> <li>• The import, purchase, transport, financing and insurance of Iranian crude oil and petroleum products</li> <li>• Transfers of funds between EU and Iranian banks and financial institutions</li> <li>• EU based sales, supply, export, transfer, purchase, import or transport of equipment or technology in relation to crude oil, natural gas and the petrochemical industry</li> <li>• Credit and financial institutions establishing a new presence in Iran</li> <li>• The provision of technical assistance, brokering services, financing services or financial assistance in relation to oil and gas technology</li> </ul> |
| <p><u>US Sanctions</u><br/>Started since 1997<br/>Intensified since 2007</p> | <p><u>The US sanctions on Iran relate to:</u></p> <ul style="list-style-type: none"> <li>• Iranian petroleum industry</li> <li>• Imports from Iran</li> <li>• Exports to Iran</li> <li>• Dealing in Iranian-origin goods or services</li> <li>• Financial dealings with Iran</li> <li>• "Pre-zero contracts" (Letters of Credit and other financing arrangements with respect to trade contracts)</li> <li>• Banking services</li> </ul>   |
| <p><u>UN Sanctions</u><br/>Started since 2006<br/>Intensified since 2008</p> | <p><u>UN sanctions include provisions calling on member states to:</u></p> <ul style="list-style-type: none"> <li>• Prevent the provision of financial services, or the transfer of any financial or other assets, or resources where such services, assets or resources could contribute to Iran's proliferation-sensitivity</li> <li>• Nuclear activities or the development of nuclear weapon delivery systems</li> <li>• Take appropriate measures that prohibit the opening of new branches, subsidiaries, or representative offices of Iranian banks</li> <li>• Prohibit Iranian banks from establishing new joint ventures</li> </ul>   |

On July 14<sup>th</sup> 2015, the P5+1 and Iran reached a Joint Comprehensive Plan of Action (JCPOA) to ensure that Iran's nuclear program will be exclusively peaceful. October 18<sup>th</sup> 2015 marks "Adoption Day" under the JCPOA. The agreement provides that in return for verifiably abiding by its commitments, Iran will receive relief from the U.S., European Union, and United Nations Security Council nuclear-related sanctions. "Implementation Day" was initiated on January 16<sup>th</sup> 2016.

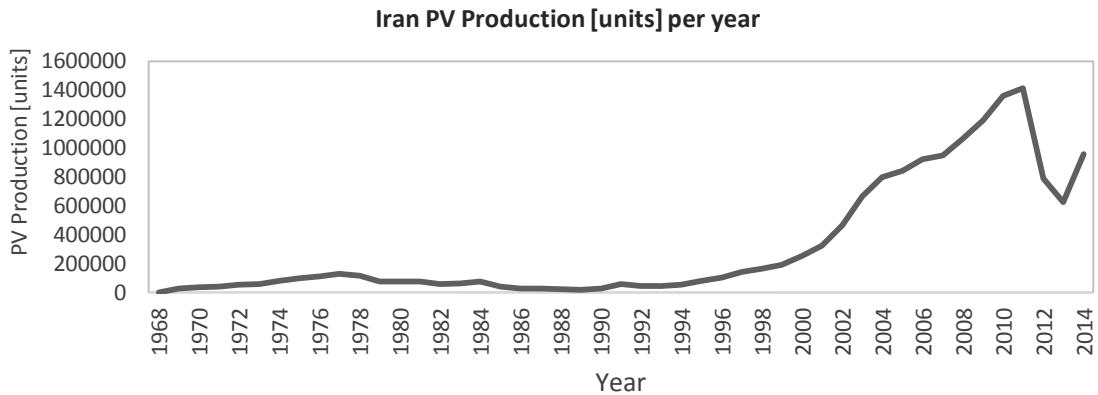
## Sanction Impacts

Despite the fact that Iran's economy has been suffering from the effects of intensified international sanctions since 2007, different industrial sectors have shown deviating levels of instability.





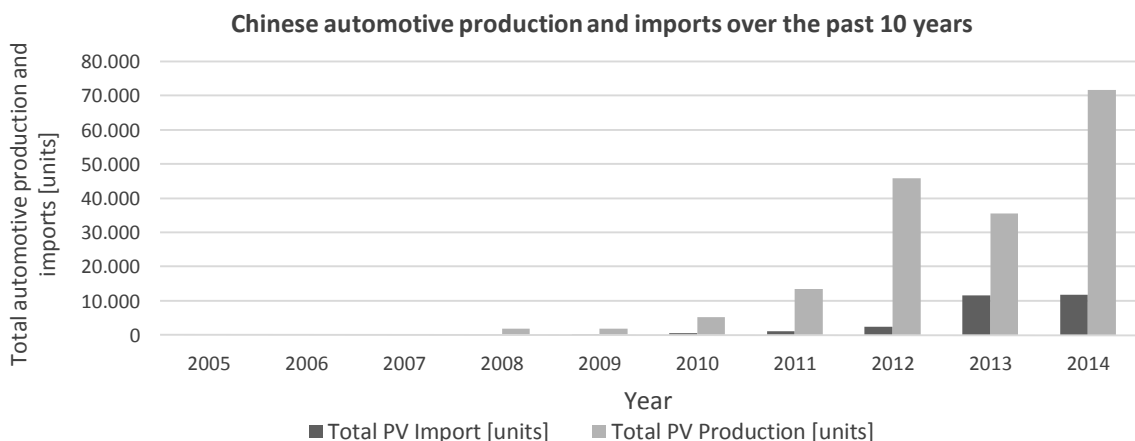
Since 2010, the Iranian total passenger car production dropped considerably, as a direct effect of the sanctions impact on the automotive sector.



## Chinese Competition

Chinese automotive companies have gained a wide presence in the Iranian automotive market since 2010 by taking advantage of the sanction situation, mostly through cooperation's with domestic automakers (mainly the private ones). One of the first Chinese players in Iran was Chery, however, ever since many other brands have entered adding up to a total of ten today. Those ten Chinese automakers have so far launched 30 different models in a variety of price ranges. Some experts say that the private automotive sector is dominated by the Chinese. Furthermore, large numbers of vehicle imports from China have been accounted for.

According to research from IHS Automotive Assessment, in 2011 Chinese car manufacturers held around one percent of the Iranian car market and by 2015 their share had increased to approximately nine percent. Furthermore, they are ambitious about increasing their retail business.



# 3. Future of the Iranian Automotive Industry

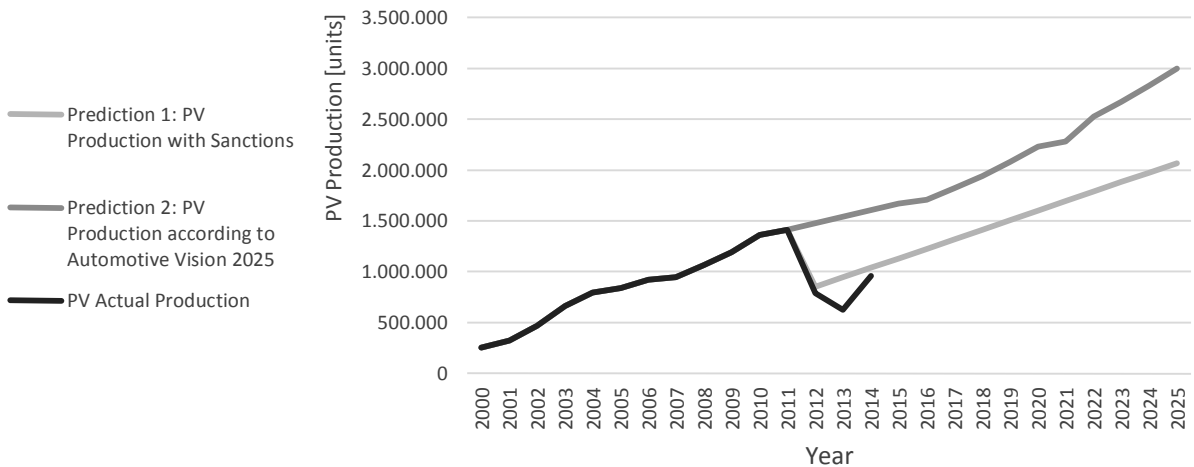
The official 2025 vision of the country has a special focus on the automotive industry – it is expected that the government will keep a relatively high degree of control over it through direct and indirect influences.

Within Iran’s 2025 overall economic vision the particular automotive industry vision is defined as follows:

**“Reaching the number one ranking in the automotive industry of the region, 5<sup>th</sup> ranking in Asia and 11<sup>th</sup> ranking in the world by focusing on competitive development based on technological advancement.”**

Although Iran’s vision for 2025 aims for a production of 3 million units, according to current trends and the assumption that no further sanctions will be imposed on Iran within the next ten years, it can be expected that Iran will produce up to 2 million PV by 2025 under the condition that the average growth rate will be the same as it was before 2011. Some of the most significant shortcomings of the Iranian automotive industry include insufficient financial access, poor financial statements in general, and low product quality for a high price.

**PV production prediction according to linear regression model [units]**



The Iranian Ministry of Industry has developed a strategic plan for the automotive sector consisting of nine key strategies in order to reach the aforementioned target. The nine key strategies and some main action plans are:

|   |   |  |
|---|---|--|
| <p><b>1 Increase Manufacturing Power</b></p> <ul style="list-style-type: none"> <li>Gradual reduction/elimination of auto manufacturing in SKD and FCKD format</li> <li>Establishment and promotion of design centers both in part and auto manufacturing sector</li> </ul>   | <p><b>2 Investment Development</b></p> <ul style="list-style-type: none"> <li>Direct investment/ joint part makers/ foreign auto makers with valuable brands</li> <li>Development of manufacturing units for main raw materials (paint, glass, etc.)</li> </ul> | <p><b>3 Increase Technology Penetration</b></p> <ul style="list-style-type: none"> <li>Support for research and development activities</li> <li>Design and development of new technologies in the fields of electricity and electronics</li> </ul> |
| <p><b>4 Development of Inter-Business Collaboration</b></p> <ul style="list-style-type: none"> <li>Consolidation of tier manufacturers and automobile OEM, so that 5 leading tier manufacturers and 3 automobile OEM are capable of competing in the global market</li> </ul> | <p><b>5 Expand International Collaborations</b></p> <ul style="list-style-type: none"> <li>Joint venture with big reputable global manufacturers</li> <li>Prediction of export volume in dealing with foreign contracts</li> </ul>                              | <p><b>6 Diversification in Finance Methods</b></p> <ul style="list-style-type: none"> <li>Offering purchase credits for buying instruments</li> <li>Create fund for supporting auto industry with proper capital</li> </ul>                        |
| <p><b>7 Managing Import Value of Cars and Parts</b></p> <ul style="list-style-type: none"> <li>Defining tariffs for five-year period in order to increase transparency</li> <li>Banning import of used cars and parts</li> </ul>  | <p><b>8 Supporting Domestic Brand Consumers</b></p> <ul style="list-style-type: none"> <li>Monitor performance of Iranian car manufacturers and importers in quality, sale and after-sales services</li> </ul>  | <p><b>9 Reforming Consumption</b></p> <ul style="list-style-type: none"> <li>Promoting culture of buying domestic brands</li> <li>Promoting culture of using micro-cars and hybrid cars</li> </ul>   |

At this moment in time the future of the Iranian automotive industry is being decided upon and thus it is hard to predict. Factors that will definitely have an influence on the future direction (aside from the lifting of sanctions) are the access to financing, international competition, potential joint ventures, and other macro-economic factors. Almost all sources and experts agree that the Iranian automobile industry will remain as one of the key industries of Iran for years to come. Furthermore, many believe that the Chinese players' market share will diminish after sanctions relieve, and that it will be taken over by European companies. Some potential scenarios include:

| Probability | Scenario   | Justification  | Result  |
|-------------|--|--|---|
| Very Low    | <b><u>Automotive industry achieves the vision 2025</u></b>   | Iran's automotive industry has both economical and political importance for the government, as well as there is a solid infrastructure for increase in production. Companies could produce much more cars from a technical and capacity point of view.   | 3 million yearly car production output by 2025.   |
|             | <b><u>Iran continues with current automotive output rate and under oligopolistic conditions</u></b>        | The government keeps the industry alive, however, insufficient R&D activities are being undertaken to increase the production rate exponentially. Tariffs would still be high and oligopolies will continue to benefit from market conditions.   | 2 million yearly car production output by 2025 (linear growth).   |
|             | <b><u>Automobile industry is terminated and Iran switches to other industries</u></b>                      | Costs of car production in Iran are high and Iran cannot compete with strong European and East Asian competitors. Consumers are more interested in foreign brands and the government cannot keep the borders closed for imports of non-domestic cars.  | Iran becomes a manufacturing hub for foreign car makers, but Iranian tier manufacturers will dominate.  |
|             | <b><u>Third big manufacturer rises and takes market share from IKCO and SAIPA</u></b>                      | Several parties are interested in ending oligopoly situation within the Iranian automotive industry and by developing a third qualified manufacturer Iran could achieve this goal.   | Iranian car production rate surges due to increased competition.  |
|             | <b><u>Iranian automotive industry stops manufacturing and starts assembling instead</u></b>                | Iran cannot keep up with international competition, however, cannot afford to drop automotive industry altogether. International players show interest in the Iranian market and policies are put into place that do allow car imports without technology transfer and employment assurance.   | Automotive tiers remain and the industry turns into an assembly based one for international players, resulting in higher automation and enhanced car quality.   |
|             | <b><u>Iranian automotive industry goes into joint venture agreements mainly with Chinese companies</u></b> | China has always stayed with Iran and today is the main economic and political partner of the country. Chinese cars in Iran have seen a sharp increase in sales during the past years and they can compete with their low prices for the Iranian middle class.   | Chinese car and parts manufacturers increase their activities in Iran, leading to SAIPA and IKCO losing their dominance until 90% of the market is in Chinese hands.  |
|             | <b><u>Iranian automotive industry mainly signs joint venture agreements with French companies</u></b>      | France has been a partner of Iran in the automotive industry for a long time. The Iranian automotive infrastructure is compatible with French technology and it makes the joint venture simple for both parties. However, there are concerns about their accountability during difficult times.  | Peugeot will collaborate under a new legal framework with IKCO and Renault may buy some more shares of SAIPA, whilst collaborating a joint venture agreement.   |
|             | <b><u>Iranian automotive industry mainly signs joint venture agreements with German companies</u></b>      | There are some reports from the Auto Parts Manufacturers Association that Iran's automotive part industry will sign joint venture agreements with German companies (e.g. Crouse). As a result this will force other manufacturers to collaborate with Germany. Also, there are some conflicts between IKCO, SAIPA and the French companies, as they neglected the Iranian market after the sanctions were imposed. | The Infrastructure of part manufacturers will change and German technology is demanded. For the new factories the machinery will come from Germany. French companies may have some products to be launched in Iran. |
| Very High   |  |  |   |

## 4. Outlook

*ILIA is of the firm opinion that no matter the direction that the Iranian automotive industry will take, it is certain that the government will continue to directly and indirectly support this industry.*

The domestic automotive industry plays an important role within the Iranian economy, with a turnover of approximately 12 billion USD and making up for 12% of the country's workforce. After sanctions were enforced in 2007 the automotive industry faced many challenges, however, with recent agreements between Iran and the P5+1 **the Iranian automotive sector will remain a key driver of the economy.**

Numerous paradigm shifts have already occurred and others are bound to follow:

- Recent visits by delegations from Germany, Italy, France and Japan for post-sanction cooperation. Most likely Iran will sign collaboration agreements with one or two European companies and two Asian ones – some experts argue that both Germany and France will definitely enter Iran whole heartedly, and Asian countries will include the Chinese, Koreans and Japanese
- Partnerships with major international automotive OEM will demand their direct investment and technology transfer – condition will be to provide new technologies and also to support the country's exports
- Promoting tier manufacturers
- Co-operations between OEM's and banks to receive financial aid
- Developing export ratios and improving vehicle production capacity
- Determining the price by market rather than government
- Improving the utilization of technology in buying / selling
- Reducing the role of middle men, also by increasing online supply in order to reduce prices

Although the Iranian automotive industry has a clear strategic plan until 2025 with the aim of reaching a production of 3 million units, ILIA predicts that total production cannot exceed 2 million PV by 2025. Furthermore, ILIA anticipates that the industry will collaborate with German and French companies under joint venture agreements, and that the Chinese will continue pushing their products into the market.

**ILIA is of the firm opinion that no matter the direction that the Iranian automotive industry will take, it is certain that the government will continue to directly and indirectly support this industry.**

# Authors



**Hoda Hosseinifar**  
Consultant  
hosseinifar@ilia-corporation.com



**Amir Ebrahimzadeh**  
Consultant  
ebrahimzadeh@ilia-corporation.com



**Marlon Jünemann**  
Managing and Founding Partner  
juenemann@ilia-corporation.com

## About ILIA

### [ILIA Corporation is a management consulting firm in Iran](#)

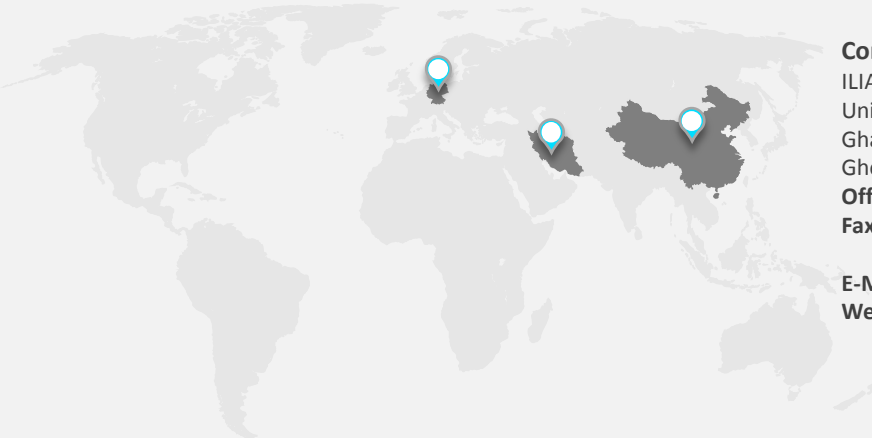
ILIA Corporation advises clients on market entry, strategy, and operations. We develop practical, customized insights that enable clients to act upon and transfer skills that are market specific. Founded in 2008, ILIA has offices in Iran, Germany, and China.

### [What sets us apart](#)

We believe a consulting firm should be more than an adviser – thus we put ourselves in our clients' shoes, selling outcomes rather than projects. We align our incentives with our clients' by linking our fees to their results and collaborate to unlock the full potential of their business.

### [Disclaimer](#)

CONFIDENTIAL – Copyright© 2016 ILIA Corporation, Iran. This document was prepared by the ILIA Corporation team and may not be used for other purposes, or disclosed to other parties without the written permission of ILIA Corporation, Iran



### **Contact:**

ILIA Corporation  
Unit 2, 1st Floor, Number 34,  
Ghasemi Street,  
Gheydariyeh Park, Tehran, Iran  
**Office:** +98 (21) 222 482 23  
**Fax:** +98 (21) 226 845 99

**E-Mail:** office@ilia-corporation.com  
**Web:** www.ilia-corporation.com