

Written evidence submitted by Lord Lamont of Lerwick, Chairman at British Iranian Chamber of Commerce (UKI0013)

Prompted by the announcement that the Foreign Affairs Select Committee was to hold an enquiry into the UK-Iran relationship, including a consideration of *'The FCO's role in supporting broader ties (commercial or otherwise)'*, the British Iranian Chamber of Commerce (BICC) has canvassed the views of our membership as the main non – governmental body promoting trade between the two countries.

Britain's Trade with Iran

In recent years, UK trade with Iran can at best be described as seriously underperforming. In our view this has not been down to any lack of determination on the part of officials to implement current government policy, but rather a consequence of the deteriorating political environment and the way uncertainty has fed through into trade, particularly in the banking sector.

EXPORTS

The peak of Britain's trade with Iran came in 2006, when export of combined goods and services was valued at £744 million. Following the introduction of UN sanctions in 2010 and EU /US sanctions in 2012, the value tumbled to a low point of £167 million in 2013.

The lifting of sanctions in 2016 improved the situation somewhat. By end 2018, the combined exports of goods and services had almost doubled to £315 million compared to 2013, but failed to reach even the half way mark of the value achieved in 2006. ¹

In the four quarters to the end of Q3 2019 (the latest data set available from ONS), total UK exports to Iran amounted to £272m (a decrease of 22.5% or £79m compared to the four quarters to the end of Q3 2018).²

IMPORTS

The imports of goods and services from Iran to the UK peaked in 2011 at £395 million. At the end of 2018 it had fallen to £61 million.³

In the four quarters to the end of Q3 2019, total UK imports from Iran were £49m (a decrease of 32.9% or £24m compared to the four quarters to the end of Q3 2018).

¹ ONS <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/zwmd/pb>

² Note : the latest 2019 figures , to be released on Monday 9 April , run for 12 months to the end of Q3 2019 ; this contrasts with the 2018 which cover the full calendar year.

³ ONS <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/zwok/pb>

TOTAL TRADE (Exports plus imports)

Total trade in goods and services (i.e. exports plus imports) between the UK and Iran was £321m in the four quarters to the end of Q3 2019, a decrease of 24.3% or £103m from the four quarters to the end of Q3 2018

CONTRAST WITH OTHER STATES

UAE

According to the Financial Times (26 July 2019), the value of all trade between the UAE and Iran in 2018 amounted to £19 Bn. Although the re-introduction of US sanctions was predicted to cut the value of trade between Iran and UAE by 50 % in 2019, even the value of that diminished trade dwarfed the value of UK – Iran trade in the same year, being nearly 30 times greater.⁴

CHINA

Obtaining accurate and up-to-date figures for Iran-China trade is difficult. However, according to The Trading Economics website, China's exports to Iran for February 2020 alone had leapt to nearly \$1.4 Billion dollars in value compared to a monthly high point of a \$1 billion worth of exports for April 2019.⁵

The same website records china's exports to Iran in 2017 as worth \$9 Billion. Imports from China in the same year were worth \$13 Billion.⁶

GERMANY

Trading Economics notes that Imports from Germany to Iran in 2017 were valued at more than \$3 Billion. Exports to Germany in the same year were valued at just under \$360 million.

TRADING WITH IRAN

With a population of 83 million, Iran is reckoned to be the 18th most populous country in the world. It is believed to have oil reserves of 157 Bn barrels, nearly 10% of the entire world reserves making it the 4th largest oil state in the world. Its gas reserves are estimated at 1.2 trillion cubic feet, equating to 17% of the world's total natural gas, making it the second most significant country in the world for gas reserves.⁷ It possesses the world's seventh largest mineral reserves.⁸ In normal circumstances, the natural reserves, the size of the market and its extensive seaboard with good port facilities would make Iran a major market for British companies.

The commercial relationship between the two countries has at times in its four- hundred -year history been very significant. Iran was the original home of BP and, under the Shah, Britain was a major trading partner. Iranian business people continue to respect British companies and their products and services and would choose to do business with Britain, all things being equal. The

⁴ <https://www.ft.com/content/bbe3c99a-ae9-11e9-8030-530adfa879c2>

⁵ <https://tradingeconomics.com/china/exports-to-iran>

⁶ <https://tradingeconomics.com/iran/imports-by-country>

⁷ Source : Worldometers

⁸ UK Gov website – Doing business with Iran

Iranian middle class is well educated and places a high value on education for their children. A large number of Iranians are able to speak English and Iranians abroad, including in Britain, do well. Iran has a young, tech – savvy generation and the country also has a good reputation for medical research, despite the heavy toll taken by the current corona virus outbreak. However, the sophistication of much of the middle class does not necessarily convert into an easy transactional relationship, even when political difficulties are set to one side. It is important however to acknowledge that the challenges are no more difficult than those in most of the countries Britain trades with beyond Europe.

We do not doubt that the wish to trade with the UK is shared by both the average businessman in Iran and many of those in official posts. In the current circumstances, however, they usually have no choice but to trade with other countries, even when the quality of products and trading terms are less than ideal.

The British Iranian Chamber of Commerce

BICC was first incorporated in 1996. It is a company limited by guarantee. It exists to promote trade between the United Kingdom and Iran, a trading relationship that is over 400 years old. The governance of BICC is overseen by a board of directors, of which the chairman is the Rt Hon Lord Lamont of Lerwick, who is also the Prime Minister's Trade Envoy to Iran.

BICC's membership extends from small businesses of one or two consultants to FTSE one hundred companies. Our members operate across a wide range of sectors including manufacturing, transport, healthcare, pharma, agritech, animal welfare and food supplies. The membership of the chamber peaked in 2016 at more than 160 companies following the signature of the JCPOA. Over the past four years, the membership has diminished to about 70 companies. The main reasons for the reduction in the chamber's membership and in Britain's trade with Iran are:

1. The refusal of British clearing banks (notwithstanding the implementation of JCPOA) to handle transactions with Iran, including transactions in the pharma, healthcare, agritech sectors classified as humanitarian which are not subject to sanctions
2. The withdrawal of the USA from the JCPOA and the re-introduction of US sanctions on Iran together with the fear that it could lead to loss of business in America, or worse, that those sanctions might be applied extra-territorially to UK companies who have no business in America
3. The worsening economic situation in Iran as a result of the re-introduction of sanctions has made transactions in hard currency more difficult.

Loss of earnings

A sample of the range of our companies indicates annual losses of between £20,000 (for a consultancy company of one person) and £35 million. One London -based financial institution was facilitating £4 Billion of Iranian Trade (from various countries) per annum.

Various members of our chamber have reported a loss in their trade with Iran as amounting to between 30% and 95% of their income from that country. In most cases the range of reduction has been between 66% and 90%.

Threatened bank account closure

In many cases, we have learnt from our members that they have been instructed by their banks to stop trading with Iran or have their accounts closed. In some cases, this has led to account closure.

In many cases, the companies concerned have stopped trading with Iran simply to retain a UK bank account.

Research by BICC in 2017 showed that some banks might have been willing to handle transactions with Iran, but were deterred by the fear that other clearing banks would as a consequence refuse to do business with them.

UK export finance, which placed Iran officially back on cover in 2016, has itself been unable to carry out any transaction with Iran because British banks would be unwilling to handle the necessary insurance premia.

Foreign and Commonwealth Office Support

BICC has maintained good relations with the Foreign Office and with the Department for International Trade team based at the Embassy in Tehran. In both cases, the chamber has experienced good levels of communication and a willingness to cooperate to achieve mutually held objectives.

Some, but not all of our members have been in regular contact with DIT Tehran and a few have had contact with FCO staff in Tehran and London.

Our members have voiced varying views of the ultimate value of support by Foreign and Commonwealth Office and DIT staff with regard to trade with Iran. While it has been government – and therefore Foreign Office - policy to promote trade with Iran, the withdrawal of clearing bank support has made it next to impossible for the Foreign Office to provide support which will ultimately result in a payment into a UK account. Since the US withdrawal from the JCPOA and the re-imposition of US sanctions, Britain's trade with Iran, which had never achieved its full potential after the signature of the JCPOA due to banking restrictions, declined further.

Commercial organisations which prior to sanctions had enjoyed long term successful trade with Iran tend to reserve their criticism of UK public sector performance for HM Treasury and the Bank of England which are seen as failing to put in place alternative arrangements for transactions with Iran.

Given the demonstrated inability of the government and FCO to influence US policy on the matter of sanctions - even when it comes to humanitarian transactions – the conclusion generally reached is that while the FCO is willing to promote UK trade with Iran in line with government policy, it is clearly unable to make a significant difference. A commonly shared view is that, given that the UK banking system is ultimately influenced by the need to protect its business in the US, Britain's real trade (as opposed to trade policy) with Iran is controlled by Washington and not by Whitehall.

Lessons learnt from the failure of the government to put in place trading mechanisms to support trade with Iran may have a wider application. If US influence on the UK banking system in the case of Iran (counter to HMG's policy) is shown to be effective, the same methods can be used to put pressure on the UK economy in the event of a divergence of views on other foreign policy issues.

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