Market Entry into Iran – A Historic Opportunity for Norwegian Firms?

"The Key to Success is Due Diligence"

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List of Abbreviations

Reports and Indices

CPI	Corruption Perception Index
GCR	Global Competitiveness Report
GGGR	Global Gender Gap Report
HCR	Human Capital Report
WGI	Worldwide Governance Indicators

Others

APG	Associated petroleum gas
ASEAN	Association of South East Asian Nations
CBI	Central Bank of Iran
CIS	Commonwealth of Independent States
EOR	Enhanced Oil Recovery
FATF	Financial Action Task Force
FIPPA	Foreign Investment Promotion and Protection Act
FLNG	Floating Liquefied Natural Gas
FTIZ	Free Trade-Industrial Zones
GHG	Greenhouse Gas
GCC	Gulf Cooperation Countries
GTL	Gas to Liquids
ICT	Information Communication Technology
ILO	International Labour Organization
IOC	International Oil Company
IPR	Intellectual Property Right
IPC	Iranian Petroleum Contract
IMF	International Monetary Fund
IRGC	Iranian Revolutionary Guards Corps
IAIIC	Iranian Automotive Industry International Conference
IOOC	Iranian Offshore Oil Company
JCPOA	Joint Comprehensive Plan of Action
JV	Joint Venture
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MENA	Middle East and North Africa
MNE	Multinational Enterprise
MoU	Memorandum of Understanding
NCS	Norwegian Continental Shelf
NIGC	National Iranian Gas Company
NIGEC	National Iranian Gas Export Company
NIOC	National Iranian Oil Company
OPEC	Organization of the Petroleum Exporting Countries
UNFCCC	UN Framework Convention on Climate Change
UAE	United Arab Emirates
SEZ	Special Economic Zones
WEF	World Economic Forum
WIPO	World Intellectual Property Organization

List of Tables

List of Figures

List of Pictures

Table of Contents

The Iranian Market: Does it Hold Opportunities or Challenges for Norwegian Firms?

Background Material

The Islamic Republic of Iran (Iran) has been facing international economic sanctions since 2002, and since 2012 Iran has practically been isolated from the international scene. Accordingly halting development in all aspects of the economy and leaving the population to suffer the consequences. However, after the implementation of the nuclear deal and the lifting of sanctions in January 2016, Iran will re-enter the regional and international arena. Consequently, Iran is once again able to receive international investments, which is of high demand. In this regard, potential Norwegian investors need to understand different aspects of the Iranian economy and its institutional environment. All in an effort to understand how this might differ from Norway and how this could affect doing business with and in Iran.

The development of this report arose after a the authors contacted Innovation Norway with a general request whether the organization had any topics they wanted examined, in regards to the entry of Norwegian firms into emerging markets. The response was positive, and in November 2015 a meeting was held between the authors, Innovation Norway's Regional Director of the Middle East and Africa, and the Norwegian Ambassador to Iran. After a fulfilling discussion, Iran was found to be a country of common interest, and timely relevant in regards to the lifting of sanctions. In addition, the environmental concern in Iran was further emphasized as an important feature to incorporate in this report. Supplementary, the Ambassador expressed that Iran is in search of foreign technology that can support the country in its fight against air pollution.

After further research on the topic, the authors identified that the largest demand for foreign technology in Iran is in the oil and gas industry. The authors suggested this as an interesting area to investigate, hereafter the Regional Director from Innovation Norway brought the authors in touch with the Regional Director of Europe and Middle East in INTSOK, who holds extensive knowledge of the Norwegian oil and gas industry. INTSOK is a partly government owned network-based organization, whose main objective is to promote the Norwegian oil and gas industry abroad (INTSOK, n.d). INTSOK was therefore considered as a highly relevant connection. In order to examine a specific part of the industry, it was decided to focus on a sector that was exceptionally polluting, and to identify whether Norway have the necessary know-how and technology to provide solutions for Iran in this area. After an inspiring conversation with the contact from INTSOK in the

end of January 2016, the authors concluded that the research should be focused on utilization of associated petroleum gas (APG), which is the gas that is flared during oil production in the absence of technology or incentives to utilize it.

The motivation for looking into what Norwegian firms can offer Iran, stems from the fact that since the beginning of oil production in Norway in the 1970's, the government's policy has prohibited routine flaring of APG. Consequently, the Norwegian industry had to develop solutions to capture and utilize the APG from oil production, leading to over 40 years of experience in this field. With this in mind, in addition to the contributions from Innovation Norway, the Ambassador to Iran and INTSOK, it was considered highly natural and relevant to carry out the research based on the opportunities and challenges Norwegian firms in the oil and gas industry would meet when entering the Iranian market.

To further elaborate on the research background, the years of international sanctions have caused a lack of development in the oil and gas sector in Iran. Consequently, Iran is considered the third largest gas flaring country in the world (NIOC, 2016). Thus, within the Iranian oil and gas industry, there exists a huge potential to reduce greenhouse gas (GHGs) emissions by exploiting flare gas. During the Paris climate conference in November 2015, Iran identified that the first and foremost point of major technological requirements, is *technologies needed to curb and utilize gas flares* (DOE, 2015).

Value Creation for the Norwegian Industry

The authors have analysed different aspects of the Iranian market and Iran in general, all which will serve as valuable information for Norwegian firms that consider entering Iran. Although this report has a focus on the oil and gas industry, and hereunder a reduction of air pollution, most of the topics discussed and elaborated throughout the report can be applied for other industries Norwegian firms are interested in entering. The reasoning behind this is that Iran seeks technology upgrades and knowledge spillovers in all aspects of the economy, and in that regard is it necessary for all entering firms to understand Iran in general, and opportunities the country presents. Moreover is it as important to understand what the challenges of entering the Iranian market are, and how to overcome these. The aforementioned is what this report aims to do.

The authors had the honour to interview both industry and country experts with extensive knowledge within their field[1], in addition to attend different seminars and network-meetings in Norway, Dubai and Iran. Accordingly, the value of this report comes from the overview of business opportunities and challenges based on a wider range of sources than those publicly available.

The methodology used in this report consisted of two main phases. In the first phase, the authors made extensive research within top databases to gain a general overview of the country. This phase allowed the authors to strategically plan the field trip to Dubai and Iran by focusing on key information gaps. In the second phase, the authors carried out interviews in Dubai and Iran. The aim of this phase was to develop the analysis from a holistic perspective in order to provide more valuable and applicable insights for Norwegian companies.

The present report covers five main areas of interest: (1) Political Factors, (2) Economic Factors, (3) Cultural Factors, (4) Geographic Factors in Iran and (5) The conclusion of opportunities and challenges the Iranian market might hold for Norwegian firms wishing to enter this specific market. The report aims to show that 'the whole is greater than the sum of its parts'.

By combining a variety of secondary and primary information sources, the authors have ensured the validity and reliability of this report.

[1] See appendix for information on interview participants

[2] "*On July 14, 2015, the P5+1 (China, France, Germany, Russia, the United Kingdom, and the United States), the European Union (EU), and Iran reached a JCPOA to ensure that Iran's nuclear program will be exclusively peaceful*"

Part 1.
Political Factors

Political factors are considered one of the most critical factors to examine before making a choice on international expansion strategies. The state of a host country's political atmosphere and degree of openness notably impacts the choice of entry mode, as political conditions and government policies decide how profitable a firm is allowed to be in the host country. Hence, it is important to understand how stable the political scene is, as changes in policies could amongst others cause problems associated to return of revenue or intellectual property rights (IPR). Furthermore, the political environment will have an effect on investors choice of internalization strategy.

1.1 Political Atmosphere

Every country's political system affects the way the economy is managed. Therefore any firm wishing to enter a specific economy should at least identify the country's power centre, political stability, government effectiveness, rule of law and the corruption level (Khanna, Palepu, & Sinha, 2005). Norwegian firms, used to a sound political atmosphere from the home country needs to pay extra attention to the host country's political climate when looking to internationalize, as confrontations and holdbacks previously unknown for the Norwegian firms might arise in foreign markets.

1.1.1 Iran's Power Centre

Iran's complicated power structure is the key to understanding all aspects of the country's economic policy and promotion of foreign investments. A presentation of the country's power centre is shortly described below, using information from Harvard's Belfer Center and BBC News.

Iran is a theocratic state and the constitution is defined after Islamic ideology. The government consists of three branches, just as in Norway; the executive, legislative and judiciary, though the model in Iran lacks separation of the branches power. The power is centrally located in the **Supreme Leader,** Ayatollah Ali Khamenei's hands, who has been the Supreme Leader since 1989. He can influence all branches of the Iranian government. The Ayatollah is appointed by the Assembly of Experts, consisting of 88 clerics, which also has the role as his supervisors. The Supreme Leader also chooses six theologians out of the twelve members of the Guardian Council, and the other six are jurists appointed by the Judiciary and approved by the Parliament. Additionally, the Supreme

Leader is the commander-in-chief of the armed forces, as well as appointing the Head of Judiciary, the Friday Prayer leaders and the head of radio and TV.

The **President** is elected by the people and holds is the second strongest position in the country after the Supreme Leader, however his power is restricted by the constitution, which is subordinated the Supreme Leader and the Executive branch, limiting his game room. The President serves for a period of four years and is limited to two consecutive terms. He functions as the public face, and is in charge of the economic and social policies. The current president, Hassan Rouhani has been serving since June 2013 and is expected to seek re-election in 2017. He drives a relatively moderate policy, in contrast to the previous, extremely conservative President Mahmoud Ahmadinejad. Rouhani was given the permission to negotiate the nuclear deal in an effort to remove the sanctions, despite the Supreme Leader's generally critical attitude to the West.

The **Guardian Council** consists of 12 experts in Islamic Law, Shia-theologians and jurists appointed by the Supreme leader and the judiciary. They are given the responsibility to oversee the activities of the Parliament and can veto bills of the parliament if they are considered to violate the principles of the constitution and Islamic Law. They also hold the vetting power over candidates running for president, parliament and the council of experts, giving this body the power to disqualify candidates from running in the election. The latter power appointed to this body is used extensively in order to ban moderate and reformist candidates from elections, and the council is not known to be very transparent about their reasons for disqualifying candidates.

Iran's **Parliament** also known as the Majlis is comprised of 290 members elected by the popular vote every four years. The Majlis approves Iran's budget as well as drawing legislation. All bills passed by parliament have to be approved by the Guardian Council who determines if the bills are consistent with the constitution and Islamic law.

The **Armed forces** comprise of the regular forces and the **Iranian Revolutionary Guard Corpse** (IRGC). The Supreme Leader appoints all army and IRGC commanders, and they are answerable to him alone. The IRGC was formed after the revolution to protect the Supreme Leader and crack down on any internal or external opposition to the new regime and it is a separated force from the regular military. The revolutionary Guard monitors all cities of Iran, through its volunteer paramilitary units, *Basij*, consisting of young Iranian men. The IRGC also has a powerful presence in the institutions of Iran, and support hard-line elements in the regime.

The **Expediency Council** is a powerful governing body, originally resolving disputes over legislation approval between the Guardian Council and the Parliament. The members are prominent political, religious and social figures appointed by the Supreme Leader every five years. However, nowadays its power lies more in the advisory role to the Supreme Leader, who also delegated some of his own authority the to the council – the power of supervision over all branches of government.

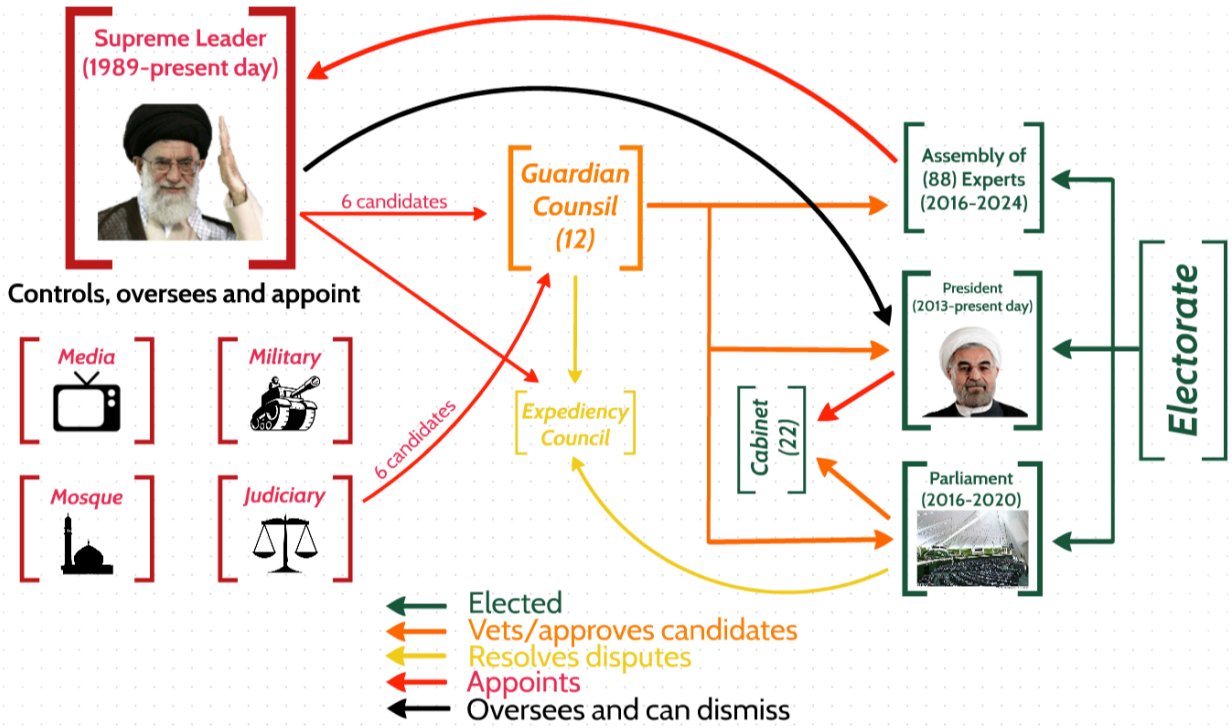
The **Assembly of Experts** consists of 88 Shia clerics sitting for a period of eight years. The members are elected by the direct public election, though the candidates have to be approved eligible by the Guardian Council. In theory they have the power to dismiss and appoint a new the Supreme Leader if he doesn't fulfil his duties, but in practice this power will never be exercised. However, they have to appoint a new Supreme Leader when the current dies, and considering the eight-year term and Ayatollah Khamenei's age, the new body elected February 2016 may have to decide who is going to step into the most significant position in Iran and define the political course for years to come. Therefore, it is worth mentioning that that moderates won 52 out of the 88 seats in the assembly, securing a clear majority despite the massive disqualification of moderate and reformist candidates (Russia Today, 2016).

The **Cabinet** represents the Council of Ministers, who is appointed by the President and must be approved by the Parliament, they are responsible for cabinet affairs (BBC News, 2009; Harvard University, 2016).

As described above and illustrated in the overview below, the Ayatollah is by definition the Supreme Leader of Iran, as he controls all divisions in the political system as well as the media and Friday prayers. Although he is elected, it is the Assembly of Experts who elects him. The clerics running for the Assembly of Experts is vetted and approved by the Guardian Council, which is partly chosen by the Supreme Leader and partly by the Judiciary, of which the Supreme Leader appoints the head. Hence, all branches of government are influenced by the philosophy of the Ayatollah. Additionally, before a presidential election all candidates are vetted by the Guardian Council, indicating that indirectly all candidates are approved by the Ayatollah as well as promoting politics that complies with Islamic Law.

Iran's political system is a highly complex one, as seen by figure 1 below, where the electorate have limited power as they can only vote for approved candidates.

Figure 1: Iran's Complex Political System



Source Figure 1: The Authors Own Composition

The president is a visible public figure, but his main power lies in setting the country's economic policies, as the Supreme Leader ultimately dictates all matters of domestic and foreign affairs. In addition, the executive branch does not control the armed forces as the Supreme Leader is the commander in chief.

The degree of Iran's openness and foreign investment climate is to a large extent depending on the policy of the President. Although, all decisions needs to be approved by Ayatollah Khamenei, the President can to some degree push the direction of the political climate, and hopefully a number of baby steps in the correct direction might lead to an ideological shift in the long run. The political philosophies of previous President Ahmadinejad and current Rouhani are recognized as two opposite pools, especially when it comes to the nuclear agreement and relations to the West (Friedman, 2013).

To illustrate their difference in opinions, their view on Iranian nuclear enrichment can be used. Current President Rouhani was in the early 2000's working in the Government as Iran's chief nuclear negotiator under former reformist President Khatami (1997-2005). Rouhani successfully convinced the Supreme Leader and the President at the time to voluntarily suspend enrichment of uranium, in an effort to open the country and improve relations to the West. This deal was

ultimately rejected by the Bush administration and thrown under the bus by the successor of President Khatami, President Ahmadinejad (2005-2013) a hard-liner conservative, who used the enrichment of uranium as a fundamental form of protest against The United States of America (Friedman, 2013).

President Rouhani on the other hand, has been operating with a moderate foreign policy, working hard to re-open the political communication between America and Iran, in an effort to find common ground in regards to Iran's nuclear enrichment. Rouhani's work on solving the nuclear issue has even been endorsed by Ayatollah Khamenei. Yet, Rouhani is still working against the top conservatives in Iran who are opposing his liberal policies and Ayatollah Khamenei will back the hardliners in any disputes against the moderates. President Rouhani is operating on a sensitive margin, taking small steps to promote his liberal ideology, yet Ayatollah Khamenei ensures Rouhani does not receive enough power to challenge his authority via the complex political system. This is a fine balance (Hafezi, 2016).

President Rouhani's liberal trade policy brings opportunities for Norwegian investors, and he has to some degree succeeded in opening up Iran for foreign investments. Nevertheless, the conservative Ayatollah Khamenei has the power to control all foreign policies, and it is considered challenging to invest in Iran due to his anti-western attitude.

1.1.2 Political Stability

Political stability and economic growth are two interconnected factors. The political stability in a country is a decisive factor for any firms that consider expanding their operations abroad. The Global Competitiveness Report (GCR) estimated political instability as the second most problematic factor for doing business in Iran, and this conclusion was drawn by Iranian respondents (GCR, 2015).

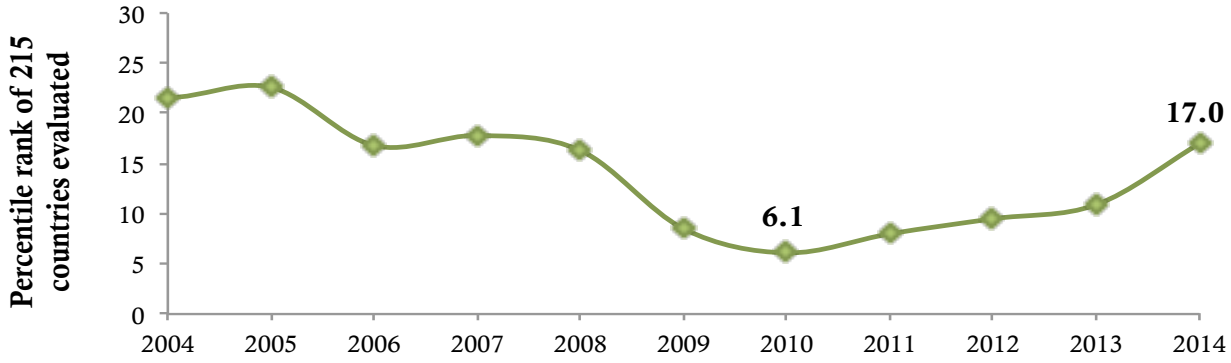
According to the Worldwide Governance Indicators (WGI), Iran belonged to the 17th percentile rank in 2014 in regards to political stability and absence of violence, as seen in table 1 below. This ranking indicates if there is a danger that the government can be overthrown by unconstitutional or violent means, such as domestic violence and terrorism. Despite Iran's low rank in 2014, it was actually an improvement from the 9th percentile rank in 2009, which indicate that the likelihood of a coup or overthrowing of government is far less under the present rule of President Rouhani, than under former President Ahmadinejad's reign (WGI, 2016).

Table 1: Political Stability, 2014	Iran	Norway
	Percentile rank (1-100)	Percentile rank (1-100)
Political stability and absence of violence/terrorism	17,0	90,3

Source Table 1: The Authors Own Composition Based on WGI (2016)

The imposed sanctions on Iran have led to several years of poor economic performance, and scholars show that in periods with low economic growth there is a higher possibility that the government collapses. The economic performance will be elaborated under the subsection regarding economic factors. The figure below shows the evolution of Iran's political stability performance according to the WGI.

Figure 2: Political stability and absence of violence/terrorism, Iran (2004-2014)



Source Figure 2: Authors Own Composition, Based on Values From WGI

In the period 2009 to 2012 the political stability in Iran was extremely low. This is assumed to be a result of the tension that arose after the re-election of President Ahmadinejad in favour of former Prime Minister Mir Hossein Mousavi in 2009, and the following uprising and suppression of the green movement supporting Mousavi. The green movement and Mousavi himself believed the results of the presidential election were fraudulent, and that Mousavi was the actual winner of the election (Saless, 2014).

The anxiety was further fuelled by the tension between Ayatollah Khamenei and the President at the time, Ahmadinejad, who in his second term tried to gain more power through his position as president. Their relationship which Ahmadinejad described as a "father-son" relationship became a public battle where the supreme leader undid changes Ahmadinejad tried to make i.e. when the president tried to sack the intelligence minister he was re-instated by the Ayatollah (MacFarquhar, 2011). However, in 2013 and 2014 Iran saw increased stability, which coincides with the year President Rouhani came to power and implemented a more liberal political and economical policy.

Despite Iran' positive development in regards to political stability, the political risk will still be considered a critical concern for Norwegian firms in regards to investments in Iran, as Norwegian firms are used to sound political stability from the home market, as portrayed by table 1 above (WGI, 2016).

Norwegian firms should also be aware of how political stability, or lack a thereof, affects the banking system in Iran, as this is an important institutions when doing business in a foreign country. The private banking sector in Iran is small, and the majority of the private banks is positioned in the semi-governmental circle, or is under the control of organizations with links to the government. A lack of private banks gives the government a larger opportunity to intervene and control. Increased political instability may contribute to even larger government control of the banking and financial system. For instance, after the revolution in 1979, instability and the transition to the Islamic banking law, nationalized the private banks in order to be able to govern one independent monetary system (Peymane, 2014). The composition of the Iranian banking system is further elaborated under "Part 2. Economic factors" and hereunder capital-markets.

Additionally, Iran's problematic relationship with the U.S. is causing political instability, and this is an important factor to have in mind as a potential investor. Despite the lifting of sanctions in January 2016, the U.S. Government still imposes sanctions over Iran's human rights policies and support for terrorism, which causes business restrictions for American as well as some European companies doing investments in Iran. The U.S. Treasury Department's restrict any payments linked to Iran that is processed through the U.S. financial system (Birnbaum, 2015). This means that any money coming from Iran cannot go directly to the U.S., imposing difficulties for any multinational enterprise (MNE) or foreign bank having operations in the U.S. Furthermore, the U.S. has reported 200 Iranian individuals on their current sanctions list. Consequently, any firm or bank doing business with firms or individuals on this list will receive penalties. It is worth mentioning that a lot of the individuals on the list are linked to the Revolutionary Guard, which is deeply embedded in Iranian institutions. These remaining U.S. sanctions makes it almost impossible for any U.S. firms to expand to the Iranian market at the moment, as well as partnering with a domestic company or selling goods there. Consequently, non-U.S. firms have a competitive advantage at the moment, seen as there is no competition from their U.S. counterparts. Though, this competitive advantage is only believed to be short term and these sanctions also make European firms more careful and hesitant to re-enter the Iranian market (Aghili, 2016; Dyer, 2016).

In addition, if any of the P5+1 countries feels Iran in any way violates the terms of the Joint

Comprehensive Plan Of Action (JCPOA)[2], they can file a concern and if this remains unresolved the sanctions would automatically "snap back" after 30 days, without the vote of the Council. Any "snap back" can potentially paralyze the banking system and this is an insecurity that impacts investors (Sengupta, 2015). Furthermore, the election of the next U.S. president in the fall of 2016 is assumed to impact the protection of the agreement, although it is not bound only by the Obama administration. These factors keep investors at arms length from the Iranian market, waiting on the outcome of the U.S presidential election (Aghili, 2016; Wilkin, 2016).

Lastly, investors need to pay attention to the Iran-Saudi tension and the effect it has regarding political stability. Relations between the two countries have actually been tense ever since the establishment of the Islamic Republic of Iran in 1979, and worsened when Saudi Arabia supported Saddam Hussein's regime during the Iran-Iraqi war of 1980-1988 (Omidi, 2016). However, the current tensions between the two countries is believed to be a result of Saudi Arabia's anxieties about the implementation of the JCPOA, which will bring Iran back to the regional and international arena resulting in a disruption of the geopolitical balance (Jokar, 2016). The Saudi's play on the religious tension between the two countries, where the royal family of Saudi Arabia represent the Sunni branch of Islam, and the majority of Iranians represent the Shia branch of Islam. However, playing on this sectarian difference can be seen as merely a tool in the fight for economic, geostrategic, political and religious power in the region (ibid).

To sum up, there are various factors that affect the political stability in Iran, both domestic and regional rivalry in addition to international relations. A key point to remember for Norwegian firms is that the political and economical environments are interlinked, and that a positive or negative development in the political stability ultimately affects investors' operations in the country.

1.1.3 Government Effectiveness

Government effectiveness is a measure of the quality of government inputs, taking into account the quality of bureaucracy, the independence of the civil service from political pressures and the credibility of the government's commitment to policies. As demonstrated in table 2, Iran scores in the 38th percentile in regards to government effectiveness, and this is considered to be the third most problematic factor of doing business in Iran (GCR, 2015).

	Iran	Norway

[2] "*On July 14, 2015, the P5+1 (China, France, Germany, Russia, the United Kingdom, and the United States), the European Union (EU), and Iran reached a JCPOA to ensure that Iran's nuclear program will be exclusively peaceful*" (U.S. Department of State, 2016).

Table 2: Government Effectiveness, 2014	Percentile rank (1-100)	Percentile rank (1-100)
Government Effectiveness	38,0	96,6

Source Table 2: The Authors Own Composition Based on WGI (2016)

Iran's government is described as *"a giant with a small head",* as a result of its massive bureaucratic and inefficient structure. There is an unclear line between the public and private sector, and various organizations work closely with the bureaucracy. This contributes to corruption, leading to personal gain for the bureaucrats, the business class and top religious officials (Bozorgmehr N., 2014).

The bureaucratic inefficiency is assumed to influence the registration of an entering firm or the creation of a new entity in Iran, making it a complicated and time-consuming procedure. It might take months to have a new firm registered, due to the many layers of interventions before a final decision can be made (Pirouz, 2015). This is something Norwegian firms needs to take into account prior to their entry.

Although Norwegian firms might be hesitant to enter at this point in time, the firms must be aware that the negotiation process might take longer than expected, and as a consequence the final entry time might become later than preferred. Consequently, Norwegian firms might loose any potential first mover advantages if firms from other countries are faster.

1.1.4 Rule of Law

Effective rule of law in a country indicates clear and accountable laws which the government and its officials as well as individuals adhere. Furthermore, effective rule of law helps reduce corruption and poverty, contributes to good public health, improve quality of the education systems and protect the people. The rule of law seizes perceptions of the extent to which individuals have confidence in the rules of society such as the quality of contract enforcement, property rights, the justice system and the police (WGI, 2016).

As portrayed in table 3, Iran ranks below the 14th percentile, well underneath the average of the Middle East and North Africa (MENA) region, which lies at the 45th percentile. This gives an indication there is little confidence in the rules of society, thereby the police and courts, as well as lack of fundamental rights in Iran. Norway on the other hand ranks in the 99th, indicating there is almost a complete confidence in the rules of society, which all players in the economy obey (WGI, 2016).

	Iran	**Norway**

Table 3: Rule of Law, 2014	Percentile rank (1-100)	Percentile rank (1-100)
Rule of Law	13,9	99,0

Source Table 3: ***The Authors Own Composition Based on WGI (2016)***

Amongst the important factors touching the rule of law, is the judicial system. As demonstrated in table 4 Iran ranks relatively good in regards to civil justice, however Iran scores relatively inferior in regards to criminal justice making them third worst in the region (WJP, 2015). Here it should be mentioned again that Iran's Head of Justice is elected and controlled by the Supreme Leader (see figure 1). Although Iran's judiciary system by constitution is an independent power, the Head of Justice is representing the political direction of the Supreme Leader, strongly indicating a lack of independence from political interference. The Rule of Law index confirms this concern, indicating that the government has influence on the civil – and criminal justice, the latter to a great extent, as can be seen in table 4. Additionally, occurrences of corruption are found in the judiciary system (WJP, 2015).

Table 4: World Justice Project, Rule of Law Index, 2014	**Iran**	**Norway**
	Score (0-1)	Score (0-1)
Civil justice	0,56	0,86
No improper government influence (civil justice)	0,39	0,96
Criminal justice	0,39	0,83
No improper government influence (criminal justice)	0,19	0,97
No corruption in the judiciary	0,45	0,92

Source Table 4: The Authors Own Composition, Based on WJP (2015)

Iran's currently weak judicial system should also be illuminated in regards to investor protection. As further elaborated under the section "1.2 Degree of Openness", all instances of disputes in contracts will be solved in Iranian courts, which might not be favourable for Norwegian firms or any other foreign investor. Hence, an increased focus on independence in the Iranian judiciary system in addition to an increased trust in them is assumed to give Iran a more sound investment environment, as well as being a contributing factor to economic growth.

Consequently Norwegian firms looking to Iran must prepare themselves on how the low rule of law might affect the firm and what challenges this might bring. It is important to develop a plan on how to not engage in grey-area business, and any firm will do wise in partner up with a local agent in order to navigate this market more easily. All in an effort to avoid getting mixed up in business behavior considered unethical and illegal, such as corruption.

1.1.5 Corruption

The political stability in Iran can also be reflected by the degree of corruption in the country. Iran was ranked as number 130 out of 168 countries on the Corruption Perception Index (CPI), with the low score of 27 out of 100. Transparency International which has developed the index defines corruption as *"the abuse of entrusted power for private gain",* and they further divided it in to three different categories depending on the amount of money lost and the sector where it occurs, namely grand, petty and political corruption (Transparency International, 2016).

Transparency is a factor that to a large extent impacts the CPI, as the lack of transparency is empowering corruption. And as Iran is not known for its transparency in any layer of the economy, corruption is considered to be a daily routine in Iran. Hence it is has become a way of life. When corruption is implemented in the people and organizations behaviour, these habits are hard to turn. Additionally, people participate in corruption to make the best out of a bad economic situation. For instance, the large portion of young highly educated, but unemployed youth, is participating in rent-seeking activities as an alternative to earning an income in productive work that creates new wealth for the country (Shahidsaless, 2016).

The previously presented petty corruption relates to everyday corruption where low- and mid-level officials interact with the public directly. When people engaging in petty corruption dominate a country's institutions and state processes, it is referred to as systemic corruption in which the population have no alternative but to deal with corrupt officials (Transparency International, n.d.). Whereas high-level officials in the government and state institutions are able to commit grand corruption by distorting policies, which enable them to benefit at the expense of the public good. Subsequently resulting in erosion of confidence in the rule of law, governance and economic stability of the country. Grand corruption is often synonymous with political corruption, which is when laws and regulations are abused, ignored or even tailored to fit the political decision makers and their personal interests to sustain their power, status and wealth (ibid).

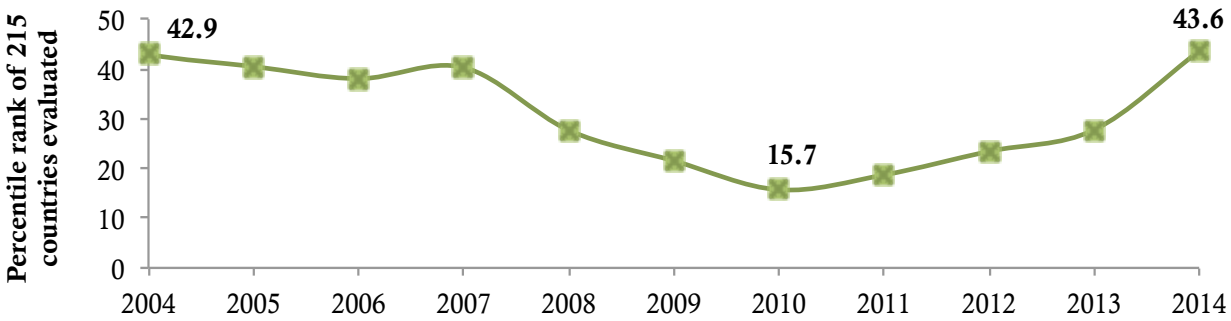
As for systemic corruption does the large bureaucratic Iranian government consist of a great amount of public sector employees who receive low salaries. Hence, these employees are often in a position where they do what is necessary to meet the expenses of their families. This, combined with a lack of transparency and accountability, gives many employees the opportunity to take advantage of their position and create profit for themselves or their clients under the table (Shahidsaless, 2016).

The grand (political) corruption Iran experiences are conducted either by government officials or the Revolutionary Guard. The IRGC controls a great part of the Iranian economy and are deeply imbedded in the financial system. Through subsidiaries and charitable funds, the IRGC is present in the oil and gas sector, as well as construction and telecommunication, amongst others, in addition they are known to smuggle drugs, narcotics and firearms (Mohammadi, 2010). Transparency regarding the IRGC activities is virtually non-existent, as they do not need to publish records regarding their economic activities. In addition business controlled by the IRGC became exempt from taxation in 1993 by a ruling signed Ayatollah Khamenei. Neither does the IRGC answer to the Majlis (parliament) or the government. Hence, only the Supreme Leader can make the IRGC pay their taxes or become more transparent (Soghom, 2015). It is hard to estimate the extent of the Revolutionary Guard's control, as many affiliates are not owned by the IRGC, though controlled by the corps through personal links with owners and mangers (Borger, 2010).

The IRGC's extensive root in the Iranian economy increases the risk that Norwegian investors unknowingly engage in an IRGC subsidiary or someone connected to the IRGC. This is a challenge for all foreigners seeking to do business in and with Iran, as people and subsidiaries connected to the IRGC could still be blacklisted by the U.S. and on their current sanction-list. Consequently, firms engaging with someone who is still blacklisted by the U.S will face penalties. Hence, a through due diligence on the potential Iranian counterpart in a business deal is a key reduce Norwegian firms potential liabilities in order it will help the firms protect their corporate interests (Aghili, 2016). The IRGC are present in the Government as well as the shadow economy. Low rule of law is according to the International Monetary Fund (IMF) correlated with a larger shadow economy, where the IRCG is the major player. Further, the IMF suggests that the underground economy in developing countries are equivalent to 35 – 44% of a nation's GDP, and the average of different measures of Iran's shadow economy gives it an estimate that it is equivalent to 36% of total GDP (Ghasseminejad, 2015). Iran's shadow economy is providing growth for corruption, and foreign firms need to be aware of local "fixers" that will help the firm and pay bribes on their behalf (Wilkin, 2016). Norwegian firms should pay great attention to this, as the IRGC holds widespread control over the oil and gas sector in Iran (Mohammadi, 2010).

Furthermore the government is active in all sectors of the industry hence, the problem of corruption needs to be addressed. Under President Rouhani's lead, the control of corruption has been slightly improved, which plummeted in the years between 2007 and 2012 under Ahmadinejad's rule (WGI, 2016).

Figure 3: Control of Corruption, Iran (2004-2014)



Source Figure 3: Authors Own Composition, Based on Values From WGI

During a conference in 2014, President Rouhani expressed; *"when weapons, wealth, and media are in control of a single institution, an inevitable result would be corruption"*, clearly referring to the power of the Revolutionary Guard. Rouhani promote policies to fight corruption, though all his policies are governed by the Ayatollah. There is a need for cooperation between authorities, still this interest of cooperation is not found (Iran Politik, 2014). Yet, the government does not appear to have the necessary motivation to fight corruption and is not backing Rouhani's campaign against corruption (ibid).

Moreover, organizations that could detect and enforce the issue of corruption, such as anti-bribery actions-investigators, independent accountants, civil society organizations, amongst others, have not been developed in Iran (Shahidsaless, 2016). It should further be illuminated, that the transparency watchdog, Transparency International, does not have updated statistics on "rule of law" and "voice & accountability" in Iran, which further emphasises the lack of transparency in the country.

Although Iran is showing a positive tendency towards controlling the domestic corruption under the lead of President Rouhani, the significant lack of transparency is still a clear concern for Norwegian firms. In order to reduce exposure to this unfavourable part of the Iranian business environment firms should, undertake a thoroughly executed due diligence on both the potential agent and the Iranian counterpart in a business deal. In addition firms can take measures such as bring on their own accountants to keep track of the economy on projects they are operating. Measures such as these will reduce Norwegian firms potential liabilities in addition it will help firms protect their corporate interests (Aghili, 2016). Furthermore, in regards to reduction of

exposure to this environment it is common that firms internalize their processes when they desire to enter environments that experience frequent corruption.

1.2 Degree of Openness

The quality of the governance institutions in a country influence foreign investment decisions, and the government's policies and attitudes towards markets and freedom are crucial political factors that impact a country's trade and business environment. A country's degree of openness depends on various elements, such as government interventions, investor confidence, restrictions on free trade agreements, contract enforcement and taxation policies. All aforementioned factors are important to consider for any Norwegian firm looking towards Iran, and they have to be thoroughly evaluated, in addition firms have to reflect upon what implications those factors might pose on the firm before deciding to enter the Iranian market.

1.2.1 Willingness to Promote Foreign Investments

The Foreign Investment Promotion and Protection Act (FIPPA) applies to all activities of foreign investment, and grants foreign investors the same rights and protections as local investors. According to Article 2 of FIPPA, foreign investment should be done to help create economic growth and upgrade technology and quality of products, amongst others, and should not threaten the national security in Iran. The law allows for foreign investments in all fields where private sector activities are permitted. Additionally, FIPPA ensures that investors capital and profits are convertible and transferable (Hassanzadeh, 2013; O.I.E.T.A.I, 2002). The FIPPA holds good news for Norwegian firms that want to enter Iran with technology, as there exists a desire of foreign investments in technology upgrades in almost all industries.

In November 2015, the Iranian Government presented the new Iranian Petroleum Contract (IPC), which currently is under development. It holds more attractive conditions than the previous buyback contract for investments in the oil and gas industry. The goal of the IPC is to protect the Iranian state's ownership over its oil and gas resources, while as the same time, meet the interest of the foreign investor (Yeganehshakib R., 2016b). Opportunities regarding the IPC are that it encourages know-how and technologies to be transferred to the Iranian oil and gas industry, which Norwegian firms possesses a lot of. These contracts are also meant for longer term and offer over the double length of the old buyback contracts. The IPC term will be around 20-25 years, which in turn will provide foreign investors with a greater deal of assurance and motivation to invest sizeable sums in the Iranian oil and gas industry (Creed, 2014; Gulf Intelligence, 2015). The IPC, in regards to opportunities on modes of entry propose a joint venture (JV) between foreign firms and the National Iranian Oil Company (NIOC) or affiliated firms. The Iranian government hope that the JV structure

will result in knowledge spill-overs from the foreigners to the Iranian experts when they work shoulder-to-shoulder on projects (ibid). In future development, international firms can support Iran with technology transfer and knowledge, and this support will contribute to better technology in Iran. However, it is important not to insult the Iranian industry, as they are very skilled and knowledgeable, yet they lack modern development, which is partly due to sanctions (Gharesifard, 2016). The currently low oil price[3] is also a contributing factor for Norwegian firms to look towards other markets such as Iran, as the production cost on a barrel of crude oil from the Norwegian Continental Shelf (NCS) is higher than the production cost many other places. It is also worth mentioning that one would expect a more rapid development of the Iranian oil sector if the oil price were higher (Gharesifard, 2016). Nonetheless, the content of the IPC and the currently low oil price serves as incentives for Norwegian firms to look towards Iran. Although Norwegian firms has technological solutions that can support Iran with modern and more environmentally friendly technology within the oil and gas industry, it is important to also emphasize Norwegian firms generally offers expensive solutions. Hence, any Norwegian frim that wishes to expand to Iran will have to prove the long-term effect and profitability of these solutions (Gharesifard, 2016).

Additionally, the IPC allows foreign investors to take equity shares in JV firms in the oil and gas industry, as long as the Iranian partner holds the majority share. This is necessary to meet the Iranian requirement of 51% local content, which is a legal condition set by the Iranian Law (Creed, 2014). This circumstance is unlikely to stop Norwegian firms from entering Iran, however it is a condition necessary to be aware of, as it results in a minority share in any JV established with the Iranian counterpart.

Further, the IPC integrates all stages of exploration, development and – for the first time since the '79 revolution – production in one contract, hence it serves more as a production sharing agreement where the Iranian party takes the role as the technical partner. In contrast, the old buyback model was merely a technical service contract, where the Iranians served as a contractor, only allowing foreign investments in the exploration and development phases of a project, having the NIOC take over the field when the project was completed (Creed, 2014; Gulf Intelligence, 2015). The IPC on the other hand aims to share the risks, where foreign investors will be rewarded by becoming the manager of the project for taking on the increased risk. The intention of the IPC is to minimize the Iranian party's interference in the decision-making and operation of the project and in return the foreign partner will be accountable for all the costs and risk related to the project (ibid).

[3] As of the end of April 2016, the price on a barrel of crude oil has fluctuated between $65 and $30 the last 52 weeks. Where all prices in 2016 have displayed a price below $46 so far (Marketwatch, n.d.).

Under the new contract, there is one factor that is especially interesting for foreign investors, namely the booking of reserves. This is a controversial matter in Iran, as both the Iranian constitution and under Sharia law, natural resources should be owned by the state (Mees, 2015). However, booking rights will only be possible under some specific conditions, where projects bear exceptionally high-risk for the investor during exploration/development, such as joint fields like North/South Pars, which Iran shares with Qatar, in addition to drilling in the Caspian sea. Yet it is important to underline this does not give any foreign firm the right to ownership over the resource, it primarily function as a booking of the asset to confirm the asset is under the specific firm's management, which can impact the price of the firms stock[4] (ibid). Nevertheless, President Rouhani is accused of breaking the law, as the Iranian constitution strictly prohibits any foreign ownership of Iran's natural resources, and the state should solely be in charge of public resources (ibid). The Expediency Council (see figure 1) has declared that the IPC will be reviewed in detail, and considering the bureaucracy and lack of independence between the branches, further delays of the reform is assumed to occur (Tagliapietra S., 2016).

Moreover, under IPC the investing firm will finance the JV, and the investor's income is directly related to the risk and production level in the project, in contrast to the buyback model which had a fixed return rate set by the host government. However, a challenge for all foreign firms, Norwegian amongst them, is that Iranian laws will govern the contracts, and if any dispute occurs regarding the IPC, this will be a subject to the Iranian court exclusively (Gulf Intelligence, 2015; Kashani, 2015). According to Sorokina (2002), any investor is seeking a reliable and independent judiciary system in the host country, to ensure protection and enforceability of contracts (Sorokina, 2002).

The exclusivity of the Iranian court in disputes of the IPC, in addition to the requirement of 51% local content, consequently leading foreign firms to never hold the majority share in Iranian JV might serve as an argument against entry in the Iranian market. On the other hand is the introduction of the IPC and its more favourable terms an argument towards entry in the Iranian market. Here Norwegian firms would have to decide if the risks outweigh the opportunities in the Iranian oil and gas market.

1.2.2 Government Interventions in the Market

Despite the relatively favourable investment laws, the legal regime in the Iranian petroleum sector must be viewed in the light of Iran's history and Islamic Law. Under the constitution and Shari'a principles is the oil and gas reserves state-owned and should, as previously mentioned, only be administered by the government (Hassanzadeh, 2013; O.I.E.T.A.I, 2002). To underpin the extensive government control, as much as 70% of the Iranian economy is under the control of the government

[4] To fully comprehend the differences of the old buy-back contract and the new IPC, refer to appendix 1.1

(Nasseri & Motevalli, 2015). The government holds a monopoly power over natural resources, and it has the exclusive access to the profits of oil and gas export and domestic sale. There are several organs that have a say in decisions regarding the industry, including the President, Ministry of Petroleum, Ministry of Energy, the Parliament, the Expediency Council, the Council of Guardians, NIOC, National Iranian Gas Company (NIGC) and National Iranian Gas Export Company (NIGEC) (Hassanzadeh, 2013).

NIOC has the responsibility of developing the Iranian petroleum resources, however it is highly regulated by the Government through the Ministry of Petroleum, which has a decisive role in NIOC's policy making. The NIOC's budget must be approved by the Parliament and has to be consistent with the Constitution and the Shari'a law (ibid). The three main state-owned energy companies are the NIOC, NIGC and NIGEC, and through their subsidiaries they each have different responsibilities in regards to the activities being upstream, downstream or export projects. However, their responsibilities are overlapping, making it difficult for International Oil Companies (IOCs) to decide which body they should approach (Hassanzadeh, 2013; Khajehpour, 2013).

In this regard, Norwegian firms should make sure they understand the government policies and future plans concerning the oil and gas industry, because the Iranian oil companies are mainly government owned or strongly connected to the government, resulting in the government being involved in all oil and gas activity (Arshid, 2016).

1.2.3 Investor Confidence

According to the Doing Business report 2015, Iran stands at 150 in the ranking of 189 economies on the strength of protecting minority investors, obtaining a score of 4 out of 10. This awards Iran a lower score than the regional average and well below the Norwegian score of 7.2. The main contributing factors to Iran's low score are the lack of corporate transparency, lack of shareholder suit[6] and low ownership and control (World Bank, 2016). All factors that coincide with previously elaborated challenges in the Iranian environment. The low corporate transparency indicates that firms' financial statements is not being disclosed to the public in addition to a low degree of external auditing firms. Consequently, transparency in Iran is at the bottom, which makes investing in Iran very difficult (Arshid, 2016). According to the GCR 2015, Iran is ranked at 116 out of 140 countries in their strength of auditing and reporting standards, which is considered very low (GCR, 2015).

[6] Shareholder suit index is measured in the access to internal corporate documents, evidence obtainable during trial and allocation of legal expenses (World Bank, 2016)

Furthermore, the protection of IPR and contract enforcements is of significant importance for an investor. Iran was considered number 108 out of 129 countries globally regarding IPR in 2015, placing them relatively worse than their regional neighbours (IPRI, 2015). Despite this, Iran is a member of World Intellectual Property Organization (WIPO) and has joined several international intellectual property treaties. Additionally, in 2008, Iran started to address their foreign investors concern of the protection of their patents in the process of their technology transfers, and the "Law of Registration of Patent, Industrial Designs and Trademarks" was introduced. This law serves as the most important regulation in regards to protection of property rights in Iran. However, Article 17 in the law represents an exception, saying that the government may seek to use the patented invention for the sake of national security, health and economy, without the consent of the owner (Iran National Law, 2008). Depending on the interpretation of national security, health and economy, this exception might threat an investor's right to a patent, and impact the investor confidence (Atieh Associates, 2008).

Contract enforcement is also a factor that influences the investor protection in a country. This is highly dependent on the efficiency of resolving a commercial dispute through the courts, and thereby an issue of the judicial system in Iran. In addition it is based on the number of independent procedures that is included and needs interaction between the parties and the judge. The World Bank indicates that it will take 505 days to resolve a standardized dispute, however this is almost 150 days less than the regional average, but still far behind the 280 days it's indicated to take in Norway. Iran has improved its contract enforcement through an introduction of electronic filing of some documents and an electronic case management system (World Bank, 2016). As previously stated, any dispute between Norwegian firms and the local partner will be solved in Iranian courts, which may put them in a unfavourable position in comparison to having the support of a European court.

The position of Norwegian firms might become increasingly unfavourable due to Iran's low score on protection of minority shareholders, which Norwegian firms in this case always would be, due to the requirement of 51% local content. Additionally, Norwegian firms concerned about the preservation of their IPR should carefully consider what consequences Article 17 might have on their business if the Iranians decide its "ok" to use the patent with out consent.

1.2.4 Taxation and Free Trade Agreements

Many countries try to attract foreign investment by creating incentives through favourable taxes and tariffs. However in Iran, any foreign investor must pay the same amount of tax as a local investor, and the corporate tax rate is 25% of taxable income. Iran receives a score 3,5 out of 10 on the effect

of taxes on incentive to invest in Iran (GCR, 2015). Despite this relatively low score, Iran holds certain tax incentives to attract foreign investors. As an example, Iran has a number of double tax treaties to facilitate cooperation with foreign companies and to avoid double payments on income and other taxes. These agreements are amongst others made with some of the European countries such as Austria, Germany, Spain and Switzerland, however no agreement is made with Norway, yet (Iranian Lawyers Office, 2015).

Another way to promote foreign investment is through free trade zones. Iran established investment incentives that developed into becoming Free Trade-Industrial Zones (FTIZ) in 1993 and Special Economic Zones (SEZ) in 2005. The purpose was and is to provide incentives that make it easier to set up a business in the zones, compared to in the mainland (Energy Pioneers, 2016). The zones promote growth and industry in Iran, and serve as locations to attract foreign capital and transfer of technology, however the regulations in the FTIZ and SEZ differ. There are currently seven FTIZs in Iran, but this number is expected to rise (Iranian Lawyers Office, 2015). It is worth to note that the majority of the FTIZ and SEZ's are located on the boarders to their neighbouring countries or near big ports, serving as important distribution and transit hub's for trade to in the region[7].

Any foreign company that establishes its business in the FTIZ will meet advantages such as:

- ✓ Free transfer of capital and funds
- ✓ Tax exemption for 20 years
- ✓ No VAT (currently set at 9% for 2015-2016 in the mainland)
- ✓ Banking and transactions are governed by the regulations of the Free Zones
- ✓ Granted visa at the port of entry "Free Zones" and residence permit afterwards
- ✓ Transferring foreign currency from FTIZ abroad by all individuals and firms is permitted.
- ✓ Foreign firms are allowed to own 100% of shares
- ✓ Transferring capital and profits is a well-recognized right for any foreign investors, however the request for the approval needs to be processed within one week (Energy Pioneers, 2016).

In the FTIZ, the import and export of goods are done without unnecessary administrative formalities, and the import of goods and raw materials used for production are without tariffs (Government of the Islamic Republic of Iran, 2016a).

Iran holds 63 SEZ's, however only 23 are operational. The incentives for investing in an SEZ are different from the FTIZ, and the specific benefits are designed to each zone depending on what it can offer. The SEZ were set up to facilitate goods transit, ease import and export and attract new technologies. The regulations in the SEZ's follow the ones in the mainland on taxation, visa permits,

[7] To see map over Iran's FTEZ and SEZs, refer to appendix 1.2

banks and monetary operations as well as foreign currency transfer. Yet, they serve the same regulations as the FTIZ when it comes to employment, land ownership, VAT and capital and profit transfer (Energy Pioneers, 2016).

Amongst the number of FTIZ and SEZ in Iran, only a few are located near oil reservoirs and can serve as incentives for oil and gas companies to locate in these areas. The main FTIZ serving the oil industry, are Arvand and Qeshm in the Persian Gulf. The Arvand free zone has gained significant importance in the economy in Iran, due to its oil refinery and petrochemical factories. Qeshm free zone is located in the Strait of Hormuz, and offers opportunities in the oil fields around the Island (Government of the Islamic Republic of Iran, 2016b). The offshore Hengam Oil Field is located 40 kilometre south of Qeshm Island, and the oil produced is sent via a pipeline to the island (Offshore-technology, n.d.).

Pars is the largest SEZ for oil, gas and petrochemical industries. Pars SEZ was established mainly to utilize the South Pars oil and gas resources, and attract activities in the industry. Potential investors in the zone is major oil, gas and petrochemical firms and related service companies, as well as financial institutions, insurance companies and transportation companies, amongst others (Government of the Islamic Republic of Iran, 2016c).

As explained above, free trade zones and special zones attract foreign investors and promote favourable conditions for investments. For Norwegian firms, starting a business or establishing presence in these locations will have a less problematic process, as a result of less or no bureaucracy compared to the mainland. This issue can especially be applied to Iran, where the registration of a company is an inefficient process. As a result of Iran's sanctions, the transfer of capital from Iran has been highly restricted the previous years. This is still amongst the major concerns of foreign investors (Aghili, 2016; Arshid, 2016; Gharesifard, 2016).

Part 2.
Economic factors

The economic factors constitute the national economy, product markets, labour markets and capital markets. These are elements that a foreign investor should be familiar with as it demonstrates the size of the economy as well as potential growth opportunities and/or economic instabilities that makes it a challenging investment climate. Furthermore, the economic factors will to a certain extent imply whether Iran can provide soil for future profits. Additionally, the economic environment will have an impact on investors' choice to internalize production to Iran or not.

2.1 National Economy

In order to understand the size and state of the national economy of Iran, various factors have to be interpreted. Factors such as GDP-figures, exchange rate markets, inflation and interest rate will be elaborated below. Iran's economy is largely dependent on its oil sector, which provides the majority of government revenue. The large and inefficient state sector controls most of the economic activity in the country, and Iran's overdependence on the oil sector has created structural bottlenecks for its economy.

2.1.1 GDP-Figures

Iran registered an economic growth of 5.37% during the ten-year period of 2002–2011, measured in average GDP growth derived from the GDP in rial, constant prices. However, due to the imposition of economic and financial sanctions on Iran, the economy contracted by 6.61% in 2012, and by 1.91% in 2013 before the growth rate once again became positive. According to IMF's estimates, the economy is expected to expand by 4.26% on average during the period of 2016-2020 (IMF, 2015).

Figure 4: GDP Growth Rate, Iran (2002-2020)

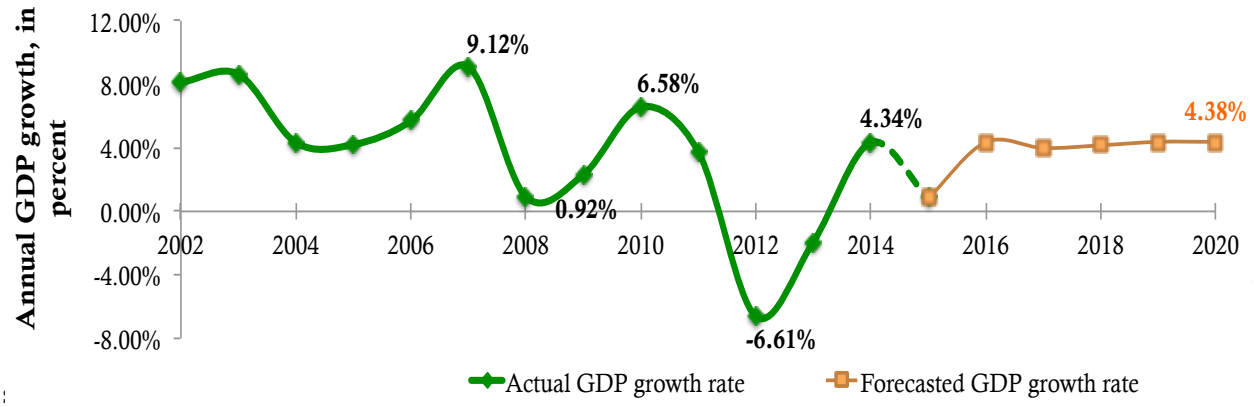


Figure 4: The Authors Own Composition, Based on Values from IMF's World Economic Outlook (April 2015 edition)

report dated mid-March 2016 that the Iranian economy will grow 5.8% in 2016 and is forecasted to grow 6.7% and 6.9% respectively in 2017 and 2018. This is a significantly higher growth than the one IMF forecasted in 2015. If this becomes the case, Iran would have the highest growth rate in the MENA-region and among the highest in the world (Presstv, 2016a).

IMF's calculations of Iran's GDP in current prices (USD) use the official exchange rate of the Central Bank of Iran (CBI), however the official and black market exchange rate varied so much during the years of 2011-2015, so a weighted average of the two rates was used. The GDP showed a steady incline until the peak of USD 583 billion in 2012, after which the economy felt the power of the sanctions. The forecast for the future is a steady incline of the GDP, as portrayed by figure 5 below.

Figure 5: GDP current prices, Iran (2002-2020)

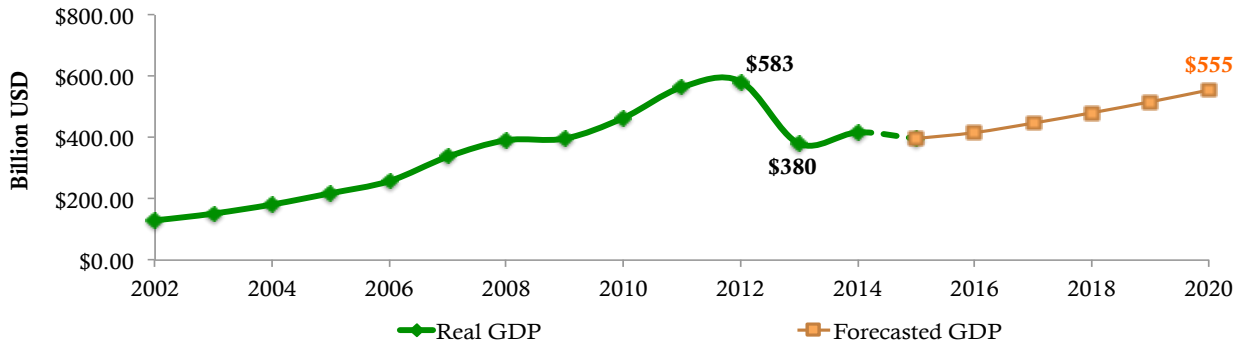


Figure 5: The Authors Own Composition, Based on Values from IMF's World Economic Outlook (April 2015 edition)

under the political factors. Consequently, the actual size of the economy might very well be much larger than the one depicted by the GDP numbers. Nevertheless the GDP currently estimate Iran to be the world's 18th largest economy, naturally making the country an attractive market for investors (Economist, 2015). Additionally, a growing Iranian economy is expected to result in increased domestic consumption of oil and gas, leading to an ease of rising financing for projects in this industry. However, Norwegian firms cannot wait for everyone else to enter the market to make sure it is safe, the process has to start now (Aghili, 2016; Gharesifard, 2016)

High GDP-growth would generally speaking indicate a positive outlook for the Iranian oil and gas industry, given the size and the economy's dependence on this specific industry. Hence, a positive outlook implies that more activity is expected the oil and gas industry, which in turn can lead to additional business opportunities Norwegian firms can exploit.

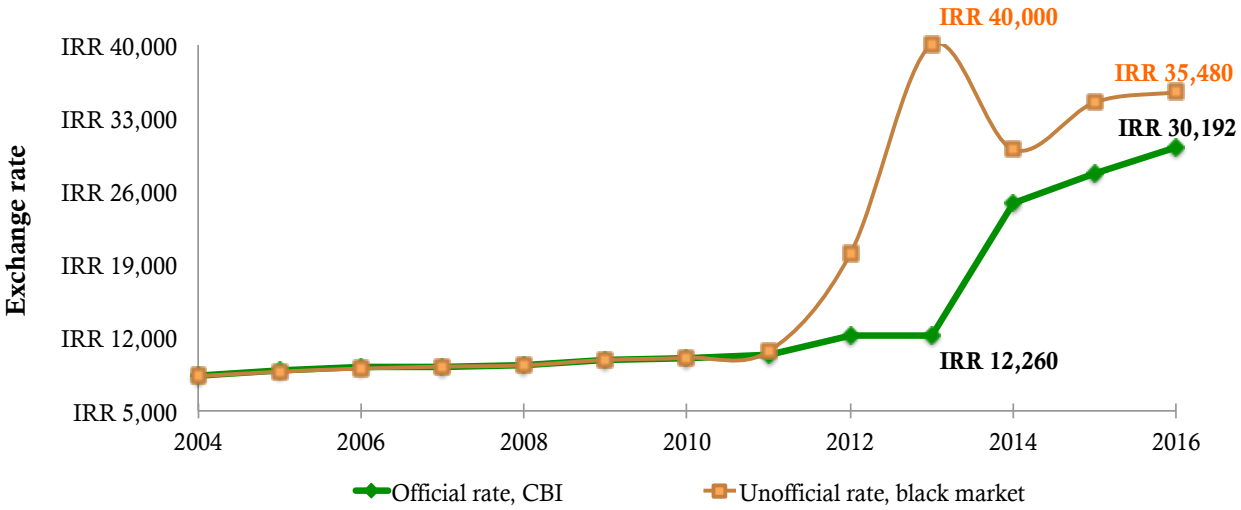
2.1.2 Exchange Rate Markets

When it comes to the Iranian foreign exchange market, it currently operates with two exchange rates. One official rate, which is set by the CBI, and the other, an unofficial open market rate, which is used among private and everyday transactions in currency exchange shops and traders on street corners. This unofficial exchange rate is also referred to as the black market rate (Tehran Bureau Correspondent, 2015). The exchange market experienced drastic instability immediately after the imposition of the new round of sanctions in 2012, and the black market exchange rate increased as a result. When the EU enforced an embargo on Iranian oil in January 2012, which then accounted for 20% of all Iranian oil export, this in addition to other sanctions cut the Iranian oil export by half. Subsequently, the foreign currency inflows were severely limited, thereby devaluing the Iranian rial and pushing up inflation, all common factors for the development of a currency black market (Investopedia, 2013).

As a result, Ahmadinejad's administration tried to control the sharp devaluation of the Iranian rial by introducing an official exchange rate of IRR 12.260, in place of the free floating exchange rate. Yet, the black market exploded after the government announced that the official exchange rate would only be available to importers of essential items such as food and medicine (Hanke, 2012). During August to October 2012, the black market rate collapsed from 19.000 to 37.000 rials to the U.S. dollar according to the Iran currency tracker, while the official rate was fixed at 12.260 rials to the U.S. dollar. The gap between the two rates reached an all time high in February 2013, at that time the black market rate exchanged at over a 220% premium to the fixed rate. The growing difference demonstrates the governments' increasing detachment from the deteriorating economic reality (UANI, 2016). However, after President Rouhani was elected into office the summer of 2013, the black market rial appreciated and the CBI imposed new official rates to counter the widespread currency trading on the unofficial market. As of February 26th 2016, when the authors arrived in Tehran, the official rate was 30.192 rials to the U.S. dollar and the unofficial rate, at which most Iranians can access dollars, was 35.480 rials to the U.S. dollar, consequently the gap between the two rates was below 18% (Appendix 2.1).

By plotting the official exchange rate provided by the CBI against the unofficial rate provided by the Iran currency tracker, the authors have illustrated in figure 6 how the exchange rate has been affected by the impact of the sanctions, and additionally the poor political intervention of levelling the two exchange rates.

Figure 6: The Price of U.S. Dollars in Iran's Foreign Exchange Market (2014-2016)



Source Figure 6: The Authors Own Composition Based on Values from CBI, Iran Currency Tracker and Authors Own Observation

The sharp incline of the black market rate comes as a result of the previously mentioned fixed official exchange rate of IRR 12.260 introduced in early 2012. However, after the election of President Rouhani in 2013 and his crackdown on the black market rates, Iran has seen the gap between the two rates shrink significantly[8]. When the authors arrived in Tehran, the gap between the official and unofficial rate was only around IRR 5.000 compared to the gap of almost IRR 30.000 in February 2013.

The state of the Iranian exchange rate market is critical to any foreign firm whishing to conduct business in Iran. Norwegian firms needs to consider the stability of the foreign exchange market and the effect of governmental control over the exchange rate. Norway operates with a free-floating exchange rate, without government intervention; hence the importance of understanding what implications the Iranian system might have on Norwegian business activities in Iran is imperative (Norges Bank, n.d). The stability of the exchange rate market is important in relation to how and in what currency firms would receive payment from operations in/with Iran. It would be a serious matter in regards to being paid in US Dollars or the local currency. If the latter, how can firms make sure they receive the payment they are entitled to, if the official exchange rate and the unofficial are not equivalent. Another matter Norwegian firms operating in the oil and gas industry needs to carefully consider and pay attention to is the fact that as of April 2016, the U.S. dollar is still restricted in Iran, meaning a transfer cannot go

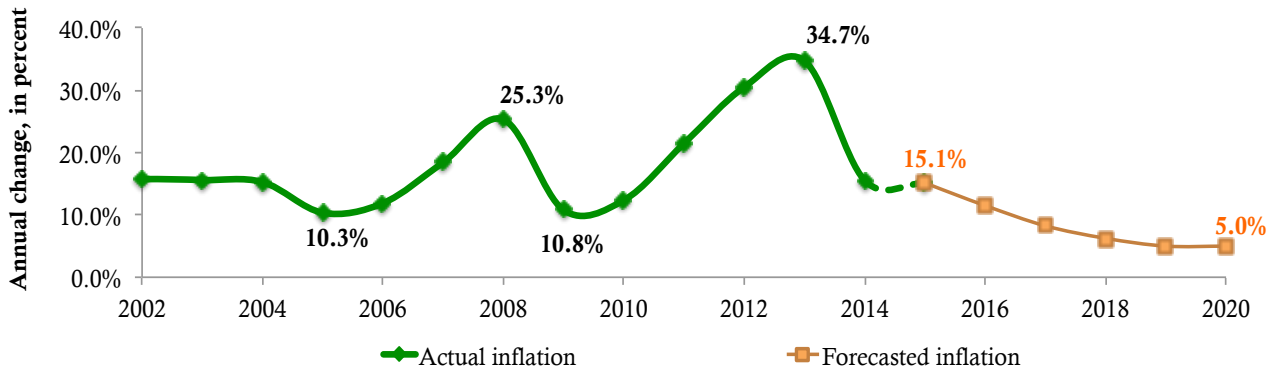
[8] The exchange rate values are collected from the end of February each year, to correspond with the author's own sampling of exchange rate values in the end of February 2016 and in order to portray an a annual change.

through an American bank, and should be transferred in a different currency than the U.S. dollar. Seen as the global oil market trades in U.S. dollars, this fact makes it even more difficult to trade with Iran in the oil and gas industry (Long, 2016). Lastly, Norwegian firms need to ensure they can withdraw potential revenues earned in Iran, back to Norway. The concerns, implications and solutions regarding the exchange rate market will be further elaborated under capital markets.

2.1.3 Inflation

The spike in the black market exchange rate in 2012 also caused the inflation rate to accelerate in the Iranian economy. A major concern of a rising inflation rate is the impact it will have on further deteriorating the value of the national currency and subsequently exchange rate depreciations. Both factors reduce the population's ability to cope with the ricing prices of essential commodities (Hassanzadeh, 2013). As shown by the graph below the official inflation rates have roughly fluctuated between 10% and 35% on a year-to-year basis. The inflation drastically increased after the imposition of US sanctions in 2010 and peaked at 34.7% in 2013, although there are unofficial reports of inflation peaking at 70%. In 2015, the official rates had fallen to 15%, in line with the hope of lifting of sanctions and the tightening of the monetary policy by the CBI (World Bank, 2016). The goal of the Rouhani administration is to further decrease inflation rates, down to 5%, as portrayed in figure 7 below.

Figure 7: Inflation Average Consumer Prices, Iran (2002-2020)



Source Figure 7: The Authors own Composition Based on Values from IMF World Economic Outlook (April 2015 edition)

After President Rouhani came to the power in 2013 his administration has taken immense measures to tackle the double-digit inflation rate, and expect to reach a single digit around 2016/2017 (Presstv, 2016b). Stable and controlled inflation rates will encourage foreign investors to Iran. Some scholars in the field argue that there exists a negative relationship between inflation rates and FDI, hence an increase in inflation leads to an decrease in FDI, although others argue this relationship is

insignificant. However, the exchange rate has a documented effect on FDI, and the inflation is affected by the exchange rate and vice versa (Omankhanlen, 2011). Consequently, the conclusion of increasing exchange rates lead to increasing inflation which in turn lead to less FDI can be drawn.

For Norwegian firms, a high inflation rate might result in difficulty of attracting financing to projects and insecurity regarding the issues previously discussed under exchange rate markets.

2.1.4 Interest Rate

Not only the exchange and inflation rate were affected by the imposition of stern international sanctions against Iran. The county's interest rate was also hit hard, as it elevated to cope with the rise in inflation. However, during April 2011, the Ahmadinejad administration made the CBI change the interest rates banks could impose on loans and savings, as the president vowed to provide cheap loans to the poor. The CBI cut down the rate from 26-28% to 14-17%, all in a move meant to stimulate growth, consequently upsetting the private banking sector and everyday Iranians who feared that saving would be unprofitable as the returns could be lower than the real inflation, and lending unfavourable as the repayments would increase above the initial lending amount, due to skyrocketing inflation (Amiri, 2011). The reduction in the interest rate led to further depreciation of the rial, pressuring Iranians to buy gold and foreign currency, in fear of loosing their savings to inflation and depreciation of the rial. However, in the beginning of 2012, after the new round of sanctions were implemented, President Ahmadinejad was forced to approve the CBI's demand to increase the interest rate to 21% in order to support the rial and encourage Iranians to abandon the black market. This was the first time his administration allowed the interest rate to be set above the official inflation rate (Bozorgmehr, 2012).

In regards to the interest rate, President Rouhani stressed in his speech at a Banking Forum in February 2016, that it is necessary to cut the lending interest rates, after the administration restraints the inflation to a single-digit and international sanctions have been lifted, as high interest rates would harm the economy (Presstv, 2016b). The interest rates Iranian banks offer in 2016 are according to numbers from the CBI set at 20% for long-term deposits and lower floating rates for shot-term accounts. Iran should make sure interest rates are sustained at a level that attract the inflow of FDI, and usually a higher interest rate will lead to increased attractiveness of a nation's currency. However, there exists a complicated interrelationship between increasing interest rates and inflation, as high interest rates tend to stimulate inflation. Although Iran has offered yields of over 20%, the inflation has previously surpassed this level, resulting in deteriorating of savings and Iranians unwillingness to save money in banks, leading to capital flight.
High interest rates are devastating for any firm trying to get a hold of capital when funding a project. The Iranian banks are at this moment in time unable to provide firms with a competitive interest rate

when seeking loans to invest in Iran, compared to the rate offered by international banks. As a result, capital should be raised outside Iran (Aghili, 2016). Additionally, is it important to discuss the issue of capital availability in Iran, which will be elaborated under *capital markets.* Consequently, a rising problem is the foreign banks' hesitancy to approve of loans for investments in Iran, as they might consider the market to be too insecure for investments, based on the aforementioned exchange rate market and inflation rates, combined with foreign banks fear of U.S penalties (Torbati, 2015).

Subsequently, Norwegian firms might find it difficult to secure financing for their desired projects in Iran. Fortunately for Norwegian firms, there exist a Norwegian enterprise whose mandate is to promote Norwegian exporters by issuing guarantees on behalf of the Norwegian state, namely GIEK[9] (GIEK, n.a.). In addition Export Credit Norway[10], cooperate with GIEK and provide competitive financing to Norwegian and foreign firms when they buy goods and services from Norwegian exporters (Eksportkreditt, n.a.). It has been stressed by experts in the field that Norwegian firms, if they can offer a great product or service as well as enabling financing through Export Credit Norway and GIEK, these investments will hold a first priority in Iran. However, this pose only as a possible short-term competitive advantage for Norwegian firms, until international banks once have settled in Iran and the capital markets are more sound (Gharesifard, 2016). Further, it is emphasized that if the Iranian government is able to secure a stable exchange rate, it is believed that foreign banks can and will offer loans to investment projects in Iran at a rate considered to be a favourable by foreign firms (Aghili, 2016)

Seen as the outlook for the Iranian national economy is leaning in the right direction regarding all abovementioned national economic factors, it seems that the magnitudes from signing the nuclear deal in July 2015 and the implementation of the JCPOA in January 2016 will unsurprisingly have long lasting positive implications on the Iranian economy. Accordingly, transforming Iran to an attractive location for foreign investors.

[9] The Norwegian Export Credit Guarantee Agency: "*The Norwegian Export Credit Guarantee Agency's (GIEK) guarantees provide competitive financing for foreign buyers of Norwegian export – and security for both buyer and exporter*" (GIEK, 2016)

[10] Export Credit Norway: "*Export Credit Norway helps Norwegian exporters to succeed abroad. We do this by offering Norwegian and foreign companies competitive financing when they buy goods and services from Norwegian exporters".* (Export Credit Norway, 2016)

2.2 Product Market

Important considerations in regards to the Iranian product markets are raw material quality and prices, infrastructure and information and communication technology (ICT). These elements are essential to comprehend in order to evaluate what opportunities and challenges the Iranian market offer for Norwegian firms operating in the oil and gas industry.

2.2.1 Raw Material Quality and Prices

The domestic availability of raw materials, such as oil and natural gas is obviously high in Iran, as the country holds the world's third or fourth largest oil reserve and second largest gas reserve. During oil production APG is flared when there lack a profitable method to process and transport this gas to markets, which is a common case in Iran. However, the desire to utilize the domestic APG is large in Iran, both from an economic and environmental perspective, and zero flaring is in NIOC's development plans (Fathabadi, 2016). In regards to flare gas it should be mentioned that Iran is the third largest gas flaring country in the world after Russia and Nigeria, despite the relatively low production levels under the sanction regime. Hence, there exist immense possibilities for Norwegian firms to contribute in reducing air pollution in regards to capturing or utilizing the APG that nowadays is flared.

In this regard, the Iranian government have implemented some incentives to encourage firms to utilize the flare gas. The government has decided the flare gas should be sold at a fraction of the price of regular natural gas, to any firm willing to exploit this untapped resource (Arshid, 2016). The specific strategy involves the plan to sell APG at a very low price for four consecutive years, starting March 2016 and prices will range from 1.75 to 4.2 cents per cubic metre. The low price will be available for all firms that construct power plants or small Liquefied Natural Gas (LNG) and Gas To Liquids (GTL) plants located close to the 39 specified oil fields (ibid).

Hence, Norwegian firms searching for new markets and resources in order to reduce air pollution in the oil and gas industry will find the amount, price and quality of the desired raw material of great importance. Iran is consequently considered an attractive market to these firms, due to their large flare gas volumes, price incentives in addition to the lack of utilization of this resource.

2.2.2 Infrastructure and ICT

The state of infrastructure and the Information Communication Technology (ICT) are important factors that all economies should focus on improving in order to increase the attractiveness of the location to foreign firms. Iran suffers from poor overall infrastructure mainly due to a lack of maintenance and underdevelopment. Furthermore, the country's infrastructure was never fully developed and after the considerable damage the Iran-Iraq war had on the infrastructure in the 80's, the restoration has been slow (Nations Encyclopedia, 2016).

Table 5: Logistics Performance Index

	Iran (2012)		Norway (2014)	
	Score (1-5)	Ranking	Score (1-5)	Ranking
Overall Logistics Performance	2.49	112	3.96	7

Source Table 5: World Bank (2012 & 2014)

As seen by table 5, Iran scored significantly worse than Norway according to the Logistics Performance Index (LPI). Even though Iran was not a part of the 2014 index, the score was held relatively stable during the last three published indices, hence the authors see no reason to assume that the quality of trade and transportation related infrastructure to have improved since 2012, it is more likely to have degraded due to sanctions (World Bank, 2012; World Bank, 2014). In regards to this, Norwegian firms should anticipate some abnormalities in regards to logistic performance when operating in Iran, which in turn could pose challenges i.e. related to timeliness of shipments.

In regards to infrastructure of the oil and gas sector, Iran's pre-revolution regime had development of gas export projects as a policy, but the post-revolutionary regime replaced this with a domestically oriented development plan, which led an intense development of domestic market transmission and distribution infrastructure (Hassanzadeh, 2013). Nowadays, Iran has a substantial developed domestic gas transmission infrastructure in place, and the country is once again ready to focus on establishing gas-exporting links with neighbouring countries and international markets. Although, the focus of the Iranian gas industry will be at the home market in the short term, as today's production volumes just satisfies the domestic consumption, hence only limited amounts will be exported to regional markets (Tagliapietra & Zachmann, 2015)

Amongst the regional markets that will be supplied by Iranian gas in the foreseeable future is Oman, which was supposed to receive a great amount of Iranian gas each year for 25 years beginning in 2017 (Aboudi, 2014). However, real progress on the project has been prevented due to disagreements regarding the gas price, sanctions and the U.S. pressure on Oman to find other suppliers of gas. Within the new timeframe, Oman expects to start receiving Iranian gas in 2019, however setback can be expected here as well (Gamal, 2016). Iran has also focused on the advancement of a pipeline project with Pakistan, where a major benefit is that the project can easily be extended to India in the future; hence advance Iran's possibility of being a significant natural gas

exporter. The pipeline also allows the south parts of Iran to be supplied by natural gas from the South Pars field. The gas to Oman will be transferred from the North Pars field, and a branch of the pipeline is built to the Pakistani boarder. The pipeline to Pakistan is known as Iran's seventh cross-country gas pipeline (Natural Gas Europe, 2016).

In regards to flare gas, it is important to understand the extensiveness of the domestic gas distribution network, and the country's future pipeline projects, seen as the APG after processing can be sold through the natural gas distribution network, although Iran lacks the infrastructure to connect pipelines to offshore oil fields (Bahadori, 2014). Consequently, the need to build up infrastructure to utilize the APG is highly desired, and as elaborated under product markets there are several incentives in place to make it attractive for foreign firms to help build up this infrastructure. In addition APG from offshore oilfields have the advantage that it can be transported by boat if a plant near the oilfield can convert the APG to LNG. In this regard, the Iranian market is highly attractive for Norwegian firms, as the Norwegian industry for decades have built up competence on how to capture and utilize flare gas from offshore oilfields.

There is no doubt that Iran has enormous energy potential, but the development of the oil and gas industry suffered immensely during the years of strict international sanctions. The aftermath of the implementation of the JCPOA in mid January 2016, Iran's short-term energy strategy will concentrate on developing the oil sector, in order to increase production and export of oil, to once again become a leading oil exporting power. In Iran's last five-year plan the government urges investments of USD 230 billion to increase production in the oil and gas sector, however these kinds of investments will prove difficult without the contribution of international financial institutions (Torbati, 2015). The focus on increased oil production will demand some APG to be used for re-injections in order to improve enhanced oil recovery (EOR), which is an alternative solution for how flare gas can be utilized. All in an effort increase oil export (Tagliapietra & Zachmann, 2015). Furthermore, there is a domestic drive to reduce flaring and monetize the APG. In order to achieve these goals, Iran should look towards countries that already are successful in monetizing their APG. In Norway policies that included a restriction on gas flaring was established alongside the start of oil-production in the 1970's, hence oil producer had to find a way to utilize the APG from day one (World Bank, n.d). Today most of the APG are exported to markets through an extensive offshore pipeline infrastructure, resulting in Norway almost being able to achieve a 100% beneficial use of the APG. The remaining APG is most commonly used for EOR (Toledano, Archibong, & Koroste, 2014). Norway is actually the larges on extraction of oil from reservoirs in the world, and holds the most environmentally friendly oil-industry worldwide with clean production, and the least emissions of CO2 (Gharesifard, 2016).

It could be a good idea for Norwegian firms to incorporate a buffer time, to make sure shipments reach the desired destination within the scheduled delivery time (World Bank, 2012). Norwegian firms should also leverage their knowledge of clean production when looking towards the Iranian market, furthermore they must be aware of the lack of an offshore pipeline infrastructure in Iran to transport the APG to the domestic or international markets. Subsequently, other methods of utilizing the APG have to be presented to the Iranians. It is worth mentioning that in the long run, could the fact that Iran lacks infrastructure to use closed gas flares serve as an opportunity for Norwegian firms, as Norway has the worlds most extensive system for this, and can in collaboration with the Iranian side work with development of its offshore infrastructure for cleaner production.

In addition to infrastructure, ICT is an important factor in regards to promoting innovation and future growth in a country, as it displays the path of social development. The Networked Readiness Index 2015 offers valuable insight to business professionals and policymakers into specific market conditions, in addition to where a country needs improvement in order to increase the Internet's positive impact on the country and the world. In addition to how well countries leverage ICT to boost competitiveness. As seen by table 6 are Norway currently considerably better at this than Iran. Iran's low score is primarily a result of the poor regulatory environment, and lack of uptake and usage of ICT (GITR, 2015).

Table 6: Networked Readiness Index 2015

	Iran		Norway	
	Score (1-7)	Ranking	Score (1-7)	Ranking
Overall Networked Readiness	3.6	96	5.8	5

Source Table 6: GITR (2015)

Iran's government needs to leverage ICT and focus on increasing interconnectedness to generate wealth and socioeconomic development. The only area where Iran performs relatively well in this index is regarding the affordability of ICT (ibid).

2.3 Labour Market

The importance of a well functioning and effective labour market is vital in order to attract foreign investors to a country. In order to thoroughly assess Iran's labour market, the section below will further highlight the elements of education, human capital deployment, unemployment, minimum wage, labour unions, and labour market conditions and efficiency. Mapping these factors will help investors to prepare on the implications the Iranian labour market might have on potential investments in the country.

2.3.1 Education

For any firm operating and investing in the oil and gas industry in Iran (or any other industry), it is essential to secure a skilled local workforce, which is possible in Iran as the country provides a large amount of well-educated people. In order to investigate the aforesaid an excerpt from the GCR 2015 is portrayed in table 7 below, which highlights education factors.

Table 7: Global Competitiveness Report, 2015

Higher Education Factors	**Iran**		**Norway**	
	Score (1-7)	Ranking	Score (1-7)	Ranking
Higher Education and Training	**4.3**	**69**	**5.8**	**7**
Quantity of Education	5.6	51	6.6	19
Tertiary Education Enrolment (%)	55.2	49	74.1	20
Quality of Education	3.7	89	5.5	11
Quality of Math and Science Education	4.6	36	4.9	24

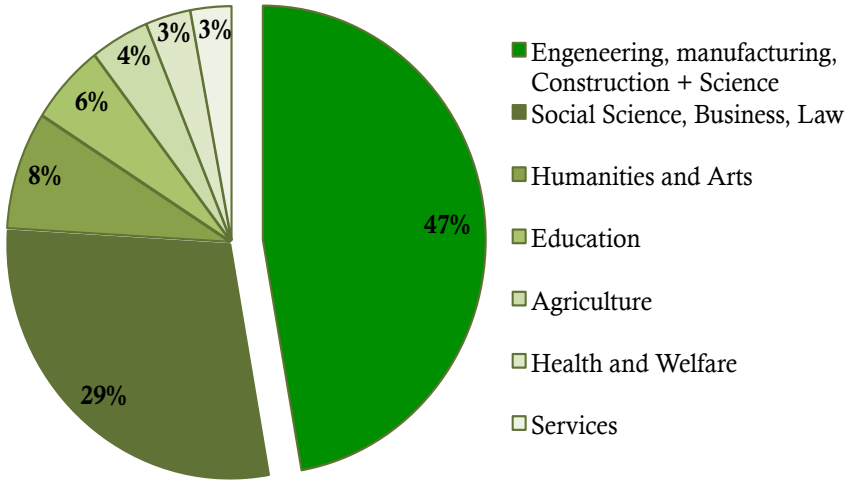
Source Table 7: GCR (2015)

As seen by table 7, Iran has a high enrolment in higher education, and the government have decided on a goal to increase total enrolment to 60% by 2025, which is well within reach, . This is a result of the rapid expansion of the higher education system since the beginning of the millennium, consequently the percentage of the population that holds university degrees in Iran has increased faster than in any other Middle Eastern country (ICEF Monitor, 2015). Additionally, some 60% of those currently enrolled at universities are women. Nonetheless, the increase in education has come at the cost of lower quality and a gap between formal credentials and skills, henceforth investigating the quantity is not in itself interesting, if not compared to the quality of the education.

The overall quality of education is not considered that good, however, the reintegration of Iran into the world economy is unquestionably going to have a noteworthy impact on the nation's higher education sector as well, including broader cooperation with foreign institutions. Iranian students are therefore expected to benefit from new opportunities both within the country and beyond (Adib-Moghaddam, 2016).

On the other hand does the math and science sub-category in regards to the education quality stand out with a score of 4.6, landing Iran's quality in this field the 36th place in the world (GCR, 2015). This should be seen in association with the fact that 47% of all Iranian graduates in 2014 was engineering or science students, as seen by figure 8, amounting to almost 270.000 graduates. At those levels, Iran also produces the 3rd most engineering graduates per year in the world, only beaten by Russia and the US. This is an interesting development, as more than a third of all employers that were asked worldwide reported shortages linked to too few people studying engineering and science, thus leading to shortages of skilled labour in specific professions (HCR, 2015).

Figure 8: Annual University Graduates, Iran (2014)



Source Figure 8: The Authors own Composition Based on Numbers From HCR (2015)

Heading back to the fact that it is important to secure a skilled local workforce, the quality of math and science studies in Iran is almost ranked the same as in Norway. According to the GCI 2015 the quality of math and science education in Norway score a 4.9 in, while Iran scores a 4.6 (ibid). Hence, the quality of the graduates in Iran should somewhat meet the standards any Norwegian firm is used to when hiring graduates.

For the sake of Norwegian firms is the condition of the Iranian educational system very encouraging in two ways. Firstly, the overall quality of the math and science education is high, which in turn can translate into skilled engineers, a highly necessary factor when operating in the oil and gas industry. Secondly, Iran produces a huge amount of these highly capable math and science graduates every year, which results in a constant supply of new available labour, and a large poll of graduates to choose from. Although, it is expected that some additional training would be required by Norwegian firms, if the firms demands its potential employees to conduct business according to Norwegian standards. However, if Norwegian firms want to reap the benefits of expanding operations to Iran, the bilateral cooperation in all fields relevant to the oil

and gas sector should be emphasised. Hence, the cooperation on education and training between the two countries should start up once again[13].

2.3.2 Human Capital Deployment

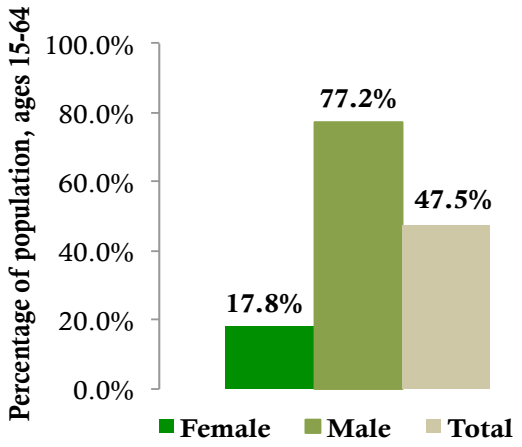
To map a country's competitiveness on the global arena it is important to understand how the nation's labour market is organized, and how the skills and capacities the population inhabit are put to productive use – also known as how a country deploys its human capital. It is argued by professionals in the field, that any country's long-term economic success is due to the efficient use of their most important resource, namely the human capital (HCR, 2015). Other experts have also elaborated upon this specific topic, and confirmed their concern of Iran's future economic growth if the country doesn't deploy their human capital more effectively in the future (Aghili, 2016; Gharesifard, 2016). To further back up this fact, the authors have regarded these statements in context of the results Iran obtains in the Human Capital Report (HCR) 2015, developed by the World Economic Forum (WEF). The HCR quantifies how countries are developing and deploying their human capital in order to achieve long-term economic success, in other words comparing education and workforce dynamics in various countries worldwide. Iran is awarded an 80th place out of the 124 investigated countries, mostly due to their overall high enrolment rate in all stages of education. However, in regards to the labour force participation rate, that is the percentage of the working age population currently employed or actively seeking employment, Iran obtains the lowest rate in Asia and the Pacific, as only 55.8% of the population aged 25-54 work, which also provides Iran with the runner up place for the worst labour participation rate in the world (HCR, 2015).

The authors investigated this fact further, as is quite hard to grasp how Iran can achieve such a low labour force participation rate when the nation scores relatively good on their enrolment in primary and higher education according to the HCR. The GCR 2015 further support Iran's high enrolment rate. Consequently, it's assumed that the labour force participation rate would be decent in Iran, even when taking unemployment rates into consideration, which the authors will elaborate on later in this section. However, Iran still scores as one of the worst countries in the world in regards to labour participation. In order to grasp this reality it is necessary to break down the rate. The labour force participation rate divided by gender is portrayed below, using the World databank from The World Bank (World Bank, n.d.).

[13] Previously there has been an opportunity for Iranian Master and Doctoral students in the field of petroleum technology to take their degree at the Technological University of Trondheim, which was a part of an agreement between NIOC and the Norwegian University. Where training with Norwegian oil and oil service companies in Norway or in Iran also was valuable part of the program (Government.no, 2005)

A clear pattern emerges when the composition of Iran's labour participation rate is split by gender. Figure 9 clearly shows why Iran achieves such a low total rate, obviously it's due to the extremely low participation rate by females in the country. Seen as females stand for 50% of any country's human capital, it is devastating to discourage utilization of this resource. Even more devastating is the fact that over half of all Iranians enrolled in university are female, hence there is no obvious reason to the nations minimal employment of this massive resource, as they are more than skilled to work.

Figure 9: Labour Force Participation Rate, Age 15-64, Iran (2014)



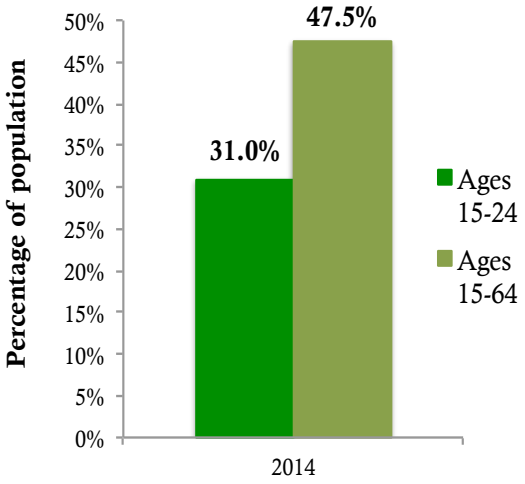
Source Figure 9: The Authors own Composition Based on Numbers from the World Development Indicators

Figure 9 also shows that the total labour force participation rate in 2014 is lower than the 55% presented in the HCR. However, in that specific index the age stretch was 25-54 and not 15-64 as portrayed above. Nonetheless, this is an indication that either the age group of 15-24 or 55-64 has a lower participation rate than the rest of the working age population in Iran.

By dividing the labour force participation rate by age groups, another pattern emerges. It is clear that fewer young Iranians participate in the labour force than their older countrymen. This could either be due to their enrolment in higher education or the fact that they are discouraged workers, that is people who have given up looking for work, as they believe there does not exist any jobs for them (Investopedia, n.d.)

This skewed gender and age labour participation rate coincides with the previous mentioned concerns of experts, namely that Iran will not be able to unleash its potential before the nation manage to utilize more of their human capital (Aghili, 2016; Gharesifard, 2016).

Figure 10: Labour force participation rate by age, Iran (2014)



Source Figure 10: Same as Figure 9

Norwegian firms cannot analyse the labour force participation rate independently, as it does not give a complete indication of the opportunities or challenges related to finding available and skilled manpower for potential projects in Iran. I.e. if the unemployment rate is low, this might consequently lead to difficulties of attracting more employees, which further can become an issue for Iran's economic competitiveness. Hence, the labour force participation rate cannot be analysed independently, as it does not give a complete indication of the easiness to get a hold of labour for potential projects in Iran.

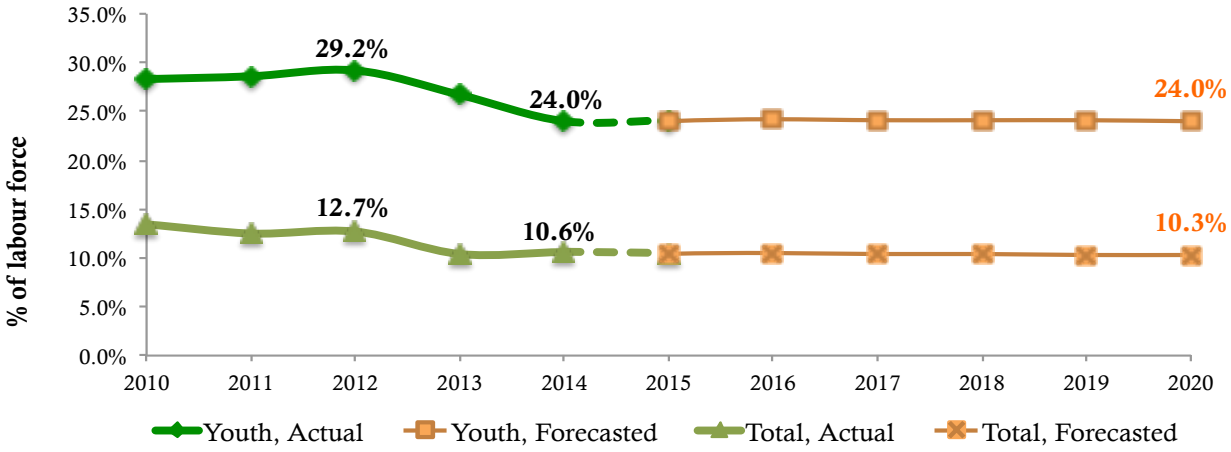
2.3.3 Unemployment

Unemployment rates, i.e. the number of people who are both jobless and actively searching for a job, is a factor that needs to be considered to map a country's economic advantages or disadvantages. The previously elaborated labour force participation rate is an important metric to note when looking at unemployment data. The labour force participation rate of a country refers to the working age population who are employed in addition to those who are unemployed but are actively seeking employment. In contrast, the unemployment figure solely reflects the number of people who are looking for jobs but are unable to secure employment.

The overall unemploymet in Iran has has maintained a rate at over 10% for the past decade, mainly due to Iran's poor economic performance and a large youth population desiring to enter the labour market (Salehi-Isfahani, 2013). Both the demographic and the economic factors in Iran increase the overall demand from the population for employment. In addition, the sanctions hit Iran hard, and as formerly elaborated, the country has for a long time struggled with skyrocketing inflation rates. This fact makes the population even more vulnerable to changes in income and employment, thus increasing the importance of government measures in order to cope with the pressing unemployment issue.

During rough economic periods, it is typically hard to create new jobs and introduce people to the labour force. In 2012, this matter was aggravated, when former President Ahmadinejad decided to give monthly universal cash allowances in order to help Iranian families manage the rising inflation rate, and as a compensation for the subsidies removed through the 2010 subsidies reform. Subsequently, Ahmadinejad ended up raiding development funds in order to pay the cash allowances, resulting in 500.000 people loosing their jobs in development projects (Agence France, 2015). The figure below depicts the youth and total unemployment in Iran since 2010.

Figure 10: Youth and total unemployment rates, Iran (2010-2020)



Source Figure 10: Authors Own Composition Based on Values From the International Labour Organization

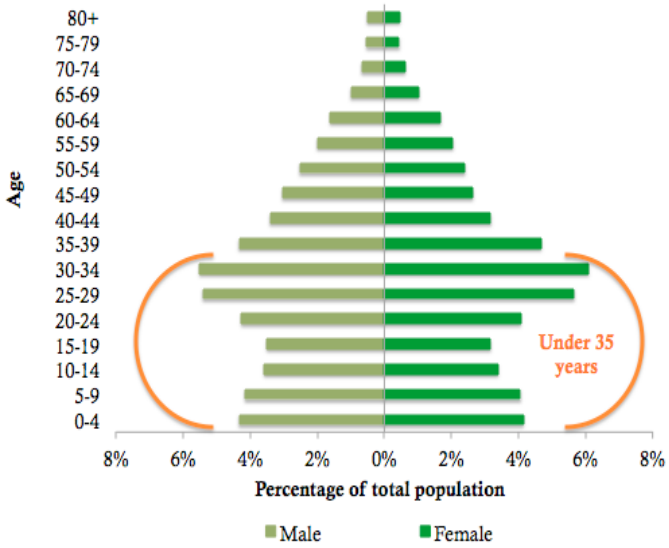
The noteworthy decline in the youth unemployment rate from 2012-2014 can be explained by the election of President Rouhani in 2013, whose main election goal was to mend the relationship with the West in order to save Iran's economy, after it dropped into recession and was hit hard by inflation under President Ahmadinejad's reign. In addition, President Rouhani said; "*job creation is the most significant issue in the future of the country's economy*". Further, the President elaborated that almost no jobs were created under the previous government (Rajabova, 2015). The reintroduction of Iran as a participator in the world economy alongside the positive attitude towards foreign investment is expected to have a favourable outcome on job creation in the country.

The youth unemployment rate at 24% might appear high, but this is a reoccurring phenomenon throughout the MENA region and especially in the Middle East, which holds the highest youth unemployment rate in the world. A reason for Iran's high rate is the demographic changes in the country, with a booming young generation wanting to enter the labour force, however the amount of people exiting the labour force in addition to job creation does not satisfy the need for employment (ILO, 2015).

By using numbers from the UN Population Division the authors have composed an estimated population pyramid for Iran in 2016, as seen by figure 11 below. The pyramid shows that over 61% of the population is under 35 years old and the youth population aged 15-24 comprise of 15% of the total population, or 20% of the working age population (aged 15+). As a consequence high youth unemployment may lead to civil unrest, and a rise in crime and corruption, as the young have little to fill their days with and therefore will have to find other ways to kill their boredom (Grönqvist, 2011).

Other negative effects is the deterioration of employability of the youth, in addition to the potential serious economic burden it poses for the country as unemployed youth increases the risk of poverty and mental health problems. Youth unemployment can therefore lead to significant costs for the nation, as less money comes from taxes and more money needs to be paid through social benefits (Bridging Europe, 2014). Another consequence of the high youth unemployment is the loss of talent and skills both through brain drain and the fact that the youth are not able to utilize their capabilities for producing innovation and contributing to economic growth and effectiveness in the country (Bridging Europe, 2014). The brain drain is a natural consequence of the lack of opportunities in the country, and Iran has actually seen the highest brain drain of any country in the world according to IMF. Despite these grim numbers, surveys among companies in Iran have indicated that they are able to find the necessary talents from the existing pool of graduates, due to the high level of youth unemployment in the country. Nevertheless, the brain drain represents a crisis for the economy as a whole, as Iran is deprived of the resources the economy needs in order to get out of its current critical condition, namely entrepreneurship and innovation potential (Khajehpour B., 2014a).

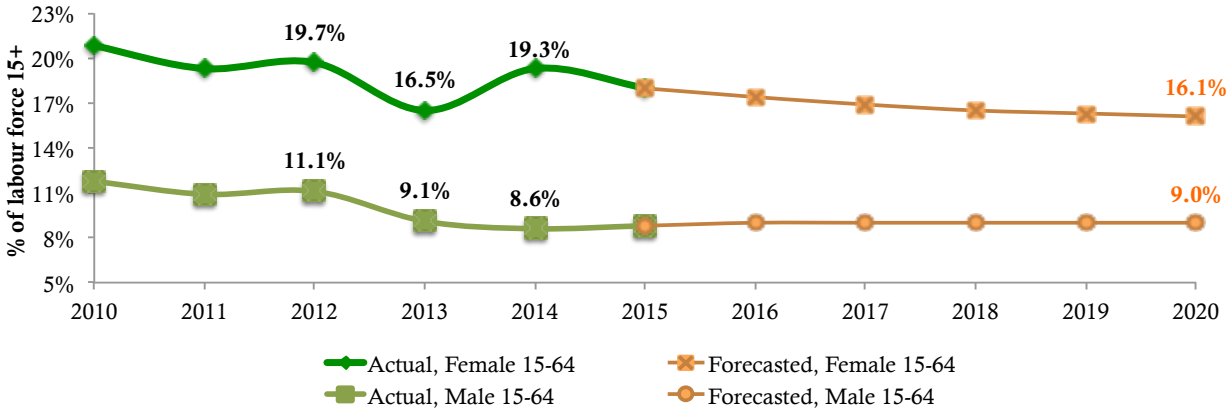
Figure 11: Population Pyramid Iran (2016)



Source Figure 11: The Authors own Composition Based on Forecasts from UN Population Division

As previously mentioned, there is a persistent gender gap in relation to the overall male and female labour force participation rate, reasons to which will be further elaborated in the next sub-section of the location-advantages, namely the cultural factors. Additionally, females are also more exposed to unemployment than their male counterparts, a striking trend that reveals itself when dividing the unemployment rate by gender (ILO, 2015). The figure below illustrates Iran's total unemployment rate divided by gender, and it becomes very visible that females suffer from a much higher unemployment rate than men. In 2014 the reported gap in unemployment rates between the genders amounted to over 10%.

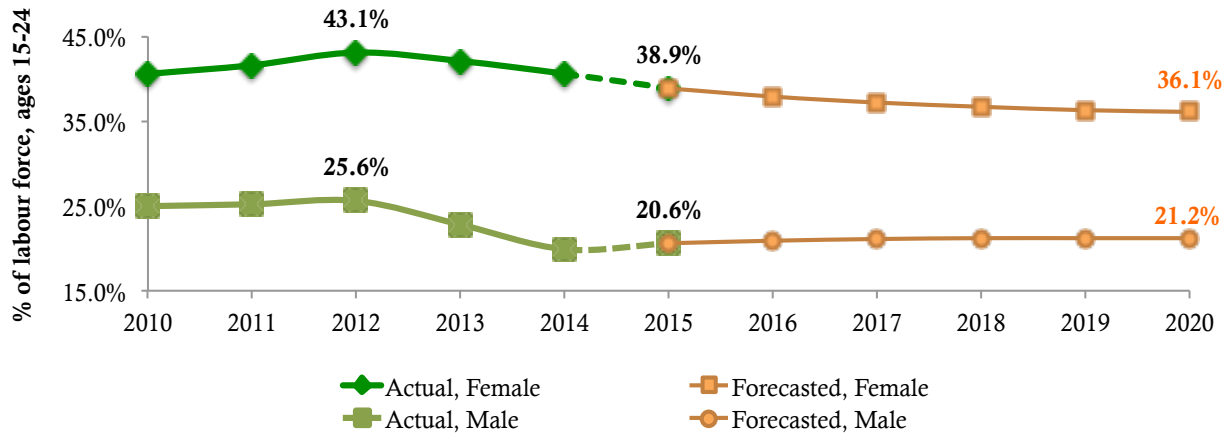
Figure 12: Total unemployment rate by gender, 15+ Iran (2010-2020)



Source Figure 12: Authors own composition based on values from the International Labour Organization

When turning back to the matter of youth unemployment, the rate shows another concerning trend when divided by gender, illustrated by the figure below. The male youth unemployment is forecasted well below the female unemployment rate, making the gap in unemployment rates between the two genders at around 18% in 2015.

Figure 12: Youth unemployment rate by gender, Iran (2010-2020)



Source Figure 13: Authors own composition based on values from the International Labour Organization

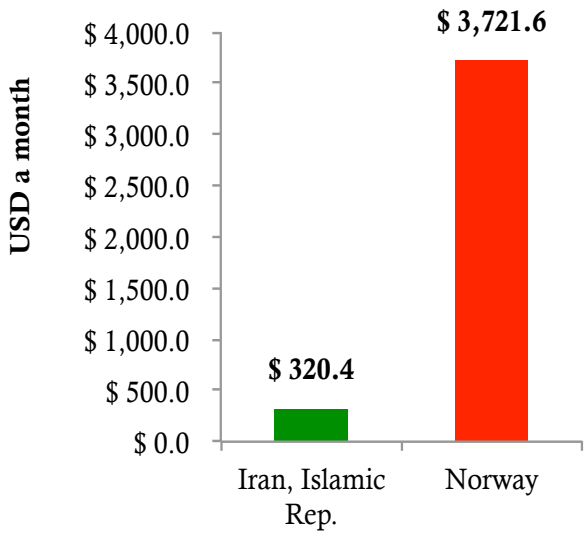
The figures above strongly illustrate that Iran has an unfavourable labour environment for both the youth and for women in general. The country fails to a greater extent in offering employment to youth who is seeking work, than to the older share of the labor force. In addition, Iran fails to a larger degree at offering women work, compared to men, and this becomes particularly evident for the younger generation seeking employment, as illustrated by figure 13.

As mentioned in the previous paragraphs regarding the labour force participation rate, Norwegian firms need to consider the labour force participation rate in accordance to the unemployment rate. Although Iran currently experiences a low labour force participation rate, the country experiences high unemployment rates, which can pose as an opportunity of attracting enough skilled labour for potential projects. Accordingly, there exists a large pool of unemployed people just waiting for the opportunity to work. Hence, it is assumed that Iran with its seemingly abundant pool of math and science graduates in addition to the high youth unemployment would have no problem to offer skilled labour for Norwegian firms seeking to start projects in Iran.

2.3.4 Minimum Wage

It is not solely the amount of available skilled labour that is interesting for Norwegian firms to consider, as the price of labour also is a factor of high importance. According to numbers from the World Bank, Iran is considered to belong in the upper-middle income group, which approximately ranges from a yearly salary of USD 4100 – USD 12.700 (based on 2013 GNI per capita). However, Iran falls in the lower end of this income level group, and according to Doing Business Report 2016, issued by The World Bank, the minimum wage level in Iran is much lower than in industrialized countries, and especially compared to Norway which is shown by figure 14 (Doing Business, 2016). This fact is expected to give Iran a competitive advantage over other countries.

Figure 14: Minimum monthly wage, unskilled worker



Source Figure 14: Authors Own Composition Based on Values From Doing Business Report 2015

For Norwegian oil and oil service firms, the relatively low labour cost serves as an incentive to expand to Iran. Low labour costs can increase firms' profits, hence making Iran a more attractive market to enter. In turn, the low labour cost is a result of lower wages and employee benefits that also makes workers worse off. Hence, Norwegian firms need to consider the wages in relation to the power of labour unions, which the authors emphasize next, to fully comprehend if the current wage level follows Norwegian firms' ethical guidelines and standards.

2.3.5 Labour Unions

In order to understand the labour market dynamics in any country, the influence of labour unions is an important factor to consider. Iran's first trade unions were founded more than a century ago and the country is one of the oldest members of the International Labour Organization (ILO), which was founded in 1919 (Iran Human Rights, 2006). In fact it was these unions, through a wave of strikes in the fall of 1978 that shut down the Iranian economy. Specifically the country's oil workers played a crucial part in deposing the late Shah Reza, as they were able to cut off all export of Iranian oil by the end of 1978. The oil industry was at a standstill, which practically sealed the Shah's fate as his economy was supported almost entirely by oil (Tedla, 2011).

Despite Iran's long history of labour movements, and the workers significant influence on achieving the deposition of the Shah in 1979, the Iranian worker have witnessed a continual erosion of their bargaining power (Economist, 2013). In theory, the workers in Iran have the right to organize, but in reality there is no system for independent labour unions and the right was denied by the 1990 Iranian labour law and is further represses by the government (Iran Human Rights, 2006). Consequently, workers have to make due with the state-controlled Islamic Labour Councils introduced in favour of the independent trade unions. Furthermore, both the employers and the security service must approve the Islamic Labour Councils hence their independence is non-existent. Besides, as these councils are in bed with the government, workers in general avoid bringing up their dissatisfaction, as they are afraid of being painted as labour condition activists, whom are regularly imprisoned in Iran (Economist, 2013). According to the GCR Iran lands the 122nd place in regards to cooperation in labour-employer relations, further indicating the challenging relationship. Contrastingly this relationship is considered to be generally cooperative in Norway, affirmed by the country's 4th place in this category in the GCR. One upside for workers regarding the Iranian labour conditions is the fact that it is hard for an employer to fire workers without a good reason, although this leads to less efficient and flexible labour markets (GCR, 2015).

The Iranian labour laws, or lack thereof, fail to accept the ILO conventions on both collective bargaining and freedom of assembly. The employers receives a great amount of power over their workers, who in return must oblige to the conditions or risk getting loosing their jobs. Conditions that lead to the lack of regular and overtime payments for several months, in addition to moderate increase in nominal wage compared to skyrocketing inflation rates, which translate to severe deterioration of the workers real wage. On a side note, not even the official labour organizations are satisfied with the government's measures taken to improve workers real wages (Iran Politik, 2015).

The presence and power of labour unions are important elements to consider before entering Iran, and Norwegian firms need to make sure that the working conditions for potential employees in future projects in Iran, are consistent with the firms' code of conduct. Otherwise,

shareholders might be displeased with what they consider unethical business practice, and as a worst-case scenario investors might back out.

2.3.6 Labour Market Efficiency

According to the GCR Iran scores as the third runner up for having the most inefficient labour market, this is in regard to both flexibility and efficient use of talent, as seen by table 8 below.

Table 8: Global Competitiveness Report, 2015

Labour Market Factors	Iran		Norway	
	Score (1-7)	Ranking	Score (1-7)	Ranking
Labour market Efficiency	**3.2**	**138**	**5.1**	**9**
Flexibility	4.0	117	4.8	37
Cooperation in labour-employer relation (labour unions)	3.7	122	6.0	4
Efficient use of talent	2.3	138	5.4	3
Country capacity to retain talent (avoid brain drain)	2.6	121	5.5	4
Reliance on professional management	3.2	130	6.3	2

Source Table 8: GCR, 2015

The previously explained low labour force participation rate in addition to high unemployment rates indicates that there exist an unrealised potential in the Iranian workforce. This is also reflected by the poor performance of the country regarding efficient use of talent in the GCR. Furthermore, the reliance on professional management in Iran is low, thus as Norway has the second highest reliance on this factor in the GCR, Norwegian firms should consider to offer training of local management to meet international and Norwegian standards. This will benefit both the Norwegian firms' operations in Iran and Iran as a country.

Overall the Iranian labour market can be classified as a market that holds a lot of improvement potential, nonetheless the market is well developed in some areas and the younger population is remarkably well educated. Even though Iran has suffered from brain drain during the past decades, and still scores low on the GCR in regards to retaining talent it is believed that economic growth and a focus on lowering the youth unemployment will help turn this trend around. Additionally, this fact won't discourage foreign firms from enter Iran as there is believed to be a sufficient pool of graduates to choose from. Supplementary, opportunities that arise from foreign firms entering the Iranian market will also contribute to turn the brain drain trend around.

2.4 Capital Market

Iran's financial system is the world's largest Islamic financial system, and the state requires that the banking system is fully compatible with Sharia. The Islamic banking system is run on an interest-free basis and constraints banks from setting a market-based rate of return, which is restraining the performance of Iranian banks. The differences between the Islamic and foreign financial systems increase the difficulties of engaging with Iranian banks. Nonetheless, Iran has developed its own unique form of sharia banking which is different from Islamic banking in other regions in the world, and Iranian banks can still provide interests-based transactions and preserve accounting standards of conventional banking. There are also signs that Iran is developing alternatives to Islamic contracts in order to ease the reconnection with the rest of the world (Vizcaino, 2015).

2.4.1 Capital and Financial Markets

The Iranian capital market is recognized as less developed, which is a common characteristic of transition economies. As a result of the 1979 revolution, Iran's banking system was nationalized, and the financial industry has been heavily state run for decades. However, the Central bank of Iran licenced a re-privatization of banks around the turn of the millennium, which has strengthened the private sector, and experts believe that the private sector will be an element that can drive Iran's economy in the future. Nevertheless, the government continues to control the private banks' operation and management, in addition to determining the share of bank loans that is allocated to the various economic sectors. The CBI supervises and monitors all public and private banks, as well as designing and implementing the monetary- and credit policies. Furthermore, due to a lack of appropriate infrastructure on collecting data, the supervision of large state owned banks is negligible. As a result the CBI has increased its observation over private banks since they have a modern infrastructure that makes it possible to collect data (Khajehpour B., 2014c). Additionally, many of the private banks have close ties to government institutions and are therefore highly influenced by them (IHS, 2015). The aforementioned factors serves as threats to the financial and banking system in Iran, as it leaves little independence for the private sector. It should further be mentioned that 7 out of the 17 reported private banks in Iran are under the control of semi-governmental foundations or military organizations. Consequently, the number of real private banks in Iran amount to only 10, and even some of these are owned by organizations with strong governmental ties (Khajehpour B., 2014c).

Since 2012, in accordance with the tightening of international sanctions, Iran has been shut out of the global financial system. As a result, the banks were excluded from the SWIFT, which closed the possibility for Iranian companies to raise capital from overseas lenders, resulting in a great harm to the country's financial system. In 2010 only, Iran made 2 millions cross-boarder payments using

SWIFT, which displays the implication the ban from SWIFT caused on Iran[14] (Blenkinsop, 2012). However, after the lifting of sanctions in January 2016, a number of Iranian banks have been reconnected to SWIFT, allowing for international financial transactions. Yet, because all systems are backdated from when Iran was cut from the SWIFT, it will take time to build this up again (Aghili, 2016).

Any foreign or Norwegian investor in Iran, will be most concerned over the possibly and easiness of withdrawing potential revenues back to the home country. Under the sanctions, all international transactions between Iran and Western countries were cut off, especially cash flow related to the banking, insurance, shipping and oil sector. All Norwegian companies that were engaging in the oil and gas sector in Iran prior to the sanctions had to withdraw their investments and postpone delivery or receiving of payments. Nonetheless, with the lifting of sanctions, the reconnection to SWIFT and the FIPPA-act[15], Norwegian companies will once again be able to transfer revenues back to Norway. However, the Iranian system is underdeveloped, and the transfer of revenue is still a concern amongst foreign investors (Arshid, 2016). In addition, there is a concern regarding the foreign exchange market in relation to transfer of revenues back home. Hence, several foreign investors are waiting to enter Iran until the issues regarding the currency exchange market are solved, as these are crucial factors that will impact investments in the country. However, President Rouhani elaborated specifically on these market conditions concerns, during his speech on the opening of the 3rd Iranian Automotive Industry International Conference (IAIIC), which was held a few days previous of the author's interview of Mr Aghili. The President emphasised on four specific market conditions that needs improvement, in order to make the Iranian market attractive for foreign investors and companies. These four conditions were:

1) Stability of the foreign exchange currency and non governmental control
2) Free pricing – no governmental control
3) Gradually reduction of custom tariffs
4) Guarantee that revenues can be transferred

Additionally, the Deputy Economic Affairs and Finance Minister, Mr Mohammad Khazaei had also elaborated on these topics in his speech during the IAIIC, and he promised that the exchange rate level will be leveraged on one exchange rate, and this should be the free market one. Moreover, the Deputy Minister had identified that transfer of revenues is an issue that needs improvement in the Iran, and this will be guaranteed in the near future (Aghili, 2016). Yet, the U.S. dollar is still restricted, meaning a transfer cannot go through an American bank, and should therefore be transferred in a different exchange rate than U.S. dollar. However, since the global oil market trades

[14] Society for Worldwide Interbank Financial Telecommunications: SWIFT is used by almost every bank worldwide, and it is used to send payment messages that lead to the transfer of money across international borders.
[15] Elaborated under Part 1. Political Factors

in U.S. dollars, this fact makes it a bit more complicated to trade with Iran in the oil and gas industry (Long, 2016).

As previously elaborated under the National Economy subsection, Iran's weak capital markets have increased the volatility of the financial exchange and inflation in the country over the past decade. However, despite weak capital markets, Iran is eager to improve the conditions and in mid-march 2016 a Memorandum of Understanding (MoU) was signed between the Iranian and South Korean Economic ministries in order to connect the two capital markets. The South Koreans are mostly worried about the currency exchange, and the signed MoU in addition to special workgroups will tackle the legal and regulatory issues in addition to facilitate the exchange (Irna, 2016).

Norwegian firms should be critical around the possibility to receive payments from projects in Iran, and need to investigate how this would actually be achieved on potential projects in Iran.

2.4.2 Access to Financing

According to the GCR, access to financing is considered the most problematic factor for doing business in Iran, and the country is placed as third runner up for the worst countries on "ease of access to loans", amongst 140 countries investigated (GCR, 2015). Amongst the big issues are the non-performing loans, which is a result of former President Ahmadinejad's gross economic mismanagement. Loans have been extended to non-credit worthy clients with no willingness to pay and debtors with a bad record, and the ratio of non-performing loans was 17% of total bank debt in 2012-2013. 30% of this debt is held by the private banking sector, which further illustrates the poor conditions of the private sector (Motevalli G., 2015). However, even before the implementation of the JCPOA in January 2016, many of the problems inherited from Ahmadinejad's reign have already been addressed by president Rouhani's administration, i.e. improvement of the transparency in the banking sector in addition to dealing with the accumulation of toxic nonperforming loans (Slavin, 2016). Furthermore, the current government have implemented measures to get the banking system closer to international standards, i.e. Iranian banks now have to conform their statements to the standard format for international finance reporting (ibid).

Moreover, in order to expand and strengthen the private sector, one of the key objectives Iran are motivated to achieve is the shift towards a more market-oriented economy from the current bank-based structure for financing. The reason behind this desire is the credit crisis Iranian financial institutions experienced during the turmoil of Ahmadinejad's rule, when the micro and macroeconomic forces basically froze the assets of these institutions (Kalhor, 2016). An approach to achieve these goals is by developing a sophisticated bond market in Iran, which in turn would lead to a more market oriented structure for financing and successively strengthen and expand the private

sector, which also is a priority of the current government (ibid).

One of the primary tasks of financial institutions is to provide financing, in addition it should boost economic growth, employment and promote a sustainable business atmosphere in the country. However, in the current Iranian lending marked the banking sector holds an apparent but not real monopoly position due to Iran's underdeveloped bond market. As a result the banks have access to less and more expensive capital, which affect firms ability to obtaining financing (Kalhor, 2016). Additionally, the lack of developed financial institutions leads to information asymmetries, which in turn lead to increased cost of monitoring, also known as transaction cost.

Despite President Rouhani's improving economic reforms, access to financing and loans in Iran is currently impossible, seen as the banks have a high debt level and the country lacks capital. In this regard, any Norwegian firm whishing to enter Iran must provide financing outside Iran's borders. However, the access to financing in Iran is expected to become easier as more financial institutions start to engage actively in transactions with Iran, yet this is also assumed to take time (Goverment UK, 2016). The private banks of Iran could potentially be the largest opportunity for businesses, and should be the used in cooperation with international banks.

Moreover, a common tool that investors use to assess how likely it is that they will get their money back from an investment, is credit ratings. The credit rating can also be used to compare countries' incentive of investments in terms of the interest payment. Nevertheless, at present Iran does not receive any credit rating, and the previous rating was made a decade ago, therefore it is not a sufficient tool in the case of Iran. Consequently, it makes it difficult for a Norwegian investor to assess the investment environment in Iran. Nonetheless, the non-availability of credit rating further implies that the country is difficult to rate, and it is expected that Iran would have a rating equivalent to a non-investment rating (Jones, 2016). This is also based on factors such as political instability, corruption and rule of law.

The abovementioned issues are considered by the Norwegian state and organizations that issue financing and guarantees for Norwegian companies that invest abroad, such as Export Credit Norway and GIEK (GIEK, 2016). Mr Gharesifard emphasized on the fact that if Norwegian firms are able to offer export financing and guarantees through Export Credit Norway and GIEK, this will put Norway in a strong competitive position to foreign competitors in Iran. Assuming that Norwegian oil and gas firms can offer an attractive product or service in addition to financing, Norwegian investments will be the first priority as Iran requests foreign financing when firms expand to the country (Gharesifard, 2016). However, if the quality of the Iranian capital market and investment environment does not prove to be sound, the possibility that

Norwegian firms receive funding and guarantees from these governmental financial partners will decrease.

The Iranian banking sector performs relatively bad compared to international standards, in areas such as investment quality, capital adequacy, internal control and safeguarding regulations. Additionally, the country's banks are behind the international norms and standards. The Financial Action Task Force (FATF)[16] has stated that Iran poses a serious threat to the international financial system, and the concern is especially regarding the failure to address the risk of terrorist financing and money laundering (FATF, 2016). The IRGC is Iran's largest economic force, and is dominating the bank- and finance sectors. Additionally, the IRGC is driving Iran's underground economy as well as supporting terrorism (USIP, 2016). Iran has little regulations in regards to anti-money laundering and countering the financing of terrorism, and the IMF have fortified that Iranian authorities need to adopt laws that properly criminalizes terrorist financing. The FATF has acknowledged Iran's willingness to improve these issues, yet no steps have been taken, and it is considered unlikely that legislations will be introduced, as hardliners and the IRGC traditionally have opposed these legislations (Bauer, 2016).

The abovementioned issue is a significant threat to potential Norwegian investors, when considering requests by Iranian financial institution. Any Norwegian firm investing in Iran's oil and gas sector should therefore undertake a thorough due-diligence. This is essential to ensure that the local partner or bank adhere to anti-money laundering, and to gain the sufficient information to undertake a quality control of anti-money laundering and transparency of transactions in Iran. In addition, the risk of not taking the necessary precautions is that the Iranian counterpart might still be on the U.S. sanction list. Mr Aghili and Mr Gharesifard supported the importance of thorough due diligence, and the need for Norwegian firms to perform extensive background research in order to ensure money is safely invested in regards to the blacklisted banks and companies (Aghili, 2016; Gharesifard, 2016)**. Another challenge is that Norwegian firms are dependent on European banks to ensure the transaction in Euros. International financial institutions are aware of the links that Iranian banks have to the IRGC and terror financing, and are therefore hesitant to get involved. In regards to this, the European banks require documentation on the Iranian counterpart, however lack of transparency and reliable documentation is still an issue. In addition, the fear of U.S. penalties is still a risk and this is halting the development of Iran's financial sector.**

[16] FATF: An international standard-setting body for anti-money laundering and terrorist financing rules and regulations. Works to identify jurisdictions that are insufficient and pose a risk to the int. financial system.

Part 3.
Cultural Factors

Experts argue that the majority of issues when doing business abroad arise due to the cultural differences, and this is also argued for the case of Iran (Aghili, 2016). Consequently, Norwegian firms looking towards Iran must consider the cultural factors and take into account the different ways of doing business in Iran and Norway in order to achieve success in the Iranian market. Factors such as religion, language and norms around communication, female roles and general business culture are elements that form a specific society. Firms must be familiar with these cultural norms before entering Iran, in order to modify the entry strategy and product/service offering to the specific market. In a transition economy, such as Iran, where the formal institutions are considered weaker, gaining knowledge of the informal institutions prior to entry is assumed to increase the probability of success for a Norwegian firm.

3.1 Religion

Approximately 98% of the Iranian population are Muslims, and the majority follow the belief of Shia Islam, the second largest branch of Islam after Sunni Islam. Iran is a conservative Islamic society, and the traditions and values are mostly based on religion, playing a role in every day life and the way of doing business (Communicaid, 2016). Friday is the Muslim holy day and for the Iranians the only day of the weekend. As explained by Mr Aghili, is the workweek in Iran is Saturday till Thursday, although public offices and schools have half day on Thursday's. However this different way of organizing the workweek might complicate business with other countries that follows another system of organizing the workweek (Aghili, 2016). Furthermore, Muslims may pray five times per day, which is important to respect when doing business in Iran, as it might affect the meeting schedule.

Furthermore, it should be mentioned that men should not shake hands with an Iranian women if she does not take the initiative to do so, as this is against Islamic Law. Subsequently, Norwegian women should not shake hands with men while in Iran, if the man doesn't take the initiative first. Furthermore, women in Iran need to dress after the Islamic dress code, covering elbows, knees and ankles, and the hair should be covered with a scarf, this applies also to foreign women while in Iran[17] (Iran Chamber Society, 2001).

[17] See appendix 3.1 for illustrative pictures of the authors observing the Islamic dress code at "Iran Enviro 2016" and in Tehran in general.

Norwegian people are considered to have a great tolerance and understanding for other religions, and by adopting their behaviour to the norms in the country they are present religion it should not be a hinder for doing business in or with Iran. This relates to both private and business situations.

3.2 Language and Communication

The official language in Iran is Persian also known as Farsi, and only the highly educated population speaks English. The authors of this paper have gained first hand experience of the disadvantage of not speaking or reading Farsi. Throughout the research period, as the Farsi does not use the Latin alphabet, it complicated the process of gathering information about Iran from the Iranian perspective. This is also assumed to be an issue that any Norwegian firm will face when investigating the opportunities and challenges in Iran, as the majority of documents published by Iranian are only available in Farsi. Nevertheless, Iranian people are exceptionally helpful and do their best to provide the information that is demanded. Yet, Iranians are considered indirect in their communication, and they usually wish to save their face, and any direct refusal is considered impolite and rude (Communicaid, 2016). The authors of this paper also experienced this at close hand when attending the environmental conference in Tehran in March 2016. All the various Iranian stakeholders that were approached were convinced they possessed valuable information for this research. However, in the majority of cases the authors realized the stakeholders did not want to admit that they could not provide any relevant information for this research. Though, it should be mentioned that the Iranian stakeholders were extremely helpful, and they would give out business cards or promise to come back with a reply to the questions at hand.

Nevertheless, any Norwegian investor should carefully consider the generosity of the Iranians, as they always wish to maintain their individual honour and help, they might not be able to help with a firms specific set of issues. This coincides with the comments from Mr Aghili who pointed out that a comprehensive due diligence must be done on the Iranian partner before making any investment, to increase the probability of achieving the correct information and matching up with the right partner (Aghili, 2016). Mr Gharesifard backed up this statement by explaining the necessity of a Norwegian firms thorough due diligence of the Iranian partner before making any investment. He further elaborated that one of the most pressing factors in finding the right partner is by having the correct local agent to work as the firm's extended arm in Iran. Mr Gharesifard also explained that INTSOK have mapped various affiliate firms that could work as agents, but cannot recommend any of them since Norwegian firms looking towards Iran need to perform their own due diligence is before

signing a contract with a local agent. However, INTSOK can assist with knowledge of some potential agents (Gharesifard, 2016). Mr Aghili suggested Norwegian firms could ask the Norway-Iran chamber of commerce to assist regarding identifying an appropriate local agent (Aghili, 2016). Consequently, an important element for success or failure in Iran is choosing the right local agent, as they ultimately need to help with identifying a suitable business partner in Iran (ibid). Moreover, to reduce the information asymmetry and misunderstandings that might occur when interacting with the Iranian market, the local agent will help to minimize this gap and provide information in English in addition to facilitate communication between the Iranian and the Norwegian counterpart (Gharesifard, 2016). Though, Norwegian firm are urged to visit Iran and meet with potential agents before any decisions is made, as its easier to get things done in Iran with local presence.

Before the authors' visit to Dubai and Iran, it proved to be very difficult to gather reliable information from the Iranian side. However, after being present at seminars and conferences, and meeting and interacting with relevant stakeholders, the process of gathering information became easier. To exemplify, at the Scatec Solar Seminar that was attended in Tehran, the authors were advised to approach "The women shaping Iran's oil future", according to Bloomberg BusinessWeek, as it was believed she could bring in valuable information for this research (Waldman, 2016). This random encounter proved to become amongst the most important incidents in the process of this thesis, as her co-worker Mr Arshid, became a key resource of information, and also a gatekeeper to forward questions to the NIOC. In addition, he translated the questions to Farsi and the answers back to English, making communication between the authors and the NIOC possible. This further demonstrates the importance of being present in Iran, in order to get in contact with the correct people and increase the probability of success, which also was emphasized by Mr Aghili (Aghili, 2016).

Norwegian firms should be aware that the language barriers create extensive information asymmetries between Iranian and Norwegian counterparts, as the Iranian part has more and better information on the home market. In addition does the fact that Iran struggles with low transparency not help regarding exchange of information. Hence, experts argue Norwegian firms can overcome these challenges by teaming up with a local agent before entering the market. However, there has to be done a thoroughly executed due diligence on the potential agent before signing them. Iranians are known for saying they can deliver the information or contacts needed, however they might not be able to do so, just because they say they can. Consequently, Norwegian firms cannot act naïve, but need to take an active part in mapping the most suitable agent for the task(s) they wish help with while in Iran, all in an effort to overcome the cultural barriers.

3.3 Business Practices in Iran

As a part of the informal institutions in Iran, it is important to consider how business in the country is done, and how people think about business. Iranians are extremely skilled at negotiations, and this root back to 3000 B.C., when the concept of bazar was introduced to Persian cities. Bazar is known as an integral part of Iranian culture, and it has been a centre of economic activities and trade for thousands of years (Pourjafar, 2014). *"A foreign investor must never underestimate an Iranian businessman,"* Mr Gharesifard told the authors (Gharesifard, 2016). This further highlights the importance of understanding the Iranians' experience and knowledge in trade and negotiations, as it is an integral part of their cultural history. Mr Aghili elaborated that small talk and leverage is an essential part of the Iranian business environment, although they are heading towards a more direct approach than earlier (Aghili, 2016).

Relationships are another important factor when doing business in Iran, which is typical for countries where the formal institutions are weaker. Building a personal relationship with your Iranian partner is essential, and the first meeting is often used to get to know each other, before the topic changes to business. A relationship built on understanding and trust will only be possible through face-to-face interactions (Roland Berger, 2015). The authors of this paper experienced how physical attendance and small talk with Iranian stakeholders became essential in order to gain contact with the Iranian counterpart. Furthermore, the more time that was invested in conversations with Iranians, the more information could be gathered. The authors' own experiences from Tehran confirmed the fact that a personal relationship would end with overwhelmingly generous and helpful treatment from Iranian side. As a foreigner it is important to always accept this hospitality, otherwise it may offend the person you are doing business with. However, the border between relationships, community and business is considered unclear, and its not uncommon that an external family friend is brought into a corporate decision-making processes. Also, it is very common to call for favours and in return be prepared to pay back in the future, which complicates the ease of negotiations and increases the risk for fraud and corruption (ibid). Mr Aghili also confirmed there unfortunately is a lot of fraud, which foreign firms must be aware of and take measures to protect themselves from. In this case, Norwegian firms should hire a reliable local attorney, who can deal with these issues, and there exists many highly educated Iranian attorneys who also know international law (Aghili, 2016).

The business culture in Iran is recognized as centralized at the senior management level, meaning that there is little responsibility delegated at lower levels of business. This is different from Norwegian business culture, which is recognized as a flat structure with little hierarchy (Expat Mid-Norway, 2010). In Iran, any decisions require boards, members and committees to be consulted before any decision is made, halting the decision-making process. Negotiations in Iran are usually

very long, and in some situations it first start after the contract is signed. However, Mr Aghili assured the authors that this to a smaller degree were the case in regards to business contracts (Aghili, 2016). The long negotiation process is a result of the many administrative layers and bureaucracy in Iran.

The transition towards a more direct approach when conducting business in Iran suits the Norwegian business environment, which is known for being very direct without any unnecessary chitchat or general conversation (Expat Mid-Norway, 2010)**. However, Norwegian firms should expect to modify their domestic business behaviour to fit the Iranian business environment in order to not be perceived as impolite and rude. In addition, having the Iranian business culture in mind; any Norwegian firm should reach the senior management of Iranian firms before starting the negotiations, as this is assumed to speed the entire process. If this is not possible, firms need to hire a local agent who knows the business environment and can manoeuvre around in it, and gain access and accelerate the business process** (Roland Berger, 2015)**.**

Moreover, Mr Gharesifard emphasized that the largest barrier for Norwegian firms in general, is their lack of commercial focus in addition to being too naïve. The Iranian priority lies within the money, as they want the cheapest possible solution that gives the highest revenue. Consequently, there are two points that are most important prior to investment in Iran:

- **Firstly Norwegian firms must always prove that their product/service holds a commercial value, even though it is more expensive.**
- **Secondly, when the product/service is presented for the Iranian party, the Iranians must be met half way, i.e. the Iranian partner must prove how they can sell this product/service. If this is not proved, the negotiations will stay a discussion without any final result** (Gharesifard, 2016)

3.4 Female Roles

As Mr Aghili pointed out, one the main differences between the Norwegian and Iranian culture is the perspective on women (Aghili, 2016). Centuries of gender discrimination and segregation of sexes has created specific and distinct roles of men and women, which impacts private – and business situations. The Global Gender Gap Report (GGGR) ranks Iran as number 141 out of 145 countries, obtaining a score of 0,58, where 1 indicates total equality. This gives Iran the second worst ranking in the region, just in front of Pakistan. In contrast, Norway is considered amongst the most gender equal countries in the world according to the GGGR, ranked as number 2, as portrayed by table 9 below (GGGR, 2015).

Table 9: Global Gender Gap Report, 2015	Iran		Norway	
	Score (0-1)	Ranking	Score (0-1)	Ranking
Overall Global Gender Gap	**0.58**	**141**	**0.85**	**2**
Female labour participation rate	0.23	143	0.95	11
Wage Equality	0.59	98	0.82	2

Source Table 7: GGGR (2015)

Furthermore, Iran's low ranking in the GGGR is reflected by the low female labour participation rate, which also was discussed under the Economic factors, consequently landing Iran the second lowest female labour participation rate worldwide, in steep contrast to Norway (World Bank, n.d.). On wage equality Iran is ranked inside the 100th best countries, however the ratio female-to-men wages is just 59:100. This illustrates a grand income inequality for the same work. While Norway is ranked as the second most equal country in the world in regards to wages, although there is significant improvement potentials for equal wages in Norway as well (GGGR, 2015).

3.4.1 Female Labour Force Participation Rate

Seen in the light of the majority of total students enrolled in university are women, the low female labour participation rate cannot be explained by women having less education then men. In other words, the female labour participation is related to the social norms and traditions in the Iranian society. There are several reasons why the female labour participation is low. Firstly, the male guards the women, either as being a husband or a father, and this relationship impacts if a woman participate in the labour market or not. Women need permission from their father or husband to work outside home. Under Iranian law, if a woman does not reserve the right to a career under her marriage contract, and she cannot decide to take a job without approval from her husband (Iran Chamber Society, 2001). It is recognized that a married women has a lower probability of participating in the labour force than an unmarried women. However, women are increasingly being paid for their housework, and the income is based on the husband's financial situation, and the length of their marriage (Kar, 1996). Secondly, a woman's lack of employment cannot only be explained in regards to a husband's denial. Research proves that a share of women do not want to participate in the labour market. Furthermore, women with a strong traditional identity have a five percentage lower chance of entering the labour market. The traditional social norm says that men should be the primary caretaker and provider for the family (Iran Chamber Society, 2001). In addition, traditional, married women may believe they will be disloyal to their husband if they take a job. Any woman who believes this will choose to stay home. Thirdly, as a consequence of the preferential discrimination in Iran, there is a low demand for female labour. Iran is a male-

dominated society that promotes gender-related beliefs, in such a way that women are fostered with the thought that they are not accepted in a working environment together with men. Additionally, a common organizational believe is that women are less capable than men, which results in less demand for female employees (Khajehpour B., 2014b). As described under the economic factors, is the female labour force participation rate measured at below 18% in 2014 compared to 76% for men, and almost 20% of all the females whishing to enter the labour force are unable to secure a job, and almost 40% of the young females go unemployed. These numbers further supports the fact that the preferential discrimination in Iran result in a low demand for female labour.

Additionally, the continuous low female labour force participation can be considered an effect of Iran's social welfare system, and the cash allowances introduced by President Ahmadinejad. In 2010, the Iranian Parliament introduced the subsidy reform plan, aiming to reduce the unsustainable subsidies on energy and food that had been executed for decades, and replace it with social assistance. Half of the money saved on cutting subsidiaries was aimed to help the poor. Nevertheless, Iran lacked data on personal income and failed to target only low-income families. Consequently, the cash allowances became universal and 95% of the population started to receive cash hand-outs amounting to USD 40 monthly in 2010 (Nikou & Glenn, 2015). Not only did this result in higher unemployment, as discussed under the economic factors of this report, but research also shows that the subsidiary reform caused women who already participated in the labour force to work fewer hours, than previous of the reform (Moeeni, 2015). Furthermore, the female labour force participation has an inverse relationship to the GDP per capita. That is the participation rate falls when GDP per capita increases, thought to be a consequence of the lack of need of a female income when the male in the household earns more (ibid).

Norwegian firms are encourages, especially by the Norwegian ambassador to Iran, Mrs Norheim to turn around this trend and hire female Iranians when entering the country. There is no question there is enough skilled unemployed females, they only need to be given the opportunity to rise and shine.

3.5 Young and Well-Educated – No Relations to the Revolution

As previously mentioned in this report, Iran holds a very young population, born after the '79 revolution. Hence, they hold no affiliation to the goals of the revolution and are considered to be far less conservative than the older generations (Spindle, 2015). This post-revolutionary generation are ambitious in another way than the pre-revolutionary generation, they seek higher education, and the normality and opportunities that can be found in the western world (Khalaf, 2015). This social shift can be viewed in the light of the underground culture, where the youth have parties with alcohol and dancing. Furthermore, the girls are increasingly challenging the Islamic dress code, by covering less of their hair and using tighter clothing. The Islamic leaders in Iran are blaming the young for being a victim of corruption from the west, through the exposure from social media and western TV (ibid). Consequently, the cultural shift that is taking place amongst the younger Iranians might indicate that a gradual change will take place in the Iranian society as a whole. These younger more liberal Iranians seek to be free from the endless ideological fights that have racked Iran in the last decades (Spindle, 2015). And in only 14 years, the post-revolutionary Iranians are expected to constitute of almost 73% of the population. Hence, some argue it is only a question of time before the Iranian culture is forced away from the hardliners iron-rule.

Norwegian firms hesitant of entering the country due to the hardliners iron-rule should take the abovementioned into consideration. As some argue it's only a question of time before the liberal young Iranians take more control over the path Iran as a country will take in the future. Hereunder, firms could be wise in already be established in Iran before this happens, due to expected increase in competition as the country opens up and becomes more liberal.

Part 4.
Geographical Factors

The geographic factors in a country are the physical and biological factors related specifically to the location. The oil and gas industry, being a resource extraction business is naturally strongly connected to the geographical features of a country, as only certain locations provide the necessary resources for the industry, Iran being one of those locations. In regards to Norwegian oil and gas firms and service firms, the geographical location is assumed to be a decisive factor to consider prior to a decision of investment in a potential host country. The geographical factors constitute the availability of resources and projects, in addition to present infrastructure, proximity to markets and current environmental conditions. Common for emerging markets and hereunder transition economies, is that they can offer firms' untapped resources and growth opportunities, which cannot be found to the same extent in developed markets. However, these locations often lack the infrastructure and technology to exploit these resources efficiently (Jakobsen, 2008; Young, Ahlstorm, Bruton, & Rubanik, 2011). Iran as a transition economy can offer opportunities for both resource – and market seeking firms.

Any Norwegian resource-seeking firms will invest in Iran if there is a potential to tap-into resources that are not available in the home market, or if the resources are available at a lower cost. Market-seeking firms will look after potential for growth in the same industry as the firms operate in the home country, by extending operations abroad in order to increase market presence.

4.1 Resources and Available Projects

Iran is identified amongst the countries in the world with the largest crude oil- and natural gas reserves (EIA, 2015). Due to a lack of technology and infrastructure in the oil and gas sector in Iran, the country is currently offering 52 development projects in the industry, hereby 29 in the oil sector and 23 in the gas sector. In addition, 18 exploration blocks are being offered (Motevalli, Dipaola, & Kalantari, 2015; Olsen, 2015).

Furthermore, amongst the member countries of Organization of the Petroleum Exporting Countries (OPEC), Iran is the second largest producer of crude oil behind Saudi Arabia, and the fifth largest globally. The country has already produced 75% of its crude oil reserves, however the newest discoveries of oil reserves are not yet depleted (Mohamedi, 2015). As a result of the sanction lift, Iran is aiming to increase its production by 500 000 barrels a day (Kalantari, 2016). 70% of Iran's oil reserves are located onshore and the remaining part is located offshore, mainly in the Persian Gulf.

Although merely 30% of Iran's crude oil reserves are located offshore, it should be mentioned that the country holds respectively 10% of the worlds and 13% of the total OPEC reserves, i.e. 3% of the world's total crude oil reserves are located in Iranian offshore territory (EIA, 2015).

In addition to Iran's large oil reserves, the country holds the second largest natural gas reserve in the world. Yet, Iran has only depleted 5% of its natural gas reserves, demonstrating a huge potential for investment in this sector, as there is an extensive amount of resources left. In the short term, the natural gas industry in Iran will mainly serve the domestic market due to increasing demand, and there will be limited exports (Mohamedi, 2015). The increasing energy consumption is due to the fast growing economy and population, in addition to a high level of inefficiency in use of energy (Saeed, 2012). However, Iran could potentially strengthen its geopolitical situation by exporting its relatively cheaply produced natural gas to neighbouring countries, or reduce its huge domestic consumption by increasing prices in Iran. The excess natural gas can be directly exported, or produced into electricity and exported to neighbouring countries (Yeganehshakib R., 2016a).

In petroleum production, a certain volume of natural gas is found within the deposit of oil, either as a "gas cap" above the oil reservoir or dissolved in the crude oil, and this gas is often flared. The reason for this is that the amount of APG is to small to be recovered or transferred through a pipeline to a processing facility with existing technology and infrastructure (Clarke Energy, n.d.). Nevertheless, it is a valuable resource that is commonly unexploited in less developed countries, stemming from the lack of technologies or incentives to capture the gas. Further, flaring is caused by an unsophisticated industry and a lack of legislations and/or abundant gas resources. Iran is regarded the third largest gas flaring country in the world after Russia and Nigeria. Furthermore, the flaring of APG causes hazardous air pollutants to be emitted in the air, causing extensive air emissions, which is harmful for the global environment and devastating for the local environment (NIOC, 2016). Several options to flaring of APG exist, although this demands investment in infrastructure and or technological solutions. Some of the options for handling APG are: Gas re-injection to EOR, conversion into LPG or LNG and transport via tankers, prepare and export via pipelines, conversion to petrochemical industry feedstock and power generation for transmission or on-site needs (Clarke Energy, n.d.).

Nevertheless, Iran is flaring gas because the country lacks the infrastructure to capture and transport this gas, hence the APG in Iran is considered a huge untapped resource, and collecting APG instead of flaring it can be a long run profitable- and environmentally friendly solution (EIA, 2015). Iranian Offshore Oil Company (IOOC) a subsidiary of NIOC executes the majority of flaring, and this is believed to be due to the fact that reduction of flare gas offshore is more difficult and expensive than onshore (Natural Gas Europe, 2016). The flaring occurs at the Southern oil fields in Iran, and these areas are also considered to being polluted (NIOC, 2016). Furthermore, it is assumed that the

amount of flare gas will increase with the new oil production levels, which is equivalent to waste of valuable resources and aggregated air pollution. However, Iran as many other countries, have implemented projects to collect the gas and use it for onsite combined heat and power production (ibid). Iran is in need of international support, and Norway can offer pioneering technology in this niche of the industry. Over the last 20 years, Norway has worked hard to develop solutions that can reduce air emissions, and the country has reduced its CO_2 emissions in the petroleum industry with 81% from 1990 to 2013. As the Norwegian oil and gas industry is located offshore, this is the sector where most solutions have been developed (INTSOK, 2015). Statoil invented technologies that enabled firms on the NCS to shut down flaring during normal operations, and this technology has been developed and commercialized in collaboration with Norwegian suppliers (ibid). Primarily, Norway banned routing flaring due to the wasting of resources it caused; yet the country strengthened its commitment when the effect of flaring on global warning became clear. In addition, Norway was the first country to endorse the World Bank initiative Zero Routine Flaring by 2030 (Minestry of Foreign Affairs, 2015).

Lastly in regards to available resources, the Iranians have implemented several incentives for firms wishing to utilize the flare gas, i.e. lower prices on the APG compared to ordinary gas, which in turn should make investments more profitable, as previously elaborated under the subsection on economic factors and product markets.

To sum up indicate the high numbers of available projects a vast investment potential in the Iranian oil and gas industry for foreign firms. As Norway has developed the largest portfolio of technologies in the oil and gas industry in the world, there are several different projects that the Norwegian industry can engage in, in Iran. However, Mr Gharesifard pointed out that Norway is a small country compared to other nations looking towards Iran. Accordingly, Norwegian firms should focus on their niche products and services that other nations lack. Moreover, it is essential that Norwegian firms enter Iran with the correct technology or service, and not only try to partner up with NIOC, but investigate opportunities with smaller firms as well, in addition to being a first-mover (Gharesifard, 2016)

Additionally, the large offshore reserves offered by Iran provides Norwegian firms with plentiful opportunities to support Iran with technology primarily in the offshore segments, but also in the onshore segment for companies that have built up expertise here, as for example DNO. According to Mr Gharesifard does the portfolio of INTSOK contain some niche products and services, i.e. firms that can perform a operation or provide a service that very few in the world can do, for instance in regards to offshore equipment and solutions for cleaner production. This can further increase the demand for Norwegian technology and increase their investment

opportunities in the Iranian market (Gharesifard, 2016). Based on Norway's long experience and attitude towards flaring, it is believed that this is a niche of the industry Norwegian firms could focus on when entering Iran. Seen as Iran is demanding foreign technology and know-how to reduce their routine flaring, and especially in the offshore sector, Norway are an obvious choice due to their extensive knowledge in this field (Gharesifard, 2016). Although the Iranian wants the best from the best, Norwegian firms need to show the commercial value of the solutions in order to arouse interest from the Iranians.

4.2 Proximity to Markets

The geographical distance between Norway and Iran is huge, as the two countries are located at two different continents and there are no direct transportation routes by sea. However, from beginning of June 2016 will there be several weekly flights directly between Copenhagen and Tehran, which certainly will make it easier to reach Iran from Scandinavia. These flights will be offered to approximately USD 300 and the flight is less than 6 hours (Aviation Iran, 2016).

However, by considering trade, Iran holds an attractive geographical location. In regards to export of oil and gas, the established infrastructure and access to regional and global markets from Iran becomes a key factor. Iran holds a central location in the Middle East region, connecting that region to Asia and Europe, by sharing land and sea borders with 15 neighbouring countries. Iran's strategic location between the eastern border of Europe and western border of Asia offer opportunities to export oil and gas to the EU and markets in Asia (Hassanzadeh, 2013). To further emphasize on Iran's favourable geographical location, its southeast borders spreads along the world's most strategic strait of water and the most important transit chokepoint for petroleum, namely the Strait of Hormuz. This strait is located between the southeast of Iran, Oman's Musandam Peninsula and the United Arab Emirates (UAE). 17 million barrels of oil, totalling in 20% of all seaborne traded oil passed the Strait of Hormuz daily in 2013. This oil was transported from Saudi Arabia, the UAE, Qatar, Iran and Iraq through the strait, where approximately 85% of the amount is serving the Asian markets. Nevertheless, tankers can also turn west towards the Suez Canal and the Read Sea (Brender, 2015).

Furthermore, pipelines are essential to transport oil and gas between markets, and Iran has an extensive pipeline infrastructure to transport both oil and gas from South to North in Iran, to cover domestic consumption. Iran can become an important gas supplier to the region, and the country has already settled agreements to expand with regional pipelines. As previously discussed in the section of product markets, Iran has started to develop pipeline infrastructures to Oman and Pakistan, which can be extended to India (Tagliapietra & Zachmann, 2015). Iran has agreed to

export gas to Oman, and the Gulf region is also seeing an increasing demand for gas. Moreover, the majority of gas that will be exported from Iran will firstly serve the Asian market (EIA, 2015). Iran is geographically well located to the emerging economies of India, Association of South East Asian Nations (ASEAN) and China, which consists of 3 billion people who will require an extensive amount of energy (Boman, 2016). In addition, Russia, the Commonwealth of Independent States (CIS) countries and Caucasus are located relatively close to the borders of Iran, and these countries offer an existing infrastructure that can be exploited by Iran to transfer gas to international markets (Hassanzadeh, 2013). Lastly Iran is obviously located close to the Gulf Cooperation Countries (GCC) countries. These abovementioned points further confirm the favourable location Iran holds in regards to availability to other markets. In the longer term, Iran's natural gas can reach Europe via a pipeline to Turkey, and Iran can become a major natural gas supplier to the EU. Nonetheless, it will require great investment and expansion of existing infrastructure to get a pipeline system to transport natural gas from Iran to Europe (Tagliapietra & Zachmann, 2015).

Iran had a plan to build a liquefaction facility for gas since before the revolution, since LNG can be used to transport gas to markets that lack the connection of gas pipeline-infrastructure. However, the development of the LNG export plant has been halted due to the sanctions and a lack of technology (Leifheit, 2016). Consequently, there is no immediate capacity to export LNG, however Iran can achieve export by pursuing investment in floating LNG (FLNG) facilities. Furthermore, Iran is an

Picture 1: Persian Gulf and Strait of Hormuz

Source Picture 1: https://energy.fanack.com/iran/downstream-oil-sector/

attractive country in regards to LNG, as the country provides the resources, and it is located close to the sea. Gas has traditionally been traded more regionally, due to higher costs and difficulties to transport. However, the advantage of LNG is that it can be transported on sea and not through pipelines, and Iran can meet international markets with LNG.

Mr Arshid explained that until Iran receives foreign technology to develop export plants for LNG, Iran's first export of LNG would likely be done by exporting gas to Oman who has the resources to convert the gas to LNG and further export it to i.e. South East Asia. However, this can first be achieved when the pipeline to Oman is finished (Arshid, 2016). Nevertheless, Iran is looking for investments to develop the necessary infrastructure to convert gas to LNG, which can possibly make Iran a huge exporter of LNG in the future.

Since most of the Iranian offshore oil fields are located in the Persian Gulf, and these fields flare gas, Norwegian firms with expertise in FLNG solution for conversion of APG to LNG can benefit from the strategic location of the country in addition to the Iran's demand for LNG export solutions in the short-term.

***It should be mentioned since the development of this report, the Norwegian firm Hemla Vantage have closed a $600m deal with Iran, to convert gas using FLNG technology. The deal is the establishment of a JV between the Norwegian firm and the Kharg Petrochemical Company, a quasi-privately-owned Iranian company. All in an effort to produce and export LNG and Liquefied Petroleum Gas (LPG) by 2017 (Bozorgmehr, N; Raval, A, 2016).**

4.3 Environmental Goals

Iran is currently facing a somewhat environmental crisis, with the most extensive problems being water scarcity and air pollution. Vice President Ebtekar addressed that wasting natural resources has led to numerous crises in the country (Shana, 2015). Furthermore, Ebtekar, who also is the head of Department of Environment stressed that Iran is the seventh highest producer of GHG emissions worldwide (Iran-Times, 2014). Iran has over the recent decades implemented comprehensive programs to reduce GHG emissions, however due to the setbacks from the Iran-Iraq war and international sanctions, the improvements have been difficult to achieve (USIP, 2015). Moreover, Iran submitted its climate action plan to the UN Framework Convention on Climate Change (UNFCCC) in advance of the 2015 UN climate conference in Paris. The Paris agreement will come into effect in 2020, and the aim is to prevent average global temperature increasing with more than 2 degrees Celsius, and empower clean and sustainable development (UNFCCC, 2015). Iran intends to reduce GHG emissions by 4% by 2030, in addition to estimating that the country can cut emissions

with 8% with enough investment and transfer of foreign clean technologies. However, the sanctions has obviously hindered capacity development and the creation on sustainable solutions, and improving these elements in addition to achieve the objectives of the program will be a time consuming process, even with foreign technology transfer and support (USIP, 2015).

Furthermore, in regards to reduction of emissions in the oil and gas industry, it should be mentioned that there are no legislations against gas flaring in Iran, and the introduction of a zero gas flaring policy needs to be a legal matter, in order to shift the focus. If Iranian firms are going to change their perspective on flaring, it needs to be an established legal matter that can function as a motivation to reduce flaring. In comparison, Norway early introduced legislation towards flaring, and the country imposed fees and punishments for firms that flared the APG instead of capturing it, which make it more expensive to flare in the long run. For Iran, cost is the key priority for all firms, and if a similar system had been introduced in Iran, it can be assumed that a more rapid development to reduce flaring would take place. As Mr Gharesifard elaborated, in regards to reduction of flare gas in Iran: "*The key to success is legislation",* and this needs to be of political importance, as the environmental concern is not a sustainable motivation for the Iranian firms to change their attitude (Gharesifard, 2016). However, the Iranian government have taken another measure to cope with the air pollution problem, as elaborated under economic factors, by offering APG at a fraction of the price of ordinary gas in the next four years, all in an effort to attract foreign and domestic firms to invest in capturing and utilization of this specific gas.

Yet, the long term benefits and cost savings must be proved before any change can take place, hence Norwegian firms should focus on showing the Iranians that there is money to be spared or earned by utilizing the APG instead of flaring it.

4.4 Environmental Conditions

As discussed above, Iran is facing tremendous environmental issues and is among the top ten on GHG emissions worldwide. More than 90% of the total emissions in Iran are found in the energy sector, consequently there exist a huge potential for reduction of emissions in this sector and subsequently opening opportunities for foreign investors (USIP, 2015). Furthermore, Iran's plan for adapting to climate change and mitigate pollution in regards to the U.N. goals; the country has identified specific areas of foreign financial and technological needs. The first point on the list of major technological requirements is *technologies needed to curb and utilize gas flares* (ibid). In this regards, Iran has addressed the issue of gas flaring and will further work to implement solutions to reduce flaring. Yet, Iran is not amongst the nine countries that have endorsed the "Zero Routine

Flaring by 2030" initiative by the World Bank, and it is assumed that this is due to the lack of current technology to reach this goal. Moreover, Mr Fathabadi from NIOC emphasized how a zero flaring policy is in Iran and NIOC's plans, as both government and firms are interested in reaching this goal. However, this is amongst the middle and long-term plans, and not an agreement Iran will sign at this point in time. Capturing of flare gas is achieved in some of NIOCs projects, yet international support in this area of the industry is critical for Iran in order to be able to reduce flaring (Fathabadi, 2016).

In regards to the abovementioned, Iran is addressing gas flaring as an environmental issue and not only as an economic issue. The Norwegian industry increased its concern around gas flaring when it became clear that flaring contributed to extensive CO2 emissions, and Norway can be used as a magnificent case in regards to achieving zero routine flaring.

Norwegian firms can assist Iran with technology in both the offshore and onshore sector, and help the country in reaching their goal of zero routine flaring. Technology and knowledge on flaring is highly requested by Iran, and Mr Fathabadi mentioned that NIOC is interested to have common projects with Norway, supported by the fact that Norway is a pioneer country in the oil and gas industry (Fathabadi, 2016). This opens up for huge investment opportunities for Norwegian firms in this niche of the industry. Furthermore, Iran is identified as a great geographical location for oil and gas investments, foreign firms can exploit the clusters of economic activities that are placed there. Iran is a country with great knowledge within the industry, and they are knowledgeable and skilled in production. Due to sanctions, Iran lacks modern technology and currently seeks to attract foreign investments in the oil and gas industry, which pose as a great opportunity for Norwegian firms (Gharesifard, 2016).

Part 5.
Which is Greater, Opportunities or Challenges?

5.1 Political Opportunities or Challenges?

Iran's political environment is considered to bring few opportunities for Norwegian investors. The sum of factors such as extensive government control, corruption, lack of independence in the judiciary system and little protection of IPR serves as contributing factors underlining the weak formal institutions in Iran. The aforementioned factors all serve as demanding challenges and market imperfections that argue a huge risk in internationalization of production to Iran. Nevertheless, President Rouhani works hard to improve the investment climate for foreign investors, through the FIPPA act, the new IPC and free trade zones, however these opportunities does not overweigh the political uncertainties and challenges the Iranian political environment offer. Additionally, the legal restriction on local content and ownership limits the choice of possible FDI entry modes.

Norwegian firms, which are spoiled with a sound political atmosphere from the home country needs to pay extra attention to Iran's political climate when looking to internationalize, as confrontations and holdbacks previously unknown for Norwegian firms might arise in this market. Considering the weak formal institutions based on the political environment, the transaction cost in the Iranian environment is expected to be huge.

5.2 Economic Opportunities or Challenges?

The size of Iran's economy in addition to current GDP growth makes it an attractive location for market-seeking firms, in particular. Another opportunity is the large amount of seemingly abundant skilled labour, in addition to the high number educated but unemployed people, which in turn implies Norwegian firms would effortlessly be able to attract skilled local labour. Furthermore, Iran is working on the reopening of the SWIFT, which will allow for international transfers, yet there is still a concern regarding the transfer of potential revenue out of Iran. Also, the current risks regarding high inflation, dual exchange rate and interest rate can be considered market imperfections causing instabilities in regards to Iran's economic factors. This is expected to make it more difficult for Norwegian investors to secure payments, and to raise capital for their investments. Additionally, the rigid Iranian economy might provide difficulties in regards to obtaining export financing and guarantees from Norwegian government institutions and other private institutions.

Additionally is the large physical distance between Norway and Iran assumed to increase communication transmission costs between Iran and Norway. Consequently, it is expected that Norwegian firms could benefit from organising its activities within the firm when entering the Iranian market, to ease the transmitting of information across the huge geographic distances, instead of outsourcing this transaction in the external market.

The Iranian economic factors offer both some opportunities and challenges, and Norwegian firms would have to consider these two against each other before deciding if entering the market would be favourable. However, since there exists market imperfections in regards to the Iranian economy, the transaction costs for Norwegian firms are expected to be high. This is also in line with findings of Meyer (2001), who states that Western businesses entering transition economies, like Iran, will meet higher transaction costs. Consequently, internalization of business activities when expanding towards Iran could provide Norwegian firms with tighter control over operations and reduce this cost, subsequently assets and capabilities are expected to be transferred more efficiently internally than externally.

5.3 Cultural Opportunities or Challenges?

The cultures in Norway and Iran are different in all aspects, looking at religion, language, communication, business practices and female roles. Taking this into consideration, the cultural elements of Iran solely offer challenges for a Norwegian investor, and no locational advantages are found in regards to Iranian culture. The huge differences in culture will also cause difficulties if operations are internalized, as the cost of control increase when language and communication barriers rise (Peng & Meyer, 2011). However, the transaction costs associated with the difference of Norwegian and Iranian culture is also considered to be large, consequently favouring internalization of production despite the extra cost of control.

5.4 Geographical Opportunities or Challenges?

The geographical characteristic of Iran certainly brings opportunities for Norwegian oil and gas firms and service firms. This relates primarily to resource-seeking firms as Iran holds an extensive amount of natural resources, but also in addition to market-seeking firms due to Iran's great proximity to markets, other than the domestic one. Additionally, the country is lacking technology and know-how to effectively utilize its resources, which accelerate the demand for foreign technology and knowledge transfer in all sectors of the oil and gas industry.

5.5 Conclusion

When adding the geographical location opportunities to the political, economical and cultural opportunities and challenges in regards to location, the authors still believe the overall location advantage is strongly present. The reasoning behind this is that the geographical factor is the only factor that does not change over time, allowing Iran to maintain its geographical attractiveness in the future. Thus, the vast location advantage Iran provide for resource-seeking firms won't change before the natural resources are depleted, and then Iran still holds a favourable geographical location in relation to market seeking firms, both with a large domestic market, and a huge market taking the neighbouring countries into account.

Iran can also be considered as the most stable country in the Middle East, and the government urge international investors to help modernise the country's sanctions-hit and post-revolutionary economy, in regards to all industries. Additionally does the Iranian government have a vision of transforming Iran into a hub for intra-regional economic development. Subsequently, Iran should not just be regarded as one big domestic market but as a country at the centre of a much larger market, which could link the Middle East to South Asia and even the Western fringes of China (Kenare, 2016).

This report concludes the main opportunities in respect to Iran's location are the extensive amount of natural resources, Iran's favourable geographic location, in addition to its market size and neighbouring markets size, future growth potential and a skilled labour force. The elaborated key location advantages make Iran a highly attractive market for Norwegian firms. Additionally, it should be mentioned this is not only true for firms operating in the oil and gas industry, as Iran seeks technological upgrades and knowledge spillovers inn all imaginable industries. Consequently, the opening of the Iranian market post implementation of the JCPOA presents itself as a historic opportunity for Norwegian firms, which should not be unexploited. Nor should the opportunity be wasted due to slowness of entry, leading to too fierce competition from other foreign investors whom already could have established a foothold in the market.

The main challenges a potential investor might face when entering Iran, are the lack of access to financing and currency transfer, high political risk, a weak institutional environment with low transparency as well as strict regulations and local content requirements. However, there exists several ways to work around these market imperfections that are highly manageable, although the correct planning and organization from the Norwegian side is necessary. Additionally, the findings in this report consider the opportunities to overweight the challenges, based on the fact that the entering firms are mainly resources seeking. Furthermore, the opportunities related to Iran's extensive amount of desired natural resources combined with its investment opening, are rare on a

worldwide basis, which further underpin why the opportunities are considered to be relatively higher than the challenges. Seen as Norwegian firms hold a lot of pioneering technologies, which can help Iran to exploit its resources more effectively while simultaneously reduce air pollution in the oil and gas industry, they have a fair chance of being successful in the re-opening of this market. This is due to the fact that the Iranians are looking for technology upgrades and seek technology transfers and knowledge-spill overs from foreign firms.

Nevertheless, the underlying challenges can only successfully be overcome by accomplishing a thoroughly executed due diligence, both on a firm's choice of local agent and business partner respectively. The barriers of entry and the associated risks will decrease by applying this approach. Consequently, a comprehensive due diligence is believed to be the key to success when entering the Iranian market, no matter the industry of interest. However, the investing firms are encouraged to have presence in Iran prior to the entry, in order to gather reliable information and get to know the potential agent and partner. To supplement the recommendation for Norwegian firms, it should be mentioned that firms must enter Iran now, in order to exploit the opportunities in the market before the competition becomes too fierce. Additionally, Iran's weak capital market could pose as a short-term competitive advantage for Norwegian firms, if the Norwegian institutions offering export financing supports projects in Iran.

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Appendix

Interview participants

Nasrollah Gharesifard	The interview took place in Dubai on February 23rd, 2016
Country Manager at INTSOK	Mr Gharesifard served as an external industry expert, possessing knowledge of the Norwegian oil and gas industry, and on how to do business in Iran. Furthermore, Mr Gharesifard has knowledge on how Norwegian business can penetrate the Iranian oil and gas industry
Dadbeh Arshid	**The interview took place in Tehran on March 2nd, 2016**
Advisor at Energy Pioneers Ltd	Mr Arshid served as an external industry expert on how to do business in the Iranian energy sector, and could shed light on the topic of gas flaring. Additionally, Mr Arshid had the role as a gatekeeper, as he delivered a set of questions to the NIOC on the matter of gas flaring. These questions and the received answers can be seen in appendix 2.6
Mostafa Michael Aghili	**The interview took place in Tehran on March 3rd, 2016**
Consultant to various Heads of Ministries, organizations and entities in different industries in Iran	Mr Aghili served as an external country expert on how to do business in Iran, and what the general opportunities and challenges for foreign firms entering Iran are. Amongst others, he is a member at the Foreign Investment Incentive Board at Iranian President Office, Hassan Rouhani and International business consultancy to Deputy Minister of Interior, S.M. Hashemi

Appendix 1. Political Factors

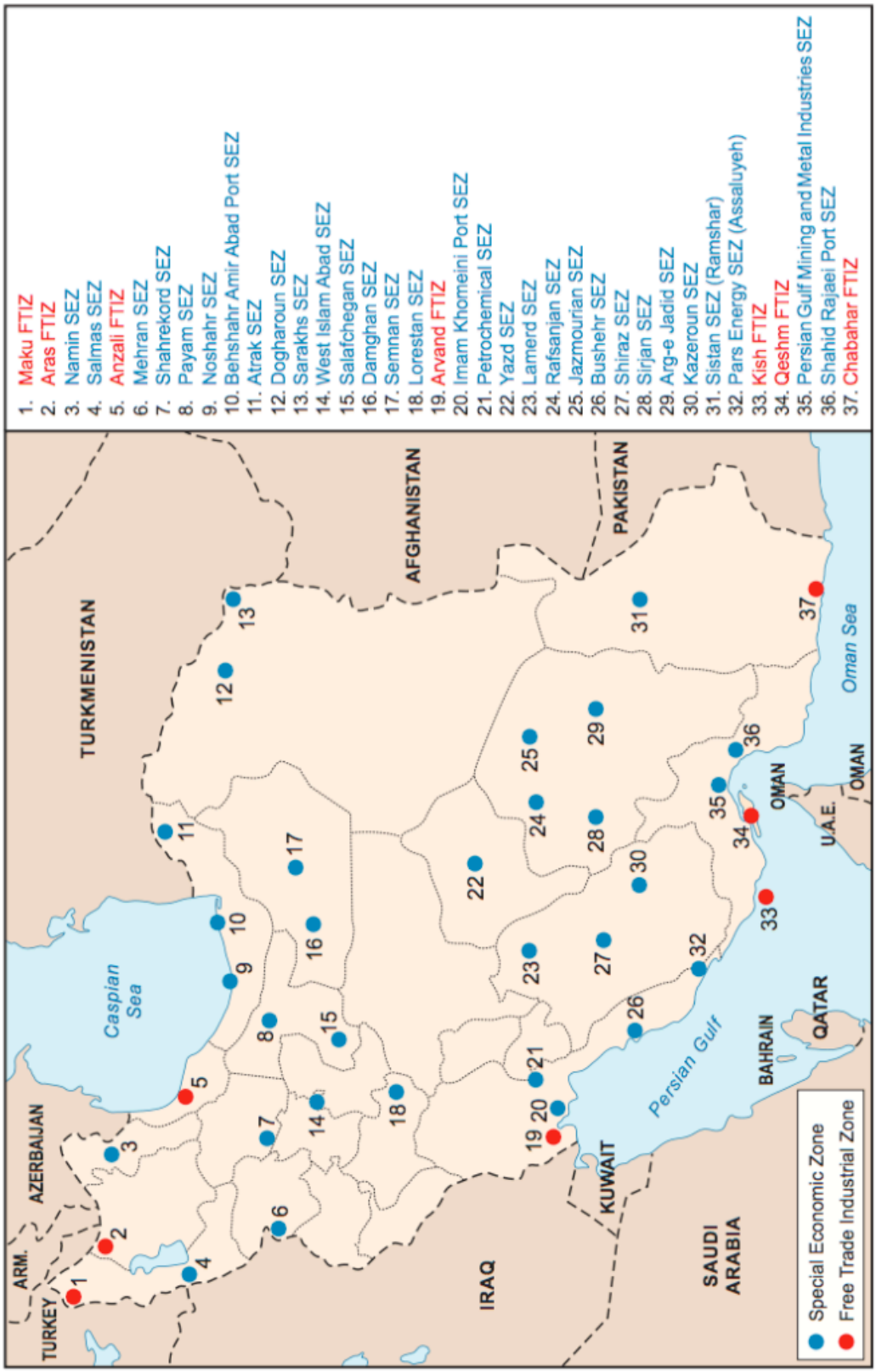
1.1 Key differences between Iran's old buyback contracts and the new Iranian Petroleum Contracts

	Buyback	Iranian Petroleum Contract
Field Ownership	NIOC	NIOC. However, under "special conditions" firms can book reserves. Reserve of fields is only available for high-risk exploration/development, i.e. Joint fields, Caspian sea drilling etc. and the state maintain ownership over resources
Crude Output Ownership	NIOC	IOC/NIOC partnership. Resembles a Production Sharing Agreement (PSA)
Operation	IOC in exploration, development. Hands over to NIOC once development is complete	Exploration by IOC. Development & Production by IOC and NIOC partnership. Integration of exploration, development & production phases under same contractual framework ensures IOC involvement throughout life of the field
IOC Cost Recovery	Fixed CAPEX ceiling, Interest on investment costs, limited amortization period	CAPEX, non-CAPEX, bank charges recoverable. No CAPEX ceiling. Cost recovery for exploration from start of production. Cost recovery cannot exceed 50% of total production/revenue. No interest paid on investment costs. If costs less than planned portion of savings to be paid to IOC as additional remuneration. Possibility to renegotiate terms if 'environment' changes
Remuneration	Flat, inflexible cash fee based on percentages of production and agreed fixed rate of return	Exploring IOCs remunerated with share of output, rate of return proportionate with risks taken (field's development risk classified as low, medium, high or very high). Greater risk-reward element: $/B fee for oil, $/mn for gas, fees based on international prices and sliding scale. Remuneration based on R-Factor; Risk classification can be revised over time
Payback Period	Cost recovery, remuneration through project operation life	Cost recovery 5-7 years after first production, remuneration throughout life of project
Tax	Theoretical only (IOC taxes were reimbursed)	Tax rate of 30-35% (not final)
Signature	No	No

	Buyback	Iranian Petroleum Contract (IPC)
Risks	IOC bears full risk of cost overrun and exploration failure, NIOC bears oil	IOC bears exploration risk, if exploration fails the IOC can be offered alternative nearby exploration acreage
Contract Length	1st generation: 5-7 years, 2nd, 3rd generation: 8-12 years.	25-30 years (7-9 years exploration, 15-20 years development, production)
IOC and NIOC Relationship	IOC purely contractor	JV partnership between ICO and NIOC, ensuring technology transfer, managerial skills and investment

Source: Energy Pioneers ltd.

1.2 Iran's FTEZ og SEZ

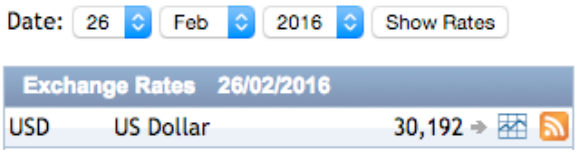


Source: Energy Pioneers ltd. (2016)

Appendix 2. Economic Factors

2.1 Currency rates as of February 26th 2016

Official = IRR 30.192 to the U.S Dollar



Value collected from CBI

Unofficial = IRR 35.480 to the U.S Dollar

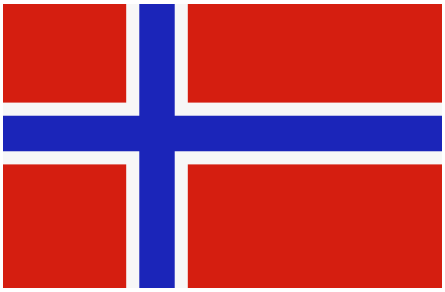
It is taken into consideration that this rate might be a bit high, due to the location in the airport, but it was approximately the same when exchanging elsewhere in Tehran.

Source: Picture taken by the authors at the Imam Khomeini International airport February 26th 2016

Appendix 3: Cultural factors

3.1 Illustrative pictures of the authors observing the Islamic dress code

Thank you for reading!



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