

How US Sanctions Could Cause Turmoil For The Iranian Auto Market



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The Iranian car market is on the verge of a potentially tumultuous new period, with many foreign companies looking nervously towards the exit in advance of US sanctions which are due to take effect from August. That will leave well-established local brands in a stronger position, but they won't have the market entirely to themselves – they will have to grapple with tougher competition from Chinese car makers eager to expand and a wave of new domestic rivals that analysts say could emerge in the coming years.

There is a lot to fight over. Iran is the 12th biggest car producer in the world, according to data from the International Organisation of Motor Vehicle Manufacturers (OICA), with 1.4 million passenger vehicles rolling off its assembly lines in 2017. That puts it only just behind the UK and ahead of the likes of Russia and Turkey. It is also one of the faster-growing markets, with a 18% rise in vehicle production last year.

Car sales have been growing even faster in recent years, rising from 1.1 million passenger cars in 2015 to 1.6 million in 2017 – making it the 10th largest market in the world by sales.



Locals inspect a new Peugeot 2008 at an Iran Khodro showroom in the Iranian capital Tehran, on October 5, 2016. (Photo: ATTA KENARE/AFP/Getty Images)

The market has long been dominated by two local groups, Iran Khodro and Saipa. Their own brands, alongside a number of French and other international marques they build under licence, lead the way in terms of new car sales. The most popular brand is Peugeot, which had a market share of 34% in 2016 according to industry research firm Marklines. It was followed by Saipa, Iran Khodro and Renault, with market shares of 27%, 13% and 5% respectively.

But while the market has been doing well recently, its history has tended to be a volatile one. The Iranian car market took a hit in 2012, as tougher international sanctions were imposed on the country. Production and sales both fell in 2012 and 2013. More recently the environment has been significantly better, in line with the [diplomatic breakthrough](#) around Iran's nuclear programme with the Joint Comprehensive Plan of Action (JCPOA) signed in 2015.

The breakdown in relations between the US and Iran since President Donald Trump came to office means the local car market could well be about to enter another downturn.

The first consequence of the planned US sanctions is a new wariness among some Western car companies. While the major US groups such as General Motors and Ford have little or no sales in Iran, European marques have been selling in ever-larger numbers over the past few years and a number of them have been preparing to set up production plants in Iran. The French firms Renault and PSA Group – which owns Peugeot, Citroën and other brands – have led the way in this regard.

In 2016, PSA Group announced deals with both Iran Khodro and Saipa. The deal with Khodro was signed in June of that year, with a €400m (\$467m) joint venture to produce a range of Peugeot models. The deal with Saipa followed in October, with a €300m joint-venture to produce and sell Citroën vehicles in Iran.

Then in August 2017, Renault announced a €660m deal with Industrial Development and Renovation Organization of Iran (IDRO) and Negin Holding to set up a joint venture which would produce 150,000 cars a year.

Firms from elsewhere in Europe have also been getting involved. In August last year, for example, Volkswagen began selling its Tiguan and Passat models, via an import deal with the privately-owned local firm Mammut Khodro – the first formal presence for the VW brand in Iran in more than 17 years. Another German firm, Daimler, announced deals with Iran Khodro Diesel and Mammut Group to set up local production of Mercedes-Benz trucks and engines.

Many of the announced deals were early-stage memorandums of understanding or similar, rather than firm contracts, and there are now question marks over whether the companies involved will be able or willing to stick with their arrangements. For now, most are staying tight-lipped about their intentions.

Renault, for example, declined to comment on its plans for the Iranian market. A spokesperson for Daimler's commercial vehicles arm said "We are closely monitoring the further developments after President Trump's announcement on the JCPOA and will then evaluate the potential impact on our business."

VW and PSA Group take a similar position, with the latter saying it is following developments, "including the official and singular position expressed by the European Union on this issue" and says it remains in compliance with international regulations.

The ability of the EU to [shield its companies](#) from the effects of US secondary sanctions remains unclear. Although there has been talk of Brussels implementing 'blocking' legislation to protect European firms from any fines or other measures the US might impose on those trading with Iran in the future, it will be hard to offer full protection, particularly for companies which also have significant sales and production in the US itself.

As a result, many of the announced plans for the Iranian market are now likely to be put on ice, according to Damien Duhamel, chief executive of consultancy firm Solidiance. While that will inevitably create some disruption, it should not cause western car firms too much pain, given the relatively early stage of their investments in Iran.

“The French car manufacturers had just started to look into rebooting their operations in Iran,” says Duhamel. “But there is no factory to shut down. Over the past three years, a lot of people that came to Tehran were there to reopen communications, to shake hands and reconnect. There wasn't money being invested in a big way, because it was all about reconnecting the dots; investigating versus investing.”

If European firms do indeed pull back from Iran, the way will be open for local car firms to flex their muscles once more. The major Iranian producers have coped with sanctions in the recent past and will be able to dust off the strategies they employed before.

However, the market may not return to the same position it was in prior to the Iran nuclear deal. This time, Chinese car firms – many of whom already have a presence in Iran – are likely to try and capture a larger share of the market.

In May 2016, Brilliance Automotive signed a memorandum of strategic cooperation with Saipa to manufacture and sell 120,000 Brilliance cars in Iran between 2017 and 2019. It is one of at least 11 Chinese car marques with a presence in Iran. In 2016, the top four Chinese brands – Chery, JAC, Lifan and Brilliance – together sold more than 100,000 cars in the country for the first time. In total, Chinese firms had a combined market share of 15% in 2016, up from just 3% in 2011.

According to Duhamel, new domestic rivals may also emerge to take on the likes of Saipa and Iran Khodro. He says a number of large industrial groups are eyeing up the potential to establish car production plants. Some are likely to take a long-term view of the market, with the aim of offering themselves as attractive partners to western firms if and when they are able to re-enter the market – that will require US sanctions to be removed once more and thus is something that is unlikely to happen before Trump leaves office.

“What some Iranian companies will do is start to set up their own plants, with two or three models, so that when sanctions are lifted again they will be ready to attract investment,” says Duhamel.

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