

THE BATTLE FOR IRANIAN SKY – TURBULENCE AHEAD

News / Airlines



The United States and Europe are preparing to lift the trade sanctions that have hobbled the **Iranian** economy for more than 30 years. It is believed that this step would significantly affect the aviation industry in the country, prompting hundreds of aircraft renewals within the next decade alone. However, it is still unclear how Iran will form and manage its plans with regard to the industry. What kind of funds will be used, and, most importantly, what do the almighty Iranian Revolutionary Guard Corps think about the future of the Iranian aviation?

As a matter of fact, Iran needs new aircraft desperately. Just a while ago the Mahan Air Boeing 747 was heading to Bandar Abbas in Iran from Tehran's Mehrabad airport with 300 passengers onboard when one of its engines fell off and the airplane was forced to make an emergency landing. This event is a perfect illustration of the fact that most of the Iranian airplanes are in absolutely pitiful condition and, on average, they are 23 years' old. Of course, if an airplane is well maintained, its age does not play a significant role when it comes to safety. Unfortunately, this is

not the case for Iran, with its local market significantly deprived of quality maintenance services due to long-standing sanctions since the Islamic revolution.

However, if the United States lift its sanctions, Iran becomes capable of kick-starting its plan to acquire 80-90 airplanes from Boeing and Airbus each year, reaching a total of 400-500 civilian aircraft worth of \$20 billion within the next decade.

Unfortunately, for now these plans are pretty difficult to implement considering Iran's economic situation and political peculiarities.

Following two years of recession, the local economy recovered in 2014, since the new administration led by President Rouhani took office in July 2013. The Iranian authorities have adopted a comprehensive strategy encompassing market-based reforms which envisages an annual economic growth rate of 8%. The inflation rate declined from a year-on-year peak of 45.1% in 2012 to 15.6% in June 2015 in line with the lifting of sanctions.

Nevertheless, the Iranian state continues to play the key role in the economy by dominating the manufacturing and commercial sectors. Following the war with Iraq, IRGC expanded its presence into various industry sectors, enabling them to do business within economic manipulations. There are some banks that are linked to IRGC and it is believed that those banks together with other financial institutions continue to manipulate interest rates and maintain fake bank accounts. According to Central Bank of Iran, in 2010 IRGC had around 30-38 million accounts that were being used in shadow transactions.

"If you want to get things to and from Iran without paying excise duty, they are the people to go to", said an Iranian-Israeli analyst Meir Javedanfar, referring to IRGC. This proves that IRGC is capable of blocking FDI using bureaucratic barriers and direct political intervention.

"IRGC's intervention may comprise several steps: excluding bidders for security considerations from the very beginning, the obstruction of licensing process and barriers to receive security clearances in later stages. Moreover, IRGC may raise cases of suspicious investors in the Islamic Consultative Assembly," stated Tamer Badawi, an Egyptian analyst and writer specializing in the Iranian and Middle Eastern affairs as well as energy geopolitics.

According to Badawi, IRGC does not consider the development of the aviation industry as a security threat per se. Instead, it is threatened by the foreign companies' presence in such sectors as airport development. It mostly fears the possibility that foreign companies may not include IRGC into their business models. And, unfortunately, IRGC knows how to use its power- the fact perfectly illustrated by the events of 2000. At that time the Turkish – Austrian consortium TAV had to manage Iran's airport, but very soon after opening IRGC accused it of being linked to Israel. Guess what – the consortium was shut down fast.

Meanwhile, the political climate on the eve of the potential lift of sanctions remain rather unpredictable. On the one hand, the President Hassan Rouhani is willing to structural reforms in the Iranian economy as a sign to accommodate and accelerate the process. On the other hand, IRGC is obviously capable of protesting the developments and seems willing to resort to defensive actions. Clearly though, both Rouhani and IRGC will have to make a joint decision because either way the possible lift of sanctions will significantly affect Iran's future. According to Addison Schonland, a commercial aviation consultant at AirInsight, even with the existing political obstacles, Iran's airlines and government currently do not have the funds for aircraft purchases. Under such circumstances local airlines may consider the possibility to purchase cheaper second hand planes and later replace them with airplanes from major manufacturers.

"No external bank will lend to Iran at the moment. The removal of sanctions is the only way to ensure that Western banks even begin to consider the possibility of trading with Iran. And once the frozen funds are released, these can be used to fund aircraft orders," explained Addison Schonland. "Sheer financial costs will most likely be more than Iran can afford given the current oil prices. A more realistic number, in my view, would be around 20 aircraft per year".

Definitely, not only Boeing and Airbus will consider Iran as a target market for selling aircraft. Iran has been negotiating a 100 superjets deal with Russia, as well as offers from Bombardier (Canada) and Embraer (Brazil). However, if the embargo is lifted, Western manufacturers will find it difficult to do business in Iran, because for a long time they've had little or no contact at all. In this case, Russia is in a better position, because over the years Russian manufacturers have built strong ties with local operators.

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"Iran has also stated that it would be most interested in importing technology, and whoever would cooperate with Iran in the possible assembly of planes or parts manufacturing in the country, or even an overhaul and maintenance (MRO) centre in Iran, would be most likely to receive the bulk of orders," noted Hadi Raghfar, a specialist working at the Iran's consulting agency.

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The lure of new opportunities posed by this untapped market will attract new international carriers and boost the regional development in terms of new routes as well as improvement of airports infrastructure. Although now the possibility of lifting sanctions is a clear indication of progress, Iran has yet to handle their financial situation and the IRGC's position. If the country succeeds in coping with both challenges, the sky over the Iran will be gradually filled with foreign aircraft and airlines, increasing the competition with local air carriers which are now struggling with funds for fleet renewal.

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