Although the Iranian constitution continues to prohibit 100% foreign ownership of assets in Iran, there have recently been significant policy changes designed to modernize the economy and prepare for possible negotiations aimed at accession to the World Trade Organization. These changes include the introduction of a Foreign Investment Protection and Promotion Act, which covers investments under models such as buy-back and build-operate-transfer (BOT) that were not addressed in previous foreign investment legislation. The wide-ranging corporate tax rate has been cut to a flat 25%, and companies may now have their books examined by independent, rather than government, auditors (although, the implementation mechanism remains outdated). Foreign business visitors can now receive 72-hour visas at the airport upon arrival in Iran. The multiple exchange rate system has been abolished leaving one standard rate that is both close to the black market rate and stable.

Iran's economy is heavily dependant on oil revenues, and about 80% of its hard currency earnings are generated through oil exports. However, a closer look at the sectoral distribution of GDP indicates that Iran's is a relatively diversified economy, where the services sector plays a major role.

In 2003, Canadian exports to Iran amounted to $232 million, up 38% from 2002, while Iran's exports to Canada amounted to $63 million, up 15% from a year earlier. Iran ranks 46th as an export market for Canadian goods and 75th as a source of imports into Canada.

In past years, Iran was one of the world's largest importers of wheat, with an annual consumption of 11 to 12 million tonnes and imports of 5 to 6 million tonnes in some years, particularly during the three-year drought from 1998 to 2001. During that period, Iran was the largest purchaser of Canadian wheat, importing a record 3.5 million tonnes in the 1999–2000 crop year. However, in 2002 Iran produced a record domestic wheat crop of nearly 10 million tonnes (an 80% increase), and in 2003 domestic wheat production increased by another 10% to 15%. This turn of events, combined with a two-year drought in the Canadian prairies, resulted in a sharp drop in Canadian wheat exports to Iran, which amounted to only 142,000 tonnes in 2002.

Market Access Results in 2003

- Iran's tariff on canola crude oil was reduced from 60% in 2001 to 5% in 2003 to achieve parity with popular imported oils such as soy and sunflower.
- Iranian importers no longer require an import permit for most products, because the list of prohibited items has been drastically reduced; the list now includes only a few items such as pork, satellite receivers and alcohol.
- Canada's Export Development Corporation (EDC) successfully negotiated for the first time a sovereign guarantee with the Iranian government that allows EDC to offer medium-term project financing.
- The Central Bank of Iran is no longer the only financial institution in Iran that can provide Letter of Credit (L/C) facilities to importers. Major Iranian banks are now permitted to offer L/C facilities and to require an advance payment of only 10% to 20% of the full amount of an L/C.
- The import of processed food products into Iran was prohibited for a number of years. However, during 2003 the regulations were changed, and processed food items, except for pork and alcohol beverages, may now be imported into the country.

Canada's Market Access Priorities for 2004

- Seek revision of the existing sanitary and phytosanitary protocol between Canada and Iran, which stipulates a number of terms and conditions on the import of cattle.
- Pursue a general protocol between the Iranian Health Ministry and the Canadian Food Inspection Agency to cover all Canadian food manufacturing and/or products.
- Continue negotiation of a mutually agreeable certificate for the export of live cattle and beef to Iran.

IMPROVING ACCESS FOR TRADE IN GOODS

Livestock

The Iranian Jihad-Agriculture Ministry agreed to remove the prohibition on the import of live cattle, which had been in place for the preceding 12 years.