



Iran Mineral Prospects



SACE, COFACE, HERMES, Japanese, Koreans All Eager to Cooperate with Iran

"There was a time when we intended to hold talks with different countries in the field of mining; of course if they agreed to hold discussions, they would not agree to visit our country and would choose a third country; but now the situation has changed and the least advantage for us is that reputable countries and mining companies in the form of negotiating teams and for different investments are visiting Iran." Although the Joint Comprehensive Plan of Action (JCPOA) was a starting point for talks at the negotiation table of foreign investors and mining activists of Iran, according to the deputy industry, mine and trade minister in order to accomplish utmost boom in this field and achieve practical results more time is needed.

Mineral industries in Iran over the past few years have been coping with numerous minor and major issues which have overshadowed activities in the filed ranging from prevention of crude selling by enforcing export duties to exposure to the hard condition of the sanctions. Afterwards we entered into a new era called post-sanctions era that in the minds of the public could have been an era full of ease and relief in this field.

Our pretext to interview Dr. Mehdi Karbasian, Deputy Industry Minister for Mining Affairs and Chairman of the Iranian Mines and Mining Industries Development and Renovation Organization (IMIDRO) was to exchange views on the mining sector in such areas as review of the country's mineral prospects with regard to global developments in the field of economy, the JCPOA, and new policies in the field of mining and its place in 1396 (2017/2018) budget and the Sixth Development Plan. But, the mining sector under the present juncture has been so news making and exciting that we preferred to focus on the news aspect of the story.

The following interview is a summary of Dr. Karbasian's opinion on the status of mining one year since JCPOA and while we have left behind the difficult days of the sanctions and this sector is taking a smooth course of development and growth.



Currently, the minimum advantage for us is that the world countries and credible mineral and industrial companies are in contact with us and their negotiating teams are visiting our country.

In the opinion of experts, one of the economic sectors that can play a significant role in the acceleration of economic growth in an economy without sanctions is the mining sector. Have we been able to take advantage of this opportunity in the post-JCPOA era and attract foreign investment?

For the analysis of post-sanctions we have to look at the sanctions era and see the condition of Iran's economy at that juncture. There was a time when in the field of mining reputable international companies from Australia, Canada and Europe would either not come to Iran or if they did it would not be for holding talks and signing contracts with regard to investment, contracting or financing. Even sometimes, if we intended to hold talks with some of these companies, they would not agree to hold the talks in Iran and we were forced to negotiate in a third country.

Currently, the minimum advantage for us is that the world countries and credible mineral and industrial companies are in contact with us and their negotiating teams are visiting our country. They have announced readiness for cooperation in the area of investment and even contracting and consultation. For example, most recently on behalf of the first vice-president, we signed two contracts for the concentrated and slagging project of "Kahnooj titanium" with a high mineral reserve of above 400 million tons with a reputable "Iranian-Australian" company and an "Iranian-Czech" company and currently their construction operation has started. On the other hand, in the field of consulting and use of modern technology at present reputable British, Australian, German and Italian consultants have joined Iran and are cooperating in the area of iron ore, aluminum, titanium and zinc.

The second point is the question of investment, meaning bringing in money. Prior to the JCPOA none of the world countries, especially the Europeans, Australians and the Asians (Korea and Japan) would cooperate with Iran; because the export guarantee funds of those countries were Iran's creditors and somehow Iran had failed to fulfill its commitment to them in connection with the settlement of accounts; on the other hand this had caused those guarantee funds not to allow their companies to cooperate with Iran in the field of economy.

But during President Rouhani's visits to Europe, Italy's export credit agency (SACE) and France's export credit agency (COFACE) announced that they would support foreign investment in Iran. Other countries following suit were Germany (Hermes insurance firm), Korea Trade Insurance Corporation (during Korean president's Iran visit), and Japan credit insurance agencies (pledging financing Iranian projects during Iranian economy minister's visit to Tokyo). Other countries in their subsequent visits all announced readiness to support investments in Iranian projects.

Obviously, in relation to finance there is a problem. International bankers and major banks have said that a paragraph should be added to the contract with guarantee funds between the Central Bank and those banks. The Iranian government has not accepted the proposal and this has slowed down the progress. Fortunately, we have been recently informed that mechanisms are being devised by the European Union; in a recent meeting between Mr. Abbas Araqchi (deputy foreign minister) and Ms. Federica Mogherini (high EU representative for foreign affairs) the issue has been discussed and we hope that with the consultations done the trend of the settlement of the issue will be accelerated.

Has there been any new investment in this area?

Among our new investment projects is Makran region which was launched during the President's visit to Sistan and Baluchestan Province. This two-phase project will be implemented in Chabahar with a capacity of three million tons. In a trip to Japan together with Mr. Zarif (Iran Foreign Minister) during which we met and conferred with the Japanese minister of industry and trade, it was decided that a credit line of \$100 million will be provided by the "Kobe Steel" Company, the final stage of which is being followed up by the Ministry of Economy. In addition, signing of a deal for "Ardakan Graphite Electrode" was finalized which had remained unfinished for years. In this regard, a contract was signed with the Germans and the Italians for the supply of equipment for this project which will be in the form of a loan of 50 million euro to be repaid in two to three years, which was finalized and signed.



At present one of the most important issues which is considered one of the main challenges of the mines, especially iron ore, is the export duties which has caused concern and raised questions among the producers. How would you analyze the duties that are imposed on iron ore by the government? Is there a sample pattern or successful activities in the development of mines in the world which we could follow up?

The issue should be observed more broadly. One point is that the country should prevent crude selling; that is to say if in the country we can have a production based on God-given raw materials, it is better to take the same course. The reason is that first we would receive a higher value added and will provide job opportunities and this will be effective in the country's development. The rationality and national interests of the country necessitates that as far as possible we should not sell the raw materials. This also applies to the iron ore, chromite ore, raw materials and oil. Therefore, this idea that we could use the iron ore within the country as much as possible is for protecting the national interests. The second point is that if all the countries intend to use iron ore or gas or specific raw materials only in their own countries and gain access to the downstream and upstream cycle, this would disturb global calculations. We should accept that sometimes it would be wise to transfer the raw materials from the country of the origin to another country and gain the value added there because the consumer market is there.

The Americans for years have transferred their raw materials from Australia to China and there they are cooperating with the Chinese factories because consumption of steel in Australia is not such that finally they decide to keep their iron ore in their own country. Therefore, the US is looking for exporting its iron ore and maximum of its concentrates. For this reason we cannot say that these decisions are correct from zero to hundred; while we should accept that in our country the iron ore is not all together "magnetite"; some are "hematite" or some with lower alloy. This interpretation that raw selling means getting zero is not correct, because world equations would be disturbed, but where we can generate higher value added for employment it is a wise remark.

On the other hand, exports should not be blurred with emotional and hasty decisions. At times when for the reason that in the development plan law, the government is prohibited from banning exports, only through enforcement of export duties raw selling could be confronted. This is not true that the world is waiting for our exports. Therefore, sudden decisions to remove exports would result in losing the market. In connection with export duties and subjects of this nature, it seems that the issue is being discussed in the Economy Council which is the decision-making authority. The head of the Chamber of Commerce, Industries and Mines is present in these meetings and usually his views attract the attention of the first vice-president. For the reason that the government gives priority to the policy of supporting the private sector, in those sessions certainly, views of the iron ore producers and exporters will be heard.

I personally believe that paying attention to the housing sector and reform of some decisions in the banking system are among issues that can accelerate the boom.



In the previous government, the seven-fold provincial plans were launched with no results. In your time, such plans were seriously followed up and all of them produced

results or are on the verge of opening. But there are few problems in this regard. With this explanation and in conditions under which the world steel market is facing price fluctuations, dumping, output increase in the regional countries, etc., can the projects underway present their products in the present market at competitive prices?

I consider the seven-fold steel plans a tragedy. In the last meeting of the Economy Council where I was received by the first vice-president, in relation to Sabzevar and Bafq steel it was decided to make some reforms. Mr. Jahangiri (the VP) recalled a memory of the year 1383 (2004/2005). In those years, he was the minister of industry, mine and trade. In the year 1383 it was decided to add 4 million tons to the country's steel capacity. This decision was waiting for finalization in the next year, 1384 (2005/2006), when in the Economy Council the then authorities decided to add the 4 million tons altogether. This decision would be good when it is implemented in 8 different positions. Later it was surveyed that the eight 500 thousand ton projects are non-specialized and eight 800 thousand ton plans were defined instead. Therefore, the basis for the decision-makings was unspecialized and unscientific.

But, the second event which happened in those years was that a three-member committee with the centrality of the Plan (and Budget) Organization was formed the other sides of which were the Ministry of Interior and the Ministry of Industry. They were making decisions on where to apply these 8 plans. On this basis, some of the plans are close to the iron ore mines while some others have nothing to do with the mines. These decisions were baseless. Later, when I came to IMIDRO, I did not see reasonable and expert bases in the organization and even in the Economy Council either. To this end, when those decisions were made, at the same session the energy, the road and the oil ministers were committed to provide the foundations for those areas not undergone specialized studies.

Those plans were launched in locations with multiple difficulties such as lack of gas infrastructure, problems of water, transportation and energy. In some of those plans it has been committed to transfer iron ore, iron concentrate or pellet from one point to another point one thousand km far from the original place. As a result, this was a decision which had been made and in terms of social outcome it could not be stopped. The efforts which were made to remove the difficulties, resulted in activation of the projects and so far a couple of measures have been taken in this regard.

For example, now the "Sepid Dasht sponge iron" is under production. Also in the near future "Chadegan" will be inaugurated and "Miyaneh" and "Neyriz" will be opened afterwards. Qaenat, Baft and Sabzevar will be opened in the middle of the next year, 1396 (207/2018). In the field of steel making, 5 projects out of the remaining were launched with some delay for which there were two reasons: the prices the Chinese partner offered with understanding in some cases, took perhaps more than a year and a half to reform the prices with the Chinese through bargaining.

Meanwhile, we could promote the main steel equipment including the furnace, the software and hardware devices or some of the important equipment of the plan from the "Chinese-Chinese" condition, to "Chinese-European" or European condition. These issues took much time and at present 5 plans out of the remaining have been activated and during the past two months we received close to 50 million euros through these plans for the purchase of equipment from China. Our prediction and plan is that maximum within the next two years 4 plans out of the remaining will become operational.



I think the Majlis and the government should allocate some time for the review of the past transfer in order to evaluate the successes and reform the path for future.

Can the projects under implementation be supplied to the present market at competitive prices under the conditions described?

In the past year about 4 million tons of steel was exported and it is predicted that this year a record of more than 5 million tons could be achieved. The issue is practical under conditions that China's dumping and global market recessions still exist and despite all these issues we have continued our activities and will do so in future. This has two reasons: in relation to steel Iran has three main advantages. While many countries do not possess iron ore, Iran has iron ore.

On the other hand, Iran has inexpensive gas which reduces the finished price of steel and in the field of steel talented experts have been trained in recent years. Therefore, if we pay increased attention to the infrastructures, especially in the field of transportation, it is predicted that we would be able to compete at regional level. In the meantime, we should admit that Iran has a population of 80 million and if it comes out of recession and moves towards prosperity, people can move towards reconstruction and renovation of the country. In the housing sector, steel consumption can increase from the present 210 kilos to at least 350 kilos and to this end domestic consumption will improve as well.

In your opinion, if we reach the capacity of 55 million tons, to what extent we will have the iron ore problem and what is IMIDRO's plan to handle the issue? At present the iron ore production capacity is about 50 to 60 million tons but for the production of 55 million tons steel we need 160 million tons of iron ore.

This question is very specialized and correct and should be seen whether we have thought about it or not. In this regard, IMIDRO has started 250 thousand km of expanded exploratory work and good news is expected in this connection. So far and during the past eight months we have definitely gained access to 400 million tons of new reserves in iron ore. During the past two years close to 200 million tons in Sangam has been added to our definite reserves and we have launched a widespread exploratory work in Bahrame Goor region in Fars Province.

Also, in an extensive work in Gol Gohar, phases 7 and 9 have been started and phases 5 and 6 have been delegated and are near operation. The process is the same in the area of the central plateau. Our forecast is that due to the richness of the country in the field of iron ore reserves exploratory operations should be accelerated. We hope some budgetary assistance to be given to IMIDRO, so that we could take greater strides in the field of mine development. Our proposal to the Majlis was increase in the budget and we hoped that the Parliament would approve it in the Sixth Plan but it did not. We still hope that it will approve it in the next year budget.

In recent years, we have been witness to half-finished projects that were not finalized, for example, in the previous government many development projects were launched during provincial trips and at present the government is faced with three thousand semi-finished projects. How many of these projects are related to IMIDRO?



We received IMIDRO in the calendar month of Shahrivar (August/September) in the year 1392 (2013) when we had about 73 semi-finished or not started projects. We are proud that today the fate of all the projects has been determined. Some are gradually appearing on the agenda and are on the eve of opening and some of the not started projects such as Kahnooj Titanium, Gol Gohar 5 and 6 and Khomroud coal project have finally begun. On the other hand, some of the projects were stopped, stagnant, or slow such as nine concentrate or pelletizing projects of Sangan plan which are currently active. By the end of this year, the first of the mentioned projects will become operational and other projects will be accomplished by the second half of the next calendar year.

Therefore, at this moment that I am talking to you, some of the projects such as Zarshouran, Venezuela cement and other projects have been inaugurated in IMIDRO. IMIDRO has had many financial problems and still has; about 21 thousand billion tomans of its assets were transferred in the name of privatization. Unfortunately, due to the bad condition of the treasury and the properties that have been sold within the past three years and their installments have been received from the Privatization Organization, the government should return 70% of the figure to us but so far has paid nothing.

This year an amount of 500 billion tomans in the budget should have been allocated to IMIDRO in order to finalize the semi-finished projects and launch new projects; but no money has been paid in this regard. Although both the treasury and the Plan Organization are interested in paying the amount; they are short of money. As a result, we have not been able to have specific revenues from these amounts. However, finally with the help of the colleagues and to some extent with the liquidity of the organization, the projects became operational. The very great task

that was accomplished in IMIDRO and it was highly in line with the policy of privatization was that we made efforts to define participation or partners for the projects. This way from the 24 thousand billion toman semi-finished projects or not started plans at the beginning of the 11th government we could activate all the projects so far.

Government mechanism for the operation of semi-finished projects is to delegate the projects to the private sector. To what extent this mechanism has become operational and has been successful with regard to development projects relating to the mining sector?

If we intend to call it success, I personally believe that regarding the privatization method despite the fact that the board in charge of entrusting privatization holds large authority under the law and can delegate a unit to a group of managers so that they could entrust at a proper price later, however the maximum job the Privatization Organization has accomplished in the present government is that it defines the price at expert level and publishes advertisements and some of these projects become successful and some others fail. In the field of entrusting mining industries in the private sector I believe that new methods should be predicted for ceding. I think the Majlis and the government should allocate some time for the review of the past transfer in order to evaluate the successes and reform the path for future. It should be noted that the topic of delegating projects of IMIDRO is different from the topic of development. Development projects are infrastructural projects some of which has no return of investment; because they are among duties of the government.

In economic theories if in two consecutive seasons we have positive growth, it means that we have come out of recession. This is in a condition when we are still involved in sectorial recession to the extent that we are witnessing the negative growth in the mining sector as well as inflation. What are the mechanisms for mines to come out of recession?

You must accept that the world is now in recession in the mining sector. You know that at global level prices have had serious drops in commodities such as aluminum, copper, steel, and zinc and this issue is effective both on Iran's growth and the finished prices. There is the topic of recession in the country. It is true that we are moving toward a boom; but we need fundamental decisions and should activate some sectors. I personally believe that paying attention to the housing sector and reform of some decisions in the banking system are among issues that can accelerate the boom. The government has already started to provide loans and assistance that will cause some effect in the trend of prosperity; but if we want to create a sudden transformation, we should accept that there is the need to make bolder decisions.

The 16 thousand billion tomans the government has allocated to the economic boom in the industry and mining sector has not been able to create a turn in the mining sector, what is the reason for lack of cooperation between the banks and the mining sector? Why there is no obligation for the presence of the mining sector in the Plan? Or, in other words, either there is no mandate or perhaps the government has no plan for the development of mining sector.

The government approved that a sum of 16 thousand billion tomans be considered for the transformation of the industry and mining sector. To this end, committees were defined in provinces chaired by governors general to consider 3 thousand billion tomans each month for the development of this sector. Unfortunately, at the beginning of the work, the mining sector was not on this list and was added later and to some extent the mining activists seemed to

become not activated; but mobilities are emerging in this regard. Nevertheless, the mining sector will not be modified with such figures. To correct it, its final part should be reformed, i.e. consumption of steel, aluminum, copper, etc. should be increased in the country and in continuation you will see that wheels of this industry start running. When a house goes under construction, from profile doors and windows and from aluminum doors and from copper pipes will be used in the building, the steels in the construction will be in the form of iron bar and fittings, cement and stones are products that are used in a building. On the other hand, with the construction of a building TV, refrigerator, washing machine and gas cooker down to pots and plates will be considered for use and as a result, you can say that with the housing mobility boom will come to move.

The government for its last year had the budget bill and the Sixth Plan together. How much the government plans had developmental application for the mining sector?

Some good decisions were taken. We as a development organization are allowed to have partnership up to 49% with domestic and foreign private sectors for the development of mines and mining industry; but in this regard we could not get loans from the National Development Fund which had been approved. For development in the field of mine and mineral industries and strengthening of Resistance Economy a loan of at least \$3 billion should be given to IMIDRO for the next five years so that we can attract 3 to 4 times more foreign investment in order to promote the sector.

Source: Iran International Magazine, No.83