

## Overview of the Budget Law for Fiscal 1385 (2006-2007)

The budget law which was ratified and published on March 18, 2006, allocates a budget of 1,915,105,000,000,000 rls (approximately \$212.78 billion) to fiscal 1385 and stipulates the following revenues and expenditures:

### 1. Participation Bonds

The government shall be authorized to issue, up to a sum of 8,400,000,000,000 rls. of participation bonds, in 1385, to expedite execution of projects related to appropriation of profit making capital assets.

### 2. Foreign Exchange and Monetary Affairs

In order to regulate Iran's foreign exchange obligations and balancing the payment of foreign debts, the new budget plan only authorizes creation of foreign exchange obligations by the Central Bank of Iran ("CBI") and the government shall be with

respect to provisions of Article 13 of the Fourth Five Year Plan<sup>1</sup> ("Four Plan") and other related Iranian laws and regulations are observed.

With due regard to the necessity of allocating credit facilities to water supply and transfer projects and for the purpose of expediting implementation of projects demanded by provincial and regional water authorities, Ministry of Energy is permitted to make use of financing facilities up to a ceiling of 800 million dollars, during the course of 1385.

Furthermore it is indicated in the Budget law that, the unutilized balance of the facilities allocated through budgets laws 1379 through 1384 (2000 through 2005) for investments in buy-back and finance projects shall remain valid and in full force. However, in order to regulate foreign payments balance sheet of the country, the administrative bodies having buy-back projects

shall be under the obligation to fully cooperate with the CBI in respect of their foreign currency obligations and preparing related payment schedules.

These administrative bodies must inform the CBI, Management and Planning Organization ("MPO") and Ministry of Finance of the financial status of these projects semi-annually and must submit a copy of their balance sheets to the said organizations at least every six months.

The above-mentioned investments shall be made primarily through buy-back arrangements, and then through financing schemes within the framework of the Law on the Use of Foreign Financing Resources approved on Nov. 12, 2005 by the Expediency Council. The investments made based on financing scheme, can be changed to buy-back.

In implementation of Article 13

of the Fourth Plan and with due observance of the said Article, and within limitations of financial facilities set forth in table 7 of the Fourth Plan, the government in 1385 is allowed to procure and guarantee repayment of the funds obtained from foreign capital markets for the purpose of investment, by virtue of entering into project financing agreements and/or joint venture agreements.

Foreign facilities allocated to foreign direct investment, buy-back, Build-Operation-Transfer ("BOT") and civil participation schemes, as in the Fourth Plan, shall not benefit from government guarantees.

- **Allocation of Funds of the Foreign Exchange Reserve Account**

The government is authorized to allocation \$8 billion of the funds available in the Foreign Exchange Reserve Account (provided that this amount is not more than 50% of the total available funds) to investment and provision of parts of the credits required for the private sector's projects which have appropriate technical and economical feasibility have been approved by the relevant

ministry. Allocation of this sum shall be in form of guaranteed facilities provided by internal banking system and Iranian banks abroad.

Furthermore, the government is allowed to use \$500 million from the Foreign Exchange Reserve Account for refurbishment of transportation vessels. Of this amount \$250 million is stipulated for refurbishment of governmental aircrafts and an equal amount in form of facilities (loans) is given to the government for the purpose of refurbishment of railroads and railroad vessels.

For the purpose of funding major industrial and mines projects as well as development of national converting industries, the Government is also authorized to allocate facilities of up to a maximum amount of three billion dollars (\$3,000,000,000) to domestic companies, exporters, foreign purchasers of export goods and services of Iran. Such facilities could also be utilized for the purpose of supplying financial resources for contracting companies participating in international tenders and foreign investment conducted by Iranian companies, through making deposits in the Industry and Mines Bank and the Export Development Bank.

All applicants for the use of the above facilities whether private or governmental, shall be bound to comply with the local content laws and regulations.

Finally, the government is permitted to withdraw, up to 20,000,000 dollars from the foreign exchange reserve account in order to increase the capital of the Export Guarantee Fund.

- **Development of Non-Oil Industries**

The Government, within the framework of the objectives of the 4th Development Plan Act and for the purpose of promotion of non-oil exports, and in order to provide employment for villagers, especially for farmers and to avoid their migration, shall be under the obligation to provide the facilities for investments to be made in food industries manufacturing by entrepreneurs.

The executive by-laws of this Sub-clause shall be proposed jointly by the Ministry of Agriculture Jihad, the Ministry of Industries and Mines, the MPO and CBIRI and by participation of the private sector and shall be approved by the Council of Ministers.

Also, in order to provide financial resources for investments in job-

creating fields and development of economic activities of the private sector, the government companies shall be allowed to put up to 90% of their net profit (after payment of taxes and government's share), at the disposal of the private sector, after approval by the Economy Council, in the form of administered funds.

- **Oil and Gas Projects**

In addition to oil and gas projects mentioned under the Foreign Exchange Reserve Account heading, the Ministry of Petroleum, through foreign financing or buy-back schemes and through its subsidiaries, is authorized to allocate 580,000,000 dollars for purchasing of pipes and equipment for transferring of gas to the eastern parts of the country and particularly the province of Sistan and Baluchistan.

Such investments shall be made primarily through buy-back schemes and if not possible, through financing within the scope of the Law on the Use of Foreign Financing Resources approved on Nov. 19, 2005 by the Expediency Council.

Further, the Ministry of Petroleum, through its affiliate companies, shall be permitted to swap crude oil, in 1385, with petrol required by the country, up to a maximum amount of two billion and five hundred million (2,500,000,000) dollars.

In addition, the ministry is obligated to carry out the following acts utilizing the services of its subsidiaries and affiliate companies:

- To reduce production of furnace oil by twenty million litres.

- To increase production of petrol with octane ratings of 90, 92 and 95 by twenty three million and five hundred thousand (23,500,000) litres.

- To increase production of gas-oil by four million (4,000,000) litres.

- To increase production of liquid petroleum gases (LPG) by three million, five hundred thousand (3,500,000) litres.

Up to the sum of two billion, eight hundred and fifty million (2,850,000,000) dollars of credit required for implementation of these projects, during the years of execution, shall be supplied through financing or in the form of buy-back schemes. Consideration shall be made that

these investments shall be made first and to the extent possible, under buy-back schemes and then through financing arrangements within the scope of the Law on the Use of Foreign Financing Resources.

The budget law also requires revised versions of the bylaws (articles of associations) of National Iranian Oil Company, National Iranian Gas Company and National Petrochemical Company to be submitted to the Parliament for review and approval before June 21, 2006.

- **Projects For Appropriation of Capital Assets**

In order to improve the conditions and make a better use of the credits for appropriation of national capital assets and to regulate the process of allocation of funds, the executive organizations carrying out those new projects of appropriation of capital assets which the total credit allocated thereto for the whole period of execution is over three hundred billion (300,000,000,000) rials, shall during the course of March 21, 2006 to March 20, 2007, hold general tenders and execute contracts of design, procurement and build with fixed prices. All

payments for such contracts shall be made through letters of credit to be opened with domestic banks.

The executive organizations in charge of other projects of appropriation of capital assets, in case of failure to make timely payments against the progress statements, shall be penalized by collection of delay penalty.

The executive regulation of this Note including provisions on the manner of proper supervision and opening L/C's commensurate with the progress of the works of plans and projects and payment of delay penalty as well as the other executive criteria concerned shall be proposed jointly by the MPO and the Ministry of Economy and Finance to the Council of Ministers, for approval.

- **Industries and Mines**

In order to protect risky investments in modern industries, it shall be authorized to render a maximum of 50% of the facilities granted as technical and credit aid to the private and cooperative sectors, including the principal, interest and commission charges of the said facilities, processing charges in accordance with a Regulation

to be approved by the Council of Ministers the draft of which will be made and proposed jointly by the MPO, the Ministry of Industries and Mines and the Technical Cooperation Bureau of the Presidency. The Council of Ministers is authorized to allocate a portion of these facilities to the Fund for Protection of Electronic Industries.

- **Tobacco**

The Law on Prohibition of Imports of Unnecessary Goods – which among other items prohibits imports of cigarettes -- is not applicable this year to importation of cigarettes. The deficit of demanded cigarettes must be compensated through importation of tobacco.

Further the government is authorized to increase the price of Iranian cigarettes by 10% and imported cigarettes by 20%. The income generated from such increase shall be allocated to the Ministry of Health for matters related anti-smoking campaign, research and development on health effects of smoking, lung cancer and other lung deceases caused by smoking and development of sports centers.

- **Export - Import and Trade**

Fees received by the Consumer

and Producer Protection Organization as anti-dumping duties shall be deposited to a designated government account.

The budget indicates that in order to protect domestic production and prevent smuggling of goods into the country, the government shall endeavor to prevent creation of privileges for a certain group and generate revenue for the government through elimination of tax exemptions and cut offs. The Economic Council of the Parliament and other authorities can no longer discount or cut off commercial interest taxes on a case by case basis and to the benefit of natural or legal entities whether governmental or private. Similarly they no longer are authorized to establish tariffs that would create privileges to these entities. Special privileges derived from bilateral trade treaties with other countries are not subject to this provision.

- **Telecommunication and Information Technology**

Pursuant to the approval of the Council of Ministers, the Ministry of Telecommunication is allowed to receive license fees and service charges for issuance of telecommunication and data processing networks and charge non-performance penalties, and

deposit the received amounts to the public revenue accounts.

In order to promote the telecommunication and data communication industry and to improve industries related to production of software and IT goods and services, companies related to the Ministry of Telecommunication are allowed to give loan credits of up to 400 billion rls (upon approval of their general assembly) to the private and cooperative sector for their development projects, job-creating activities and other activities related to exportation of products and services. Provision of such credits shall be pursuant to the proposal of the Ministry of Telecommunication and the MPO and approval of the Council of Ministers.

- **Public Transportation and Environmental Protection**

For the purposes of urban development and environmental protection, in light of the Fourth Development Plan, the government is authorized to allocate maximum of 4 billion (4,000,000,000) dollars in form of foreign financing and an amount of 1.05 billion (1,052,600,000) dollars from the Foreign Exchange Reserve Fund for development of public transportation and discarding depleted vehicles.

- **Food, Hygienic and Cosmetic Products**

Based on the new budget law, the Ministry of Health shall receive an amount of 54 million (54,000,000) Rials as registration fee from foreign companies or their local representatives requesting establishment of units for manufacturing of food, hygienic, cosmetic and medical products. Similarly, a fee of nine (9) million Rials must be obtained for every food, hygienic, cosmetic and medical products imported into the country by foreign companies or their representatives.

## The New Law on the Stock Exchange Market

On November 23, 2005, the Guardian Council ratified the new bill on the stock exchange market into law. As of the date of enforcement of the new law (March 23, 2006), the Law on Establishment of Stock Exchange Market dated May 17, 1966 has become void.

According to the new law, the highest authority of the Stock Exchange Market is the a committee (the "Committee") comprised of Minister of Finance and Economic Affairs; Minister of Commerce; Head of the Central Bank of Iran; heads of Iranian Chamber of Commerce and

Chamber of Cooperation; head of the Stock Exchange Organization; Attorney General (or his representative); representatives of brokers, fund managers, consultants and investors' organizations; three financial experts from the private sector introduced by the Minister of Finance and Economic Affairs and approval of the council of ministers; and one financial expert from the public sector introduced by the head of the relative ministry and approved by the counsel of ministers for every sector of products exchanged in the market.

Among other duties and responsibilities, the Committee has authority to issue permission to Iranian companies for trade their stocks in stock exchange markets outside of Iran, foreign companies to offer their stock in Iranian Stock Exchange Market and to grant authorization for transactions of foreign persons in the Iranian Stock Exchange Market.

In addition to the Committee, the Stock Exchange Organization will also have a Board of Directors (the "Board") comprised of five members elected from reputable financial experts introduced by the head of the Committee and approved by the Committee. The Board will be responsible for monitoring all foreign investment activities in the Stock Exchange

Market.

The following is synapses of the prominent provisions of the bill:

- The concepts of On-line Stock Exchange Market, Derivative Transaction, Investment Banking, Holding Company and Fund Management, among other things, are all defined and regulated by the new bill.
- Establishment of all financial institutes active in the stock market, including but not limited to brokerage firms, fund management companies, investment banking firms, financial consultants, is subject to registration with the Stock Exchange Organization ("Organization"). All activities of the mentioned firms shall be under the supervision of this Organization.
- As of enforcement of the new law, for registration of public joint stock companies and for increasing the share capital of the same, the approval of the Organization is required.
- All duties and responsibilities of the Central Bank of Iran regarding issuing and distribution of securities will be delegated to the Organization.
- The Organization shall

deliver or cause to deliver to the public all information received with regard to securities within 15 days.

- All disputes between investors, brokers, investment companies, etc. shall be resolved through arbitration.
- Arbitration committee shall be comprised of three members: a judge appointed by the head of the judiciary, and two experts in the field of economy appointed by the Organization.
- Insider trade and distribution of inside information are considered as crime and shall be processed based on the provisions of this law.
- No natural or legal person is allowed to directly or indirectly own more than 2.5% of the stock exchange market share.
- No natural or legal person is allowed to directly or indirectly own more than 5% of shares of the Central Depositing Company. Central Depositing Company is defined as the company responsible for registering, holding, transferring and depositing funds for the stock exchange.

## The Law on Formation and Administration of Special Economic Zones

The law on set up and running the affairs of special economic zones was approved on November 26, 2005. Based on this law, the government is permitted to set up special economic zones in the areas having potentials and prospective to develop and support economical activities such as establishing international trade relations, mobilizing regional economics, producing and processing of goods, disseminating and transferring technology, non-oil exporting, productive job creating, attracting local and international investment, re-exporting, and transiting and trans-shipping. Creation of special economic zones shall be pursuant to the approval of the Parliament.

A summary of the prominent provisions of the Law on Formation of Administration and Special Economic Zones is as the following:

- Natural persons and legal entities engaged in production of goods and rendering services, are exempt from payment of any

and all duties payable in the country for their activities in SEZ.

- Each SEZ will be managed by an organization appointed by the Council of Ministers and established specifically for the purpose of managing the SEZ. The organization in charge of every SEZ shall subsequently issue permits for carrying out economic, development, construction, cultural, educational and services in accordance with government policies and regulations.
- Trade exchanges between SEZ and other countries or with other SEZs or Free Trade Zones (FTZ) will be tax and duty free but must be subsequent to registration with the Customs Office. Such trade exchanges shall also not be subject to any limitation or restrictions imposed by the export – import regulations, except for legal and Sharia restrictions. Trade between SEZs and mainland Iran is subject to export-import regulation.
- All good imported into SEZs for the purpose of consumption or for production purposes shall be treated as domestic goods. However, exportation of the same to

other countries shall be subject to the Export-Import Law.

- Raw materials and parts made outside of Iran which are conveyed to mainland Iran for the purpose of processing, conversion, completion or refurbishment are subject to temporary importation regulations and upon completion of the job shall be dispatched to the SEZ without any requirement for submission of customs declaration and observance of minimum customs formalities.
- Pursuant to request of applicants, and upon approval of the Iranian Customs Office, management of SEZs are permitted to issue certificates of origin for the good being exported from the Zone. Banks throughout the country must be bound to accept the certificates issued pursuant to this regulation.
- Goods manufactured or processed in the SEZs and imported into the mainland country are tax and duty free in respect of the aggregated added value and value of the domestic raw material and parts used in manufacturing or processing of the goods. Similarly, importation of foreign-made raw materials and parts used in goods

manufactured or processed in the SEZs is permitted and shall be treated as domestic materials, provided that due importation duties are paid at the time of their importation into the SEZ.

- Foreign investment in SEZ is subject to rules and regulations of the Foreign Investment Protection and Promotion Act (FIPPA).
- The Office of Registration is responsible for registration of companies and branch offices that having interest in operating in the SEZs, regardless of the percentage of their foreign shareholding and participation. Also, the responsibility of registration of properties, whether real, personal or intellectual is with the same office.
- Segregation of lands and properties located in the SEZs and issuance of title deeds, are also within the authority of the Office of Registration, but subject to supervision of SEZ organizations.
- SEZ shall not fall within the jurisdiction of the Iranian Customs Organization. As such, for the purpose of controlling

the export/import flow and enforcing related regulations, custom checkpoints must be set up at the entry/exit point of SEZs.

### Iran's Adhesion to WHO Framework Convention on Tobacco Control

Pursuant to Parliament and Guardian Council's ratification of the Law on Adhesion to the WHO Framework Convention on Tobacco Control (FCTC) on November 7, 2005, the provisions of this convention took the effect of law in Iran.

As the authority in charge, the Ministry of Health is appointed to regulate and implement national policies necessary for control of tobacco in Iran. Ministry of Health is also appointed as the authority responsible for preparation and proposal of tobacco control bills as required by the FCTC.

As a multilateral health treaty, FCTC contains a host of measures designated to reduce the negative health and economic impacts of tobacco. The treaty requires the member country to enact comprehensive tobacco control legislation. Other key provisions of the convention

encourage the countries to:

- Enact comprehensive bans on advertising, promotion and sponsorship.
- Obligate the placement of health warnings on tobacco packaging that cover at least 30 percent (but ideally 50 percent or more) of the principal display areas and can include pictures or pictograms;
- Ban the use of misleading and deceptive terms such as "light", "mild" and "ultra light";
- Protect citizens from exposure to tobacco smoke in workplaces, public transport and indoor public places;
- Combat smuggling, including the placing of final destination markings on packs; and
- Increase tobacco taxes
- Disseminate information on harmful health, economic, and environmental impacts of production and use of tobacco.

The FCTC also contains numerous other measures designed to promote and protect public health, such as mandating the disclosure of ingredients in tobacco products, providing treatment for tobacco addiction, encouraging legal action against the tobacco industry, and promoting research and the

exchange of information among countries.

In compliance to FCTC requirements, currently a series of bills are being drafted or have been proposed for legislative review. Such legislations, upon approval, would utilize the government with the instruments necessary to implement the provisions of FCTC.

### Recent Treaties Between Iran and Other Countries

The following bilateral treaties have been enacted between Iran and other countries:

- Investment, trade and taxation treaty and subsequent protocol between Iran and Venezuela
- Treaty for prevention of double taxation between Iran and Poland
- Treaty for prevention of double taxation between Iran and Bahrain
- Treaty for prevention of double taxation between Iran and Indonesia
- Treaty for prevention of double taxation between Iran and Tajikistan
- Treaty for prevention of double taxation between

- Iran and Bulgaria  
Investment treaty  
between Iran and  
Ethiopia
- Investment treaty  
between Iran and Serbia
- Investment treaty  
between Iran and  
Malaysia
- Trade treaty between  
Iran and Kuwait

---

*All rights reserved.*

*This copy is just for the recipient's information and may not be copied in any manner physically or electronically for any purpose.*