

Franchising in Iran

DEVELOPING FRANCHISE IN IRAN

Iran: essential data

Iran is located in the Middle East, bordered to the north by Turkmenistan and the Caspian Sea, the east by Afghanistan and Pakistan, the south by the Persian Gulf and the Gulf of Oman, and the west by Iraq and Turkey. The centre and east of the country are largely barren undulating desert, punctured by irrigation canals and green oases, but there are mountainous regions in the west along the Turkish and Iraqi borders and in the north where the Elburz Mountains rise steeply from a fertile belt around the Caspian Sea.

Iran, with an area of 1,648,043 km², has a youthful, growing population of 70 million, including 7.2 million residents in the capital, Tehran.

Persian (*Farsi*) is the most widely spoken language, used by the population, but Turkish and Turkish dialects, and Kurdish are also used. Arabic is spoken by 1% in Khuzestan in the southwest, and Turkish in the northwest around Tabriz. English, French and German are spoken by many business-people and officials.

Islam is the country's official religion, but religious freedom is guaranteed by the Iranian Constitution. Of the 98% Muslim population, 89% are Shi'a and 9% are Sunni. The remaining 2% consists of Christian, Jewish, Zoroastrian and Baha'i faiths.

On the political level, Iran is an Islamic Republic since 1979. Based on the 1979 Constitution, the system comprises several connected governing bodies, at the top of which is the Supreme Leader of Iran, and below whom the Constitution places the President of Iran.

As far as the legal system is concerned, it is based on the Napoleonic Code (in particular commercial law), but incorporates the sharia since 1979 to bring it more in line with teachings of Islam.

Economy in Iran

Iran's main sources of income are its huge oil and gas deposits, which are among the world's largest. It also has viable deposits of coal, magnesium ores and gypsum.

The agricultural sector is important, although output has been depressed by drought and migration of rural labour to the cities. Government policy has promoted the agricultural and light industry in order to reduce the economy's dependence on oil and increase the influence of the private sector – about 80% of economic activity is state controlled. Annual growth is about 4.3% (2006) with unemployment at 15% (2007). The rate of inflation in 2006 was estimated at 12%.

Economic policy is dominated by the fundamental difference of approach between the elected government and the ruling clergy. Iran has developed important new links with the newly independent states of central Asia as well as Turkey and China but, more important, existing trade with traditional partners in Europe, Japan and the Middle East have been restored.

Increasing franchise without any specific law

The links with those countries have notably led to an increase of franchises. All the more as the Iranian market is the largest consumer market in the Middle East, with a youthful and growing population passionate and fascinated

by Western countries. Iranians are indeed very brand-oriented: it is the name that sells, not the taste. Therefore, many western brands have successfully settled in Iran so far, like Mango and Benetton, whose franchises across the country became very quickly profitable.

Moreover, concerning more precisely domestic law, Iran has different well structured laws and regulations applicable to both domestic and foreign companies working in Iran such as commercial law, import and export regulations, labor law, social security regulations, taxation... However, Iran does not have any special law and regulations concerning franchise.

Because there is not a specific law dealing with franchise operation, instead, commercial and civil laws of Iran are relied on.

Thereby, practically, franchise exists in Iran but in the frame of sole agency agreement. The representative of any foreign company is entitled to develop his business with the special brand and the specifications of the owner of the brand.

Implicitly, the Iranian Civil Code imposes an obligation on parties to a franchise contract to deal with each other in good faith. This includes the requirement to act in good faith during negotiations and in drawing up franchise agreements. This duty also extends to the performance of contractual obligations and to the termination of the contract.

Furthermore, there are two commercial regulations to differentiate: one is applicable to Main Land, and a different one to Free Zone, which is independent from the main land. Relying on particular economic and geographical advantages, Iran has indeed designated some areas as free trade zones. There are six Iranian free trade zones including Kish, Qeshm, Chabahar, Aras, Arvand, and Anzali. They play a very important role in Iran's economy, therefore, many legal facilities and advantages are available in these zones, including franchising.

Gilles Menguy

Avocat & Solicitor, GM Avocats

gmenguy@gm-avocats.com