A Work Project, presented as part of the requirements for the Award of a Masters Degree in Economics from the NOVA – School of Business and Economics.

RESEARCH ON THE FOODSERVICE ENVIRONMENT AND TRADE CONDITIONS IN IRAN

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A project carried out on the CEMS Business Project course, under the supervision of:

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MAY, 13TH 2016

Abstract

In January 2016, the Iran Deal was implemented, effectively lifting many economic sanctions against Iran. This project tackles the implications this has for the Kerry Group, a company operating in the Ingredients and Flavours market. Through secondary research and semi-structured interviews, insights are provided into the Iranian market and an analysis is conducted of Kerry's trading model with Iran. Recommendation is made for Kerry to strongly increase its business volume with Iran and change its trading model structure, replacing distributors in Dubai and Turkey for EU-based ones. An academic extension into the Economics discipline and a process reflection are included.

Keywords: Kerry Group, Ingredients and Flavours Market, Iran, Economic Sanctions

Context

Introduction

In the context of the CEMS Masters in International Management, I developed a business project. This was a consultancy-like project where, in a team of 4 students, I tackled a real business problem for a real company. The company we worked with was the Kerry Group. This work project is an individual academic extension of the business project and follows the following structure: Context, Reflection of the Work Done, Academic Discussion, and Personal Reflection.

The Kerry Group

The Business Project completed by Andrea Vermes, Grégoire Delange, Johanna Brucker and myself was developed in partnership with the Kerry Group (from here on after referred to as Kerry). Established in Ireland in 1972 as a dairy co-operative, Kerry has become a major food corporation with a reported revenue of €6.1 billion and a trading profit of €700 million in 2015 (Kerry Group, 2016a). The group is listed on the Dublin and London Stock Exchanges. Kerry's business is divided into two divisions: Consumer Foods and Taste & Nutrition.

The Consumer Foods division manages a portfolio of over 20 high profile brands in Ireland and the UK, across three major market sectors: Meat & Savoury, Meal Solutions, and Dairy. These brands include "Cheestrings", "Dairygold" and "Richmond". This division is also responsible for supplying private label products in the aforementioned categories to leading retailers, including Tesco, Lidl and Aldi. This side of Kerry's business was not the focus of our project.

Our business project was developed with Kerry's Taste & Nutrition division. This is a B-to-B business where Kerry provides taste, nutrition and functional ingredients solutions to companies in the food, beverage and pharmaceutical markets. This highly complex and technology-intensive division accounts for more than three quarters of Kerry's total revenue and is responsible for over 80% of its trading profits. The company reports 4% growth in business volume compared to 2014. According to Kerry, the division holds approximately 10% of global market share in the Ingredients & Flavours market (Kerry Group, 2016a). Their list of clients in this division is extensive and includes companies such as Pepsico, Nestle, Unilever, Diageo, McDonalds, Starbucks and Walmart. Kerry divides their Taste & Nutrition product portfolio into five types of technologies: Savoury & Dairy, Beverage, Cereal & Sweet, Pharma/Functional Ingredients, and Regional Ingredients. Examples of these technologies include: food flavours and colours, enzymes, emulsifiers, and hydrocolloids. Hydrocolloids, for example, are added to food to control its functional properties such as thickening and gelling.

This division has a diversified geographic presence with 50%, 33% and 17% of revenues coming from Americas, EMEA and Asia-Pacific respectively (Kerry Group, 2016a). Even though most of this is coming from developed markets, there is an increasing share that corresponds to business in developing economies (From here on after, Kerry's Taste & Nutrition Division will be referred to as Kerry).

Market Overview

The global Ingredients & Flavours market is estimated to be worth around €65 billion (Kerry Group, 2016a). Demand for improved nutrition, health & wellness offerings, broader taste profiles, convenience and snacking solutions, and 'clean-label' enhancements, has been driving the growth of the market. According to RTS, a market data provider for the food and ingredients industry, the fastest growing technologies are colours and healthy ingredients, namely sweeteners, salt replacers and fat replacers. This market is highly fragmented and, unlike Kerry, the market's biggest player, most companies specialize in specific types of technology. This means that Kerry has a wide range of competitors for each of the solutions it offers. For this reason, Kerry divides competition according to each of the five types of technologies it provides. Nonetheless, generally speaking, some of Kerry's biggest competitors are Swiss companies Givaudan and Firmenich (flavours manufacturers), German company Symrise (producer of flavours and fragrances), and Danish biotechnology company Novozymes (Kerry Group, 2016b). Kerry considers the width of its portfolio a major competitive advantage since it is able to offer integrated solutions to its clients, selling a combination of technologies at a time. 2015 was a record year for Kerry's acquisition investment, with the Group completing ten acquisitions at an investment of €888m (Kerry Group, 2016a). Nonetheless, Kerry remains aware of niche companies attacking parts of its market share. To stay technologically competitive Kerry has recently invested in three global technology and innovation centres in the USA, Ireland and Singapore. This investment is meant to increase speed, flexibility and responsiveness in rolling out technologies.

Current Client Situation

Kerry has committed to investing in the world's developing markets to secure long-term sustainable growth in their Taste and Nutrition technologies. The MENAT zone (Middle East, North Africa and Turkey) is one of three developing zones within Kerry's organisational structure for the EMEA region (the other two being Russia and Sub-Saharan Africa). The MENAT zone is managed from Kerry's Development & Application centre in Dubai, which was established in 2013, reflecting the company's commitment to increasing business volume in the region. It is worth pointing out that Kerry has been trading successfully in the MENAT region since the early 1990's, supplying ingredients and flavours to manufacturers of snacks, meats, beverages, bakery, confectionery and dairy products. Priority countries for growth are Turkey, Saudi Arabia, UAE and Iran. Our business project was centred on Kerry's business with Iran. Kerry has identified Iran as a target country for accelerated growth. The company's renewed interest in Iran is driven by it's large population (78.8 million in 2015, according to the World Bank), it's relatively affluent middle class (Euromonitor, 2015), the existence of an apparently robust target customer base, and by the recent agreement to remove the wide range of economic sanctions that have constrained Iran's economic development over the last decade, the Joint Comprehensive Plan of Action (from here on after referred to as JCPOA or Iran Deal). Kerry now has 3 Iranian employees dedicated to growing their business in that market. The company has a strong local distribution partner. However, even though Kerry's current business in Iran is 'sizeable', it is highly dependent on one major customer.

Kerry faces some challenges to its goals for Iran. Kerry's entity in Dubai is a subsidiary of Kerry Ingredients & Flavours Ltd in Ireland, and therefore governed by EU legislation. Additionally, Kerry has an exclusive contract with Citi Bank, a North American company, which means that, indirectly Kerry is also conditioned by USA legislation. Until the beginning of this year, both the EU and the USA had a series of economic sanctions in place targeting Iran. While the trade sanctions did not explicitly apply to the food and beverage industry, they affected the banking sector. As an American bank, Citi bank is not allowed to make any transactions with Iranian banks, which until this year were disconnected from the SWIFT international banking system. This has effectively rendered Kerry subject to sanctions. Invoicing, obtaining insurance on shipments, getting paid by customers, paying commissions/fees, and complying with regulations in their trade with Iran has proved very complex and potentially risky. Kerry lacks sufficient understanding of the legislative changes that were put in place with the Iran Deal. Additionally, Kerry knows very little about the tax, customs and bureaucratic environment in Iran and does not have sufficient understanding of the retail and foodservice trading environments in which its customers operate and the end Iranian consumer to whom its customers sell.

The Business Project Challenge

The main Business Project challenges were: 1) to improve Kerry's knowledge of the retail and foodservice sectors in Iran as well as main consumer behaviour and trends; 2) to educate Kerry on the relevant financial, legislative, tax, and administrative environments in Iran, 3) to provide a sense for the likely timeline for changes in U.S. and European legislation regarding economic sanctions; 4) to provide clarification on how the current sanctions affect international banking; 5) to determine the optimal trading model for Kerry in transacting with customers and distributors in Iran both in the current sanctions environment and in a post-sanctions environment. Because Kerry has been doing its own research on the retail and foodservice trading environments in Iran, our main point of contact at Kerry, Bill Sheridan, Kerry's Strategic Marketing Director for EMEA's Developing Markets, asked us not focus too much on that during our work. Defining the sectors in which Kerry should go in within the Iranian market, and which of their technologies would sell better, was therefore out of the scope of the project.

Reflection of the Work Done

Problem Definition

The central problem in this project was how should Kerry manage its relationship with Iran, mainly regarding their trading model, in light of the legislation changes resulting from the signing of the Iran deal, the expectations of further legal changes, and the potential of the market. In parallel, we were expected to gain a better understanding of the Iranian end-consumer and local culture as well as into Kerry's competitors' presence in Iran. Our insights will be taken into consideration as Kerry draws its strategy and expectations for the country.

Hypothesis

In this project, we hypothesize that the trading model that Kerry is currently using to do business in Iran is sub-optimal considering the changes that came into place with the JCPOA. Furthermore, we test Kerry's conviction that Iran provides an important investment opportunity against qualitative and quantitative research.

Methodology

It was clear from the outset and Kerry's introductory presentation that this project was going to be desk-work-intensive. Because of the nature of the problem at hand, our research was overwhelmingly qualitative and descriptive. We were explicitly asked to refrain from speculating on business potential in quantitative terms. Our work was based on all-encompassing analysis of literature and four extensive semi-structured interviews (Simons 2009; Yin 2014).

The literature was for the most part non-academic, not only because of the type of information we were hoping to collect, but also because the Iran Deal was such a recent event and, consequently there is a scarcity of academic literature on its implications. The secondary analysis included, besides a vast collection of business reports and literature on Iranian history and society, a series of legal and technical documents, including EU, U.S. and Iranian legislation. Additionally, because the situation was highly subject to change during the time we had to complete our project, we conducted periodic checks for recent news relevant for our project, as well as official statements from relevant institutional bodies, namely the European Commission, the European Central Bank, the U.S. Treasury, the Central Bank of Ireland, and the Central Bank of the Islamic Republic of Iran.

To fill in the gaps left by secondary research, we have contacted a number of potential sources including Iran's Embassies in Ireland and Germany, the German, Hungarian, Portuguese and French Embassies in Iran, the German-Iranian Chamber of Commerce and the

Bavarian Industry Association, Enterprise Ireland, an Irish state economic development agency focused on helping increase Irish exports, and Bord Bia, an Irish state agency which promotes Irish food domestically and abroad. With the exception of Bord Bia, all other contact attempts were unsuccessful due to lack of responsiveness or inability to provide us with insightful information. Our four interviewees included three employees of the Kerry Group, two of which were of Iranian nationality, and an Iranian marketing scholar, currently lecturing at University College Dublin. All the interviews had unique guiding scripts designed to match the profile of the interviewees. They were recorded and later transcribed, to ensure a smooth interview process and an accurate interpretation of the interviewees' statements.

Finally, an extensive review was conducted on key Kerry peers' (competitors and clients) publicly available information in attempt to assess the extent of their presence in Iran.

Analysis

Introduction to Iran and General Demographics

The Islamic Republic of Iran is the second largest economy in the Middle East and North Africa region, following Saudi Arabia. In 2015 it had an estimated GDP of US$393.7 billion and in 2014 GDP per capita (at current $) was $5443 (Worldbank, 2016). Due to the lifting of the sanctions and a more business-oriented environment resulting from February 2016's elections for Parliament and Assembly of Experts, real GDP growth is projected to reach 4.2 percent and 4.6 percent in 2016 and 2017, respectively. Consumption, investment and exports are expected to be the main drivers of growth (Worldbank, 2016). With 78.8 million people, it is the second most populated country in the region after Egypt (Worldbank, 2016). Iran's official language is Persian (or Farsi) and the main religion is Muslim. The country's official currency is the Rial (IRR). In 2015, 73.4% of total population lived in urban areas and this number is likely to keep growing (The World Factbook, 2016). The biggest urban centre is the capital city Tehran, with 8.4 million people.

Iran's population is young and growing. Median age is 28.8 years old and estimated growth rate for 2015 was 1.2% (The World Factbook, 2016). The most populated five-year brackets in Iran's population pyramid are 25 to 29, followed by 20 to 24, and 30 to 34 (The World Factbook, 2016). This has impactful implications when discussing consumer habits as we found they vary a lot across generations. For Kerry, the young population of Iran can constitute a big opportunity.

Disposable income shrunk between 2009 and 2014 as a result of the economic sanctions. However, the food sector has remained dynamic. The food and non-alcoholic beverage category in Iran is expected to grow by 30% until 2030, with the middle class being a key growth driver (Euromonitor International, 2015). The transformation of the middle class is key to driving Iranian growth and the demand for higher quality foods, drinks and pharmaceuticals, an evolution that Kerry could be part of.

End Consumer Behaviour & Changing Habits

Food is considered very important in Iranian culture. Iranians typically eat three big meals a day, breakfast, lunch and dinner, snacking often in between. Meals include rice with meat or poultry. Stews are also very popular (Euromonitor International, 2013). Traditional Iranian dishes are prepared from scratch in a very time consuming process, thus young housewives and working couples are becoming interested in faster solutions. This is a great opportunity for Kerry since many of its clients are in the processed food and food service industries. However, Kerry must be aware that packaged food is still perceived by Iranians as having low quality (Euromonitor International, 2013).

Regarding food services, dinning out is a new phenomenon, mostly popular among youngsters. Additionally, there is a very dynamic sector of home delivery food services. The perceived quality of restaurants and catering services is increasing (Euromonitor International, 2013). Finally, Iran is developing a strong coffee shop culture among the younger generation, which uses them as places of social gathering. This is a detour from the traditional tea culture, very present among the older generations. Coffee is consumed with milk, froth and favours. The suppliers of these ingredients are potential clients for Kerry. Sales volume in all food services (Restaurants, Coffee Shops, Fast Food Stalls) is expected to increase (Euromonitor International, 2013).

Besides the changing habits mentioned above, there is a decrease in gender-based division of roles. Traditionally, men have been responsible for shopping (because shop owners were traditionally men and it was considered inappropriate for women to shop by themselves), but with the number of supermarkets and hypermarkets growing in urban areas, more women are assuming that role. Furthermore, there is an increase in health consciousness. With 60.5% of the population being obese, and 10.3% of the population suffering from diabetes (World Health Organization, 2016), the government has launched a series of health awareness programs and mandatory labelling rules have been implemented. Since a big part of Kerry's technology is used to reduce sugar, fat, and salt content in processed food items, this increase in health consciousness is a big opportunity and is likely to drive demand from other business for Kerry's solutions.

Finally, it is important to keep in mind that Iran complies with halal food restrictions. This means that pork and alcoholic drinks are forbidden and other meats must be processed according to Islamic law. Non-alcoholic beer is increasing in popularity. Kerry could supply some of the enzymes involved in its production.

Retail Sector

The retail sector is expected to grow faster than GDP (Financial Tribune, 2016). The proportion of traditional retail (Bazaar culture) is still very high, around 97% in 2011 (Jofreh, 2013). However, hypermarkets and malls are on the rise with key players: Refah, MAF Hyperstar, and Shahvrand holding 231 outlets between them (Euromonitor International, 2016). The key challenges for Kerry in exploring this sector would be: the scattered retail network, which might mean the need to work with local partners; the logistical and supply chain challenges; competition from other companies; and high governmental influence since the Iranian state continues to play a key role in the economy with large public and quasi-public enterprises dominating to some extent the manufacturing and commercial sectors (Worldbank, 2016).

Business Practices

Through our interviews with Iranian nationals, we grasped some nuances about doing business in Iran. It is important to have a contact person within the company. A relationship of mutual trust is key. Furthermore, extended hospitality will be provided and expected.

There is a gift culture within the Iranian business world that might not be in compliance with European regulations. Finally, machinery and available technology might not correspond to Kerry's expectations and standards, as there is a lot of bottled up demand as a consequence of the economic sanctions.

Current Trading Model

In order to make recommendations regarding Kerry's future trading model, it was essential to understand their current trading model for Iran. Because this information was highly specific and unevenly distributed among most Kerry employees, we interviewed (via conference call) Mr. Daniel Lane, Kerry's Dubai-based Financial Director for the MENAT zone. Because of the international sanctions imposed on Iran by both the EU and the USA, Kerry has not been able to trade directly with Iranian clients since 2006. In order to comply with both the U.S. and the EU legislation, Kerry has been using a special trading model, or rather a combination of four different trading models, which resort to non-Iranian third party distributers as a means to sell to Iran-based companies without exporting directly. Technically, Kerry invoices and receives payments only from the distributor. For allocation reasons, products are sold inter-company from Kerry Ireland to Kerry's Regional Development & Applications Centre in Dubai, which then sells them to a distributer in Dubai or Turkey (Please refer to models A to C in Figure 1).

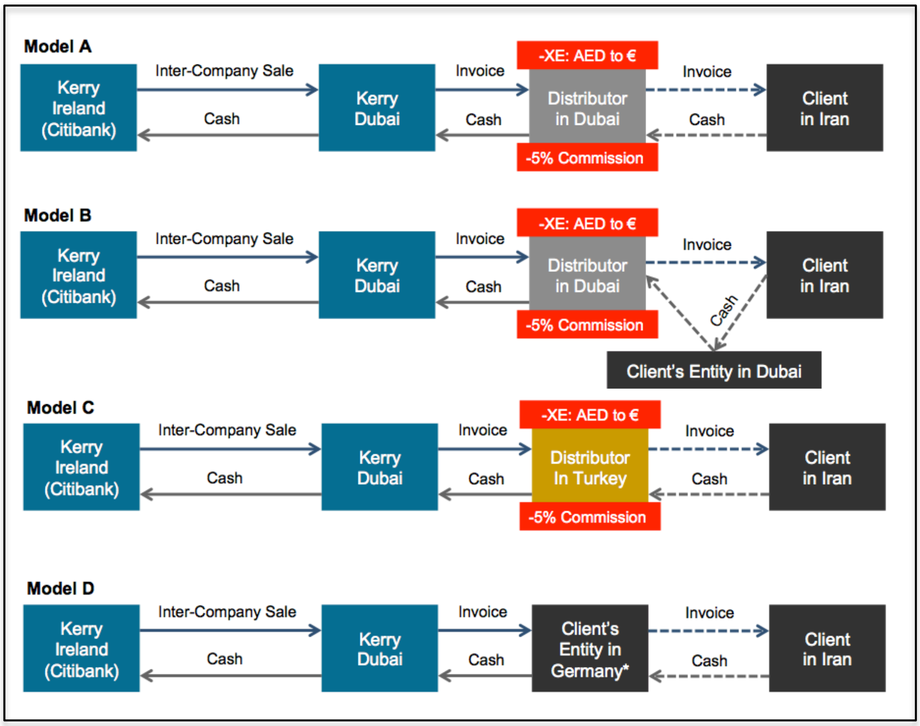

Figure 1

Even though all these four trading options are in use, the one that corresponds to Kerry's largest client in Iran, and channels most of Kerry's revenue originating from this country, is Model C. The choice of a distributer in Turkey is a particular preference of the client, which has very close business ties to said distributer. Model D is only used for a marginal amount of business since, until now, it has been almost impossible to find Iranian clients with entities in the European Union.

Kerry's current trading model is complex and extremely time consuming. It implies high transaction costs, high and volatile costs in foreign exchange conversion, and a loss in commission cost paid to the distributor of 5%. With the economic and legal changes that resulted from JCPOA, there is an opportunity for Kerry to redesign its trading model in a more efficient manner, while maintaining compliance to the legislation that has not yet been changed.

As a side-note, we remind Kerry that while until now clients have paid cash-in-advance or cash-against-documents, with the lifting of the sanctions and increased economic openness, more clients will be looking for open credit terms of 30 to 60 days from invoice.

<u>EU Legislation</u>

The JCPOA was adopted in October 2015. The agreements targeted the nuclear-related sanctions imposed on Iran by the European Union (EU) and the USA. On this date, Iran started implementing its nuclear related commitments. Simultaneously, the EU adopted the necessary legal acts to lift all EU economic and financial sanctions taken in connection with the Iranian nuclear programme. The EU legislative package adopted in 2015, automatically came into effect on Implementation Day, January 16th 2016, as the International Atomic Energy Agency (IAEA) verified that Iran implemented all the nuclear related measures it had committed to. As of Implementation Day, the EU suspended all its economic and financial sanctions taken in connection with the Iranian nuclear program. Among the sectors affected are included: Financial, Banking and Insurance, Shipping and Transport, Oil, Gas and Petrochemical, Banknotes, Coinage, and Metals. The following legal changes are particularly relevant for Kerry: Financial transfers to and from Iran are now permitted and EU financial and credit institutions are allowed to open representative offices or to establish branch or subsidiaries in Iran; Iran has been allowed to reconnect to the SWIFT; and the provision of financial support for trade with Iran such as export credit, guarantees or insurance is now permitted. The EU has maintained some restrictions in place, namely the arms embargo and sanctions on missile technology and certain nuclear-related transfers and activities. None of these should impact Kerry in any way. If the JCPOA continues successfully, all the provisions suspended on Implementation Day will be terminated on Transition Day, October 18th 2023.

If until 2023 the agreement falls through, there will be a EU automatic *Snapback* and all the suspended sanctions will be reintroduced. If that happens, the sanctions will not apply retroactively. The execution of contracts signed in accordance with the JCPOA while the sanctions were suspended will be allowed, following the same rules that applied when the sanctions were first put in place. The implication for Kerry is that, in the event of the dissolution of the agreement, the company will have time to wind down its activities without suffering retroactive, or automatic sanctions. This mitigates part of the risk associated to growing their business volume in Iran.

U.S. Legislation

As mentioned, the Kerry Group has an exclusivity agreement with an American financial institution, Citi Bank. Since Citi Bank Ireland is not fully independent from its parent company it has to comply with U.S. Legislation. This includes legislation regarding financial and economic sanctions.

The implications of the Iran deal for U.S. legislation are less clear than in the case of the EU. As of Implementation Day, the U.S. has lifted the majority of its secondary sanctions on Iran. These were the sanctions with extra-territorial reach, affecting non-U.S. legal persons only. This means that engaging with (most) Iranian entities, no longer endangers access to the American market for foreign companies. Therefore, in principle, a European company, for example, is now able to do business in both Iran and the U.S. in compliance with American law. Additionally, the U.S. Government has removed hundreds of companies and individuals from their sanctions list.

However, sanction still largely effect U.S. entities, including Citi Bank. Many of the economic sanctions the U.S. imposed on Iran were associated to alleged involvement in terrorist activity, human rights abuses, and weapons of mass destruction, not nuclear activities. These sanctions are not covered by the JCPOA. The restrictions still in place in the

Financial, Banking and Insurance Sectors include a ban on any direct or indirect transactions with Iran, and sanctions on helping Iran access the U.S. financial system or U.S. bank notes. There is a large list of legal acts that would have to be changed in order for U.S. companies to be able to conduct unrestricted business in Iran. This means that for now, Citi Bank is not allowed to make transactions with Iran, creating a significant problem for Kerry. The complexity of U.S. regulations has created a lot of uncertainty on non-American companies, particularly those with strong ties to the USA. They fear that by engaging directly with Iran, they might accidentally enter into non-compliance with U.S. law. This helps explain the reluctance of the bigger European banks in opening their business in Iran.

Before considering engaging further with Iran, European companies in general need to consider compliance, diplomacy, legal and reputation risk management, the creation of firewalls between the USA and the EU, the risk associated to potential snap backs and the practical lag of financial institutions, which are taking their time to re-engage with Iran. Kerry faces a particularly difficult situation because it uses an American bank and not a European one. And thus, provided it chooses to continue its relationship with Citi Bank, which, according to Kerry, it does, it will not be allowed to trade directly with Iran.

Regarding the timeframe for changes in U.S. law, only assumptions can be made.

For the purpose of our recommendations to Kerry and which changes they should make to their trading model, we have considered two scenarios and the likelihood of each of them coming into place. Scenario A is an ideal scenario where the USA lifts all its banking sector sanctions on Iran. Scenario B describes the Status Quo.

Scenario A

In this scenario, the U.S. legislation affecting the banking sector is lifted in the near future, which means that Citi Bank would be able to make direct and indirect transactions to and from Iran. In this case, Kerry would be able to invoice clients in Iran directly cutting over the intermediaries in Turkey and Dubai, meaning Kerry would no longer lose 5% of sales revenues in commissions. In addition, doing business directly with customers brings more simplicity and flexibility into the trading model, reducing time and cost associated with the transactions and allowing Kerry to develop close relationships with its clients. However, transitioning to this trading model would imply switching costs. As pointed out by one of our interviewees, local connections are essential when doing business in Iran and the distributers have essential know-how compared to Kerry. It is important to remember that Iran's economy is heavily controlled by the government, as pointed out by our interviewees, and that there is a clear political and economic risk in investing further in the country. Kerry would need to design a potential exit strategy.

This scenario would allow Kerry to engage in long-term commitments in Iran by establishing a company branch or manufacturing site in the country.

We have found that this scenario is unlikely in the next couple of years. Such an extreme change to U.S. legislation is not likely to happen before the Presidential Elections of 2016. Additionally, individual states have been introducing their own state-level sanctions against Iran, which makes the process of lifting the sanctions more complex. The president retains a lot of authority for relaxing or tightening the sanctions, which puts a lot of importance on the outcome of the election. The Republican Party has been very critical of president Obama's push for the JCPOA. However, despite his critiques to the way the deal was negotiated, it is not clear what Republican's front-runner, Donald Trump, intends to do about the agreement. If Democrats win, expectations are more ambitious as the deal was negotiated within a Democrat presidency and Hillary Clinton has publicly supported it. However, the process is likely to be lengthy due to complexity, public opinion, and political issues. Pressure from the EU the UN and the Iranian government, might impact the process positively.

Overall, we believe that the legal changes necessary for Citi Bank to be allowed to interact with Iran are unlikely to happened in the next two years.

Scenario B

This scenario assumes that no further improvements in relation to U.S. sanctions will be introduced in the short to medium term but that secondary sanctions will remain lifted. The EU has lifted all sanctions related to Iran's nuclear activity, including the sanctions on financial transactions and banking. European banks will gradually reinstate their ties to Iran. Ireland has been particularly slow in opening up to Iran, when compared to other European Union members. The Irish Central Bank is still refusing to process Iran-related transactions, and AIB and Bank of Ireland, two of the countries largest banks, have not yet restarted their transactions with Iran. There has been a lot of pressure from public organizations like Enterprise Ireland and Bord Bia as well as private parties, for this situation to be altered. This scenario considers that this situation will change within the next two years. We believe that Scenario B is much more likely than Scenario A.

Considering this scenario, Kerry is faced with two possibilities, keeping their current trading model or changing it. Since the company is not willing to forfeit their relationship with Citi Bank, an alternative model will still need to include a distributor, to create a firewall between Iran and the American financial system.

Sticking to the same trading model has some advantages. It is already implemented and has been working (even if inefficiently) for both, Kerry and the other parties within the supply chain. Its compliance with U.S. legislations has not been questioned since it was implemented in 2006. Additionally, the distributors used are familiar with the Iranian market and Kerry's current clients. Kerry would have no switching costs and would be able to observe their peers' strategies for Iran before making major changes to their trading model.

Yet, the current trading model has many flaws, which explains the existence of this project. It is complicated and inefficient regarding the cost and speed of transactions. The commission of 5% that Kerry is paying to its distributor is very high and will increase, in absolute terms, as Kerry's volume of business with Iran increases. Apart from that, because of the high fluctuation of the currencies involved (IRR, AED, and TRY) and the potential aggravation of political-religious conflicts among countries in the Middle East, taking the operation through these countries represents a relatively high risk.

Alternatively, Kerry could change its trading model and use a different distributor. With the JCPOA companies within the EU are now able to do the same that Kerry's distributors in Dubai and Turkey are doing. Some EU governments like Germany and Italy are even issuing guarantees for national companies planning to trade with Iran. This means that the government would cover part of the loss in case the Iranian client fails to pay. Regarding Kerry's relationship with these distributors, they would have a clearer understanding of the legal obligations they are subject to since they are both subject to European Law. Iranian companies still find it highly difficult to access Euros. However, there is a lot of internal and external pressure for this situation to be reversed. If this happens, currency exchange costs (FX) would be reduced as they would be incurred only once in the whole trading model. Besides, the risks associated to currency fluctuations would no longer remain with Kerry, but with the clients, who would have to buy Euros. The main disadvantages of this alternative are the switching costs, and the lack of experience from the EU based intermediaries, since they have not been able to work with Iran since the sanctions were imposed. Additionally, legal investigation would have to be done to make sure that this new trading model would not threaten Kerry and Citi Bank's compliance with U.S. legislation.

Main Recommendations to the Company

Taking into account our analysis, Kerry's strategic objectives and desired timeframe, financial considerations, and risk considerations, we believe that Kerry should go forward with its ambition to dramatically increase business volume in Iran. Additionally, accepting that a scenario where the U.S. lifts all its economic sanctions on Iran is unlikely for next two years, we recommend Kerry to adjust its trading model, resorting to a distributer within the European Union.

We believe that the potential of the Iranian market overweighs the risk and complications associated with an increase in business volume. Additionally, most of Kerry's competitors are European companies who, in most cases, do not share Kerry's inconvenience of being associated to an American bank. If Kerry does not move now, it will fall behind in establishing a strong presence in the market when compared to its peers.

We believe that there is more potential in a new trading model using a European distributor in terms of reducing costs, time, risk and making transactions less complex. Even though Kerry's sales volume should increase regardless of the trading model, we believe that a higher share of revenues can be captured by using this model. Nonetheless, we acknowledge our limitations in identifying potential distributors and fully grasping the business consequences associated to switching from the current model to a new one.

Concerns

Considering that the context surrounding this project is characterized by a high level of uncertainty, we have a great number of concerns associated to our recommendations. First, regarding external factors, a number of things could go wrong, contradicting our expectations: If the government of Iran does not fulfil its obligations as outlined in the JCPOA, the sanctions lifted (both in the U.S. and the EU) will snap back. Besides the aforementioned potential losses in investment that this would imply, it could also mean that the positive forecasts for the evolution of the Iranian economy will not be met. Similarly, the outcome of the U.S. 2016 presidential election can radically change the trading environment conditions that Kerry will be facing in the next 2 to 3 years. Finally, the general lack of information around the current situation is leaving businesses disoriented and many are withholding from investment in Iran until the situation becomes clearer. If Kerry moves first, it faces a greater risk of finding itself in incompliance towards some of its legal obligations.

Regarding the project itself, there are several motifs for concern. Due to the highly technical nature of the topics we covered, particularly regarding legislation and trading conditions, it is possible that we misunderstood or missed relevant details. Besides, our recommendations are heavily based on predictions and speculation that might not be realized and interviews that might have exposed us to biased perspectives.

Finally, we might have underestimated the technical challenges Kerry will face if it decides to implement our proposed trading model.

Individual Contribution

Throughout the project, the four group members complemented each other's work. However, my main contributions to our work were: a) the study of European legislation and American legislation, regarding sanctions and the Iran Deal; b) study of the tax and regulation environment in Iran; c) interpretation and reporting of the current trading model; d) design of the two scenarios and recommendation regarding the trading model; e) design of two out of four interview scripts and conduction of one of the interviews; f) and production of our final presentation.

Academic Discussion

Even tough this was a business project, it has a clear link to economics, particularly macroeconomics. The key event behind this project is the signing and implementation of the JCPOA, an agreement to lift economic (not exclusively) sanctions imposed on Iran. The alleged motivation behind the introduction of the sanctions was political and military, not economic. However, the instrumental value of the economic sanctions is the expectation that they cause harm to the Iranian economy. Symmetrically, the assumption behind our recommendations is that, in light of the Iran Deal, the economic potential of the country will be fulfilled.

The study of capital flows and exchange rates is inherently economic. International economics tools are used to calculate gains from trade in size and distribution, and estimate the losses associated to trade restrictions. Development Economics can inform us on the development process of Iran with insights into structural changes, poverty incidence and economic growth. Finally, as the business world hesitates about investing in Iran, there is a growing demand for macroeconometric forecasts of the evolution of Iran's different economic indicators.

Economists have been trying to quantify the effectiveness of economic sanctions since they started being implemented. In 2003, a study tried to estimate the effect of economic sanctions on international trade by using a gravity model (Caruso, 2003). The model predicted bilateral trade flows between the U.S. and 49 target countries over the period from 1960 to 2000, based on the economic size, expressed by GDP and population size, and distance between the countries. An extended version of the model included dummy variables in order to distinguish the effects of political conflicts. The results indicated that, while extensive and comprehensive sanctions have a large negative impact on bilateral trade that does not seem to be the case for limited and moderate sanctions (Caruso, 2003). Variations of this model have been used repeatedly to evaluate the impact of trade agreements and economic sanctions. Previous research conducted on sanctions imposed from World War I to 1990, has found that sanctions are more likely to succeed if their goal is modest, the sanctioned country is smaller than the sanctioning country, the sanctioned and sanctioning countries have friendly relations with substantial trade prior to imposition of sanctions, the cost to sanctioning country is not significant, and sanctions are imposed quickly and decisively (Hufbauer and Schott, 1985). These results are in line with our assumption that, until its suspension in January of 2016, the economic sanctions covered by the JCPOA were having large negative impacts on international trade and the Iranian economy.

In their working paper (2016), Ianchovichina, Devarajan and Lakatos have tried to give a quantitative prediction of the effects of lifting economic sanctions on Iran by using a global general equilibrium simulation model. The model captures the interaction between producers and consumers in the economy, mediated through the price mechanism. It also captures the trade flows between countries, and solves for a set of world prices that equilibrate global supply and demand. The authors simulate the effect of the removal of the trade embargo on the market-clearing prices at the global and national levels (Ianchovichina, Devarajan and Lakatos, 2016). The authors use this method to try to isolate the consequences of the lifting of sanctions from other trends and shocks in the economy. It is relevant to point out that this paper only considers the removal of the European Union sanctions. This makes it particularly relevant in light of our business project. The model predicts that gains from the embargo removal are the largest for Iran, when compared to the EU and the U.S. Estimated welfare gains for Iran are $18 billion, or an increase in per capita welfare of 3.7 percent. The gains to Iran are estimated to be 22 percent lower in a scenario where Iran's oil exports to the EU do not recover completely but reach only half of their pre-sanction levels (Ianchovichina, Devarajan and Lakatos, 2016). This research puts a great emphasis on Iran's economic dependence on the oil market, something that could have been considered more explicitly on our business project. Indeed, the fiscal balance of the central government has deteriorated in the last year due to low oil prices, from a deficit of 1.2 percent of GDP in 2014 to a deficit of 2.7 percent of GDP in 2015 (Worldbank, 2016). The World Bank (2016) also estimates that the current account surplus had decreased from 3.8% of GDP in 2014 to 0.6% in 2015 as a result of the fall in oil exports.

The methodologies used by researchers to measure the effectiveness of economic sanctions are not sheltered from criticism. Since it is virtually impossible to define a real control group in the study of international trade sanctions, making assumptions about the counterfactual becomes risky. Consequently, isolating the effects of the sanctions from all the other factors influencing the economy becomes harder and permeated with errors and uncertainty. Other criticism associated with the econometric models typically used to measure the effectiveness of economic sanctions include, selection bias, subjectivity, proxy problems, collinearity, and insufficient data (Parker, 2000).

From an economic development perspective, it is relevant to consider the evolution of indicators such as GDP growth, inflation, unemployment, total factor productivity and the Gini coefficient. Inflation has been a source of concern for the Iranian government. However, inflationary pressures on the economy seem to have decreased in the last year, with the Consumer Price Index falling to 12.6 percent per annum in January 2016, from a peak of 45.1 percent in October 2012 (Worldbank, 2016). These developments are partially attributed to the Iranian Central Bank’s tightening of monetary policy, by refocusing on their mandate toward long run price stability (Imf, 2016). This follows the overwhelmingly accepted economic assumption that controlling inflation is desirable. The main argument in favour of the Central Banks’ focus is that inflation is linked to economic and social costs (Fischer, 1994).

Because the economy of Iran is at the centre of the business project, the opportunities to draw links between economic literature and the Kerry's situation regarding Iran are vast. So are the implications for academic research. Concerning the literature on the impact of economic sanctions in general and on Iran in particular, further research is necessary. With the JCPOA, there is an opportunity to study the specific impact, for both the U.S. and Iran, of U.S.'s economic sanctions, without artificially controlling for EU sanctions. Additionally it will be interesting to critically compare Ianchovichina, Devarajan and Lakatos's (2016) predictions with the real developments in the Iranian economy.

Personal Reflection

Generally speaking this project was a very positive and interesting experience. Nevertheless, I faced a number of constraints such as limited access to information, language barriers, uncertainty, and lack of expertise. Some personal weaknesses were manifested during the project. Because it was research based and covered a very wide spectrum of topics, I sometimes failed to stop myself from spending too much time on a specific issue, or from divagating into research that was interesting but not necessarily useful in a project of this nature. Additionally, at times, I struggled to stay motivated. There were moments when I felt overwhelmed by the amount of uncertainty I was facing and I was deeply frustrated with the lack of responsiveness from the contacts we tried to establish. In future work, it would be important for me to structure my work better, writing down an individual timeline and a list of tasks associated to specific deadlines. I believe that would help me manage my time, visualize small achievements and stay motivated.

Besides revealing some of my weaknesses, this experience also surfaced some of my qualities. Despite my own anxieties, I have stayed positive and fostered good interpersonal relationships among members of the group, dealing with moments of friction tactfully and transparently. In the finishing line of the project, one of the members of our group was unexpectedly unable to contribute to our work. I reacted to a crisis situation by remaining focused and driven, which resulted in my two other colleagues leaning on me for motivation and reassurance.

If I had the opportunity to do this project again, I would dedicate more time to execution. Additionally, I would have pressured the University (University College Dublin)) and Kerry to speak on our behalf with some of the entities and people we tried to reach. This might have made them more responsive.

From my perspective, the most added value aspects of this project were: The opportunity to work with and for a real multinational company and learn about their complex business; The fact that I had to stretch myself across the disciplines of Management, Finance, Economics and Law; The knowledge I acquired regarding Iran's economic potential and the JCPOA, which made me consider pursuing a career in international relations; And the experience of working in a team in a work-like project, which had a completely different dynamic than in a typical university group work, and constituted a timely learning experience considering I expect to enter the job market soon.

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