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German-Iranian Future Prospects

The looming energy crisis highlights the recent visit to Teheran of Federal Economics Minister Friderichs and State Secretary Rohwedder. German-Iranian relations are traditionally good, but in the late sixties and early seventies turned notably cooler. The incidents during the Shah's visit to the Federal Republic will be remembered. A tardy improvement began with Federal Chancellor Brandt's journey to Iran in March 1972, and Minister Friderichs' trip now seems to have set the seal on a policy of extensive industrial cooperation.

Iran's economy has been surging ahead since 1964. The GNP grew in 1972 at a rate of 14.7 p.c., which puts the country in the top league of fast developing countries. It has risen from \$ 193 per head of population in 1962 to about \$ 550 in 1972. By the last year of the next five-year plan, i.e., by 1978, it is to reach \$ 940, and this when the population is increasing by as much as 3.2 p.c. a year.

This exceptionally auspicious situation owes much to the country's natural resources, its mineral oil and lately also natural gas. With a crude oil production of 254 mn tons (in 1972) Iran ranks fourth in the world behind the USA, USSR and Saudi Arabia. As an oil exporter Iran is second only to Saudi Arabia. For the current year its revenue from oil is estimated at about \$ 3.3 bn. The oil and the gas reserves are not inexhaustible however, and the aim therefore is to develop Iran's economy as fast as possible to ensure the country's viability in the absence of the revenue from them.

The Shah is convinced that in another 10 years Iran will be a member of the "Industrialised Nations' Club". Although he does not join in any oil boycott, he is using oil as a "weapon" to coerce foreign interests into investing much more capital in his country. Iran does not want to be merely a crude oil exporter, but would like to do much of the processing itself. The Federal Republic currently obtains from Iran 14 mn tons of crude — about 12 p.c. of its requirements. Joint plans by the two countries envisage the creation of an export refinery with an annual capacity of 25 mn tons in the Persian Gulf. It is to be built by the German firm Thyssen with US participation,

and Iran is to pay for it by oil products shipped to the Federal Republic. The FRG's receipts of oil from Iran would greatly increase as a result. To make sure of a safe energy supply Bonn is in any case working for close cooperation between the state-owned National Iranian Oil Company (NIOC) and the German energy undertaking Veba. Another vast project concerns natural gas. Iran possesses one of the largest natural gas deposits, and Ruhrgas AG of Essen is presently engaged in negotiations on the most advantageous transport of natural gas — by ship in a liquefied state or else through pipelines.

Iran would like to attract other industries which could derive substantial advantages from location in the country. Apart from chemical plant, the steel industry in particular could count on considerably lower investment and energy costs than in Germany. Iran's steel production — now 1.1 mn tons a year — is to be raised to 15 mn tons by 1978. Cheap steel and power are to be used for a substantial expansion of the automobile industry. Negotiations on the construction of a plant with a final capacity of 1.5 mn units are now in progress with the Japanese. If the latter hesitate, VW which was Iran's partner in previous, abortive negotiations may get a second chance. There are other locational advantages: cheap labour, absence of environmental control problems, favourable terms for the financing of new projects and the liberalised profit transfer.

The volume of German investments has however disappointed the Iranians. So far it amounts to little over DM 100 mn, i.e., about 10 p.c. of the foreign capital invested in the country. The Iranians are looking forward to an influx, with Federal Government help, of sums running into billions. It may be possible to encourage German investments by retaining the Development Aid Taxation Act and extending its applicability to the oil countries. On this basis selective financial aid could be provided for capital exports deemed important for the energy policy. Although the "purists" may shrink from too close liaison between official authorities and private firms, the state and the business world will in the longer term inevitably be driven to cooperation in order to safeguard the energy supply.

Hubert Höping