IRAN'S FIRST BIG PURCHASE: 114 AIRBUS JETLINERS

News / Manufacturer

Tehran has for months telegraphed its intention to purchase new commercial aircraft to update its aging jetliner fleet just as soon as economic sanctions against the country were lifted. Iranian Transport Minister Abbas Akhoundi made good on that promise Saturday, telling state media that Iran will purchase 114 jets from Airbus Group EADSY 0.79% , just hours before the process of formally rolling back economic sanctions on the nation began.

That makes the European aerospace giant one of the first foreign companies to reap the benefits of Iran's formal reintroduction to the global economy. With 80 million people and $400 billion in annual economic output, Iran is the largest single economy to return to the international marketplace since the end of the Cold War. But analysts warn that the impacts of Iran's rejoining the global economy will manifest themselves slowly, as a tangled web of remaining sanctions continue to make it risky for companies—particularly U.S. companies—to do business there.

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The deal with Airbus would mark the first steps in a long-promised overhaul of Iran's 140-plane jetliner fleet, which has suffered from decades of sanctions targeting Iran's aerospace sector and airlines. According to aviation industry watchers at planespotters.net, the average age of national carrier Iran Air's 45 jets is roughly 27 years. The inability to obtain necessary parts and training for its airlines has prompted some nations to place restrictions on Iranian jets landing within their borders.

The deal could be the first of many inked by Iranian companies and state agencies as up to $100 billion in assets are unfrozen as part of the landmark nuclear accord hashed out by Iran and the so-called P5+1 nations last summer. Under that deal, Iran agreed to scale back its nuclear research ambitions in exchange for the easing of sanctions leveled at Iran in response to its pursuit of various nuclear technologies that could be used in the development of a nuclear weapon. The U.N.'s nuclear watchdog declared Saturday that Iran had met the criteria set forth in the deal, and the lifting of sanctions began almost immediately.

Iranian President Hassan Rouhani tweeted on Sunday that with sanctions lifted, it's time for Iran's battered economy to build and grow. Everything from heavy machinery and aircraft components to pharmaceuticals and branded consumer goods have been hard to come by in sanctioned Iran, creating huge pent-up demand for products imported from overseas—particularly durable goods like aircraft and automobiles, IT infrastructure and office equipment, and—critically—foreign currency.

Rouhani told the Iranian parliament on Sunday that he plans to attract up to $50 million in foreign investment over the next five years to boost Iran's annual economic growth—now more or less stagnant—to an ambitious 8% annually.

But lifted sanctions and lofty goals may not translate into a string of blockbuster deals with foreign companies, analysts warn—at least not immediately. The lifting of sanctions related to Iran's nuclear program won't touch sanctions imposed in response to other squabbles the West has with Iran. For instance, sanctions against the Islamic Revolutionary Guard Corps (IRGC) remain in place, and even as nuclear-related sanctions were lifting over the weekend, the U.S. Treasury on Sunday imposed new sanctions against 11 individuals tied to Iran's ballistic missile development program.

Those individuals are barred from using the U.S. banking system, and therein lies the problem. In order for Western companies—and especially banks—to do business in Iran, they must ensure that whatever endeavors they become involved in are completely quarantined from sanctioned individuals and groups like the IRGC. Given the IRGC's secretive ties to all sorts of interests across the Iranian economy, that could prove difficult. The penalties for violating such sanctions can reach into the billions of dollars, posing existential risk to some banks and companies.

Iran's return to the global economic order also won't help regional economies suffering from persistent low oil prices as Iran begins dumping an estimated 600,000 barrels per day onto global energy markets by mid-year. The International Energy Agency warned Tuesday that markets could "drown in oversupply" as supply cuts by OPEC are offset by Iranian output.

Oil slipped below $28 per barrel Monday, a 12-year low, in response to the easing sanctions. Prices remained below $30 per barrel Tuesday morning.

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