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Why Iran Will Never Proceed with the Proposed Plane Purchases

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In deciding whether to formally prohibit plane sales that already seem commercially infeasible, Washington should consider one question: if the Islamic Republic is going to shoot itself in the foot, why refuse it the gun?

In the continuing debate about the proposed Boeing and Airbus plane sales to Iran, the focus has been on whether the United States will license the deals. Yet a more important question is whether Iran would ever proceed with the purchases if approved.

THE DEALS MAKE LITTLE SENSE FOR IRAN AIR

Currently, Iran's airlines have a total of about 150 large planes, with more than two-thirds of them in the hands of private airlines rather than the state-run Iran Air. Earlier this year, Iran Air signed three agreements to purchase about 260 planes: a firm contract with ATR for 20 turboprops, a preliminary agreement with Airbus for 118 planes, and a preliminary agreement with Boeing for about the same number. The airline currently has 22 Airbus planes, all of which were certified by the EU's Air Safety Committee for flights to Europe as of June 16. Assuming it retires its two Boeing 747s and fifteen Fokker-100s not certified for European flight, Iran Air would have about 280 planes if the agreements go through as announced.

Yet there are four basic reasons why that plan makes no commercial sense: financing, competition, inadequate demand, and the problems associated with accommodating such rapid growth. First, Iran Air will have grave difficulties financing those planes. The company reports that it makes a respectable profit of about $150 million per year, but its finances are nowhere near robust enough to cover the depreciation and interest on multibillion-dollar plane purchases. Moreover, its current cash flow and profits are possible in no small part because it buys fuel at less than half the international price, and it does not pay in full even with that subsidy, according to the National Iranian Oil Refining and Distribution Company. With government finances under strain due to low global oil prices, Tehran is unlikely to place high priority on facilitating such a large purchase.

In fact, many major airlines around the world have turned to leasing planes rather than buying them outright. Yet that is not an option for Iran Air because Tehran is not party to the Cape Town Convention on International Interests in Mobile Equipment. Seventy-one other countries plus the EU have signed onto that convention, and its Aircraft Protocol is what makes international leasing agreements predictable for lessors and lessees alike.

Even if it could finance the planes, Iran Air would face tough competition from other domestic airlines. Of the 21.4 million passengers who use Iranian airlines each year, around 22 percent (4.8 million) fly on Iran Air, distinctly less than the 26 percent (5.5 million) who use Mahan Air. It is hard to see this direct competitor sitting still if Iran Air becomes more active. To be sure, Mahan is still under U.S. sanctions for its role in supporting the Islamic Revolutionary Guard Corps (IRGC), including through weapons transfers in violation of UN Security Council bans on Iranian arms exports. Yet the airline is politically well-connected (its ownership is apparently linked to the family of former president Akbar Hashemi Rafsanjani), and astute at taking passengers from Iran Air.

On international routes, Iran Air faces both foreign and local competitors. Iranian airlines carry only 35 percent of the country's international passengers; Turkish Airlines alone has 80 percent the number of international seats to and from the Islamic Republic that Iran Air offers.

Even if there were no competition, Iran Air would be hard pressed to fill so many new seats. To put the sale in perspective, Air France has fewer planes than what Iran Air proposes to purchase, so it is not at all clear why the company thinks it can find enough passengers for them. The new planes would more than double Iran's total passenger-carrying capacity, but the country's economy seems to be growing far too slowly to generate such a rapid spike in demand. As for the prospect of Iran becoming a regional hub on the Dubai or Istanbul model, the Islamic Republic would face a variety of problems marketing itself as such given its social restrictions (e.g., head coverings for women, no alcohol), its track record of arresting visiting foreigners (especially, but not exclusively, dual nationals), and other issues.

Simply getting that many planes ready to fly would be a challenge as well. Iran Air would have difficulty training the requisite new pilots and mechanics, while the government would have trouble providing the necessary airspace control and regulatory oversight. Iran has a dreadful aviation safety record since the revolution, with multiple crashes due to errors by air traffic controllers, mechanics, and pilots. Its airport infrastructure would also need massive modernization, yet the country tends to struggle with large building projects -- the expressway from Tehran to the Caspian Sea has been under construction by the IRGC-linked Khatam al-Anbia company for seventeen years, and Iran now plans to complete it in six years by bringing in a South Korean partner.

U.S. POLICY OPTIONS

The United States has significant say in whether the Iran Air purchases can go forward: Boeing has legal obligations as an American firm, and while Airbus is a multinational company based in France, the American content of its planes is sufficiently high that the firm needs a license from the U.S. government to make any sales to Iran (ATR is a wholly foreign firm, however, so Washington has no legal say in that sale). Accordingly, some in Washington have proposed that the U.S. government block the sales for various reasons. Yet doing so would help Iran garner international sympathy for its argument that the United States is not providing the relief promised as part of the nuclear deal. It also would feed resentment among the business community (especially in Europe) regarding perceived U.S. obstruction of seemingly lucrative trade opportunities. Airbus and Boeing are eager to make the deal, since the announced terms would have Iran Air taking more aircraft deliveries than United Airlines, Emirates, Lufthansa, British Airways, or Delta, each of which has been buying around twenty to thirty-five planes a year. Tehran has much to gain if it can paint Washington as being responsible for blocking so much business.

An alternative approach would be to quickly approve all of the deals, subject of course to modest restrictions, such as not using the planes to carry arms, and not transferring them to Mahan or other airlines without U.S. approval. Washington could then sit back and watch -- while nothing happens. The Islamic Republic's well-established pattern is to loudly complain about international restrictions but then lose interest once those restrictions are removed.

For example, it complained for many years that the United States did not allow Iran Air to buy spare parts for its aging Boeing fleet. In fact, the Bush administration issued a license for such exports, but as of early 2015, Boeing had made exactly one sale for a trivial sum; Iran Air managers argued that purchasing on the black market was easier than dealing with the U.S. paperwork.

Or consider Tehran's application to join the World Trade Organization. Iranian factions who wanted the country to become a member complained loudly and frequently about Washington's de facto veto of their 1996 application. But once the United States lifted its objections in 2005, the Iranian factions who opposed membership swung into action. Tehran took four years to file its "Foreign Trade Regime Memorandum," then failed to answer questions about that document, so no working group has been formed to consider the application. This puts Iran in the company of Algeria, Belarus, Sudan, and Uzbekistan as countries that applied to the WTO but then lost interest -- or rather, could not overcome strong internal opposition to the reforms and economic openness that WTO membership requires.

Similarly, influential voices in Iran have been speaking out against the plane sales. On July 2, Supreme Leader Ali Khamenei made clear that he was unhappy with President Hassan Rouhani for championing the purchases. In doing so, he offered the (entirely correct) observation that Iran could better use the money to fix its existing infrastructure: "It was said that instead of repairing the roads, they attend to the issue of airplanes. This is a legitimate criticism. We have this shortcoming and problem. However, you should notice that as I have said many times, the Leadership cannot constantly enter into every decision made by various executive organizations...If an official makes a mistake on such and such an issue and if they do something wrong, this is the responsibility of the Majlis. It is the Majlis that should impeach them...It is not the case that I can say to executive officials to buy or not to buy Airbus airplanes. Of course, I issued some warnings to both the minister of roads and to the president, and I did this in several meetings."

So when deciding whether to formally prohibit the plane sales, Washington should consider one question: if the Islamic Republic is going to shoot itself in the foot, why refuse it the gun?

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