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Eghtessad-e-Energy

Energy Economics

In The Name of God

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It'll be Hard for Japan to Stop Iran Oil Import

Japan's economy would be hit hard if oil supplies from Iran are cut off because of international sanctions over Tehran's nuclear programme, Finance Minister Sadakazu Tanigaki said.

"As Japan highly depends on Iran for oil, if this stops it would not be easy for the Japanese economy," said Tanigaki, one of the candidates who could succeed Prime Minister Junichiro Koizumi.

"It is very important for Japan to consider the extremely important issue of nuclear non-proliferation. But secure oil supplies is linked with Japan's national interests," he said.

Japan, which is almost entirely dependent on Middle Eastern oil, in 2004 signed a $2bn contract to develop Azadegan, Iran's largest onshore oil field, and has resisted US calls to suspend the project.

Japan would oppose UN sanctions on Iran's energy sector over its nuclear programme.

Tokyo will propose that any sanctions initially avoid touching Iran's oil exports, of which Japan is the biggest overseas buyer.

Iran called for talks as it delivered its response to an offer by world powers aimed at ending the nuclear standoff, without saying whether it would meet UN Security Council demands to suspend sensitive nuclear work. In the absence of details, the US began urging punitive action while China said sanctions were not the way to resolve the issue.

Tanigaki also reiterated his call for Japan to improve ties with Asian neighbours that have deteriorated sharply, largely over war-time memories including Koizumi's visits to a Tokyo war shrine.

"Japan and China should be important partners in political and economic relationships as major counties in East Asia," he said.

Tanigaki is lagging well behind Chief Cabinet Secretary Shinzo Abe in the race to succeed Koizumi in September, even though Abe has not yet officially thrown his hat in the ring.

Iran and Romania Intervene to solve oil rig row

Government-level efforts are under way to resolve the controversy surrounding a Romanian oil rig in Iranian waters, according to government and diplomatic sources.

Iran's President Mahmoud Ahmadinejad and his Romanian counterpart Traian Basescu expressed readiness to expand relations in all fields and stressed the importance of enhancing bilateral relations following a telephone conversation.

In an indirect reference to the dispute, they said they believed it was quite natural that Iranian and Romanian companies have minor differences, it said.

"The leaders stressed such differences would not damage their good mutual relationship".

The telephone conversation came after Romanian oil company Grup Servicii Petroliere (GSP) said last week that its Orizont oil rig in the Gulf was attacked and occupied by the Iranian navy, which fired at the rig and searched 20 Romanian and 7 Indian workers.

A second rig, the Fortuna, was removed by GSP from Iranian waters the week before, which resulted in accusations of hijacking against GSP by Pedco Iran, to whom the rigs were leased.

A Romanian Embassy official in Tehran told they were making all efforts at the highest level. "We are hopeful a solution will be arrived at soon."

Meanwhile, GSP provided documents to show that they entered into a contract with Oriental Oil Company, Dubai.

"We signed the contract with Oriental Oil Company Dubai, but the rigs are leased to Petro Iran by Oriental Oil Co., Kish. Now we understand that the Dubai company does not exist," said Gabriel Comanescu, president, GSP.

Oriental Oil Co. of Sharjah said the company conducts most of its business from Dubai although it is registered in Sharjah's Hamriyah Free Zone.

Khosrow Arabi, general manager of Oriental Oil Co., Sharjah admitted that Oriental Oil Co., Dubai was mistakenly mentioned in the contract but said subsequent agreements clearly specified the company is registered in Sharjah.

Mehrdad Safdari, an Iranian, is the owner of Oriental Oil Co., Sharjah and the majority owner of Oriental Oil Co., Kish, which has its headquarters in Tehran, Khosrow said.

NDC Issues Pre-qualification Tenders for Onshore & Offshore Drilling rigs

North Drilling Company (NDC), an affiliate of National Iranian Oil Company (NIOC), has issued two separate pre-qualification tenders for the purchase of ten onshore and three offshore (jack-up) drilling rigs.

The rigs will have to be brand new 2,000 hp and must meet NDC specifications.

The contractors will have to provide for the needed financial facilities for the rigs' purchase/manufacturing. The Contractors are also required to provide for needed personnel and equipments for the operation of the onshore and offshore drilling rigs for

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The contractors will have to provide for the needed financial facilities for the rigs' purchase/manufacturing. The Contractors are also required to provide for needed personnel and equipments for the operation of the onshore and offshore drilling rigs for a period of two years, train NDC staff for handling the operations for another three years and ensure supply of spare parts for a period of five years after the rigs are handed over to NDC.

Assuming maximum one year for manufacturing the rigs and scheduling of services, the contracts periods are six years each.

Interested companies have 15 days from the date of the publication of tenders' notice to submit their qualifying documents to NDC.

Construction of Qeshm-Bandar Abbas Crude Pipeline gets Underway

Iran's deputy oil minister kicked off construction of Qeshm-Bandar Abbas crude oil transfer pipeline on August 23rd.

Mohammadreza Nema'tzadeh, deputy oil minister and managing director of NIORDC, said: "Construction of a pipeline to transfer crude oil from Qeshm Island to Bandar Abbas oil refinery and fuel storing facilities at Qeshm that have just been kicked off will be completed by end March 2007".

Elaborating on the contract mode and value, he said: "This is the first Build Own Operate (BOO) project in Iran's oil industry and is worth $ 120 Mln".

As for the reason for building crude oil storing facilities at Qeshm Island, the official explained: "Geographically, Qeshm enjoys a unique position and has the potential to store a million barrels of oil and that is what we are after".

Saying that the government looks at Qeshm and Bandar Abbas as centers for storing and refining oil, Nematzadeh stressed: "Great plans will be implemented in this region".

In related news, Mohammad Asghari, managing director of Qeshm Free Zone, referred to the Qeshm-Bandar Abbas crude pipeline, bunkering and storing facilities as the preliminary steps for greater plans in the region and added: "The first step is to build a 120,000 bpd refinery in Qeshm and then there will be other plans for creating facilities to store up to 20 Mln barrels of oil in the Island".

South Pars power plant contract signed

Pars Oil & Gas Company (POGC) and MAPNA signed the Euro 262 Mln contract for construction of a 1,000-MW South Pars power plant on August 21st 2006.

The plant will be built to generate the power needs of the refineries of phases 9-10, 15-18 and 19-22 of South Pars gas field.

This project will be in EPC mode and is inclusive of the engineering design, procurement, installation and commissioning of six gas turbines, each with the capacity of 150-170 MW and an overall nominal capacity of 1,000 MW, plus all the auxiliary facilities of the power plant.

The first unit of the plant will be operational in 18 months from contract's effective date and the last one in 24 months. In addition, an 18-month period has been foreseen as the guarantee period of the project.

NIOC will provide the financial needs of the project in cash.

At the sideline of the ceremony held to sign the said contract Gholam Hossein Nozary, managing director of NIOC talked about the merging of the subsidiaries of NIOC. He said: "We are not in a hurry to do this and are busy reassessing the structures of these companies. The merging will depend on how the new statute of NIOC is prepared and approved".

Pointing to the ongoing repair works of Soroush and Norouz platforms, the NIOC MD explained: "The present total production of these two fields is around 145,000 bpd and the platforms are being handed over in phases. But, right now the entire crude yields of the two fields have already been sold".

Concerning the latest with phase 11 of South Pars field, Akbar Torkan, managing director of POGC told Fars news agency at the sideline of the said ceremony: "It has been agreed that the service contract of this phase will be signed in the near future".

As for the sub-tenders held for the development of the said phase, Torkan disclosed: "Different contractors have submitted their bids and the sum of the bids will determine the total price of the project", adding: "We will be making the final decision on the issue soon".

He also stressed that many foreign companies were willing to participate in the offshore section of the project, adding: "We have seen no problem in this regard yet".

Saying that the production rates of Iran and Qatar from South Pars field are the same, he said: "Each is producing 5 bcf/d of gas from the field".

MDP for Tabriz Refinery Expansion being Revised

The Master Development Plan (MDP) for the expansion/upgrading project of Iran's Tabriz refinery, aiming at raising the production capacity of the refinery from the present 110,000 bpd to 166,000 bpd, has been approved by NIORDC's board. To determine the suitable type of crude feed for the refinery, the a period of two years, train NDC staff for handling the operations for another three years and ensure supply of spare parts for a period of five years after the rigs are handed over to NDC.

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MDP is now undergoing revision.

The plan will enhance the quality of the gasoline yield of the refinery and raise its production by 20%. The required capital investment of the project is estimated at $ 700 Mln.

Apart from the said plan, Tabriz Oil Refining Company (TORC) is holding a separate tender for upgrading the quality of gasoline yield of the refinery and boosting its production capacity.

The tender for this plan was issued late May this year and 15 companies (13Iranian and 2 foreign) have collected its documents.

The technical/ commercial proposals of the participants were to be submitted latest by July 10th 2006. The deadline has, however, been extended to August 16th this year on the request of the participating companies.

The first priority of the client of the project (TORC) is given to the proposals submitted in the form of jointly/severely between the Iranian and foreign companies taking part in the tender. Alternatively, Iranian companies will have to have foreign partners, as subcontractors, for submitting their bids in the tender. The $ 120 Mln project is foreseen to take around 30 months to complete.

Given the urgency attached by NIORDC to gasoline raising projects in Iran, the outcome of this tender is expected to be announced in the near future.

The current yields of Tabriz refinery are: gasoline (17.3%), kerosene (12.2%), gasoil (35.6%), fuel oil (22.5%), naphtha for petrochemical plants (6.7%), LPG (3.6%), bitumen (5%) and sulfur (0.08%).

Basic engineering of Shiraz oil refinery ready next year

The basic engineering design of the project to expand Shiraz oil refinery will be concluded early next (Iranian) year, said Hamid Sharifrazi, executive manager of the plan with NIOEC.

Referring to the feasibility studies of the expansion plan, carried out by the Japanese Idemitsu, Sharifrazi has explained: “The project consists of two parts. In the first part, a 227 km long, 8” wide pipeline will be constructed to transfer 10,000 bpd of condensate as part of the refinery’s feed. The second part will focus on some changes in certain units of the plant to boost its production capacity and upgrade its yields”.

According to the PR office of NIOEC, he went on to elaborate: “The plan will raise the refinery’s present 53,000 bpd capacity to 70,000 bpd and will ensure that its yields will meet Euro IV standard. The result will be that the gasoline output of Shiraz refinery will be raised to 25,000 bpd from the present 9,700 bpd and its LPG production will reach 5,800 bpd from the existing 1,810 bpd”.

As for other changes the expansion plan would bring about, Sharifrazi elaborated: “The refinery’s Naphtha Hydro Treating Unit (NHTU) will be producing 12,500 bpd, its Catalytic Reformer unit 7,000 bpd, Isomerization unit 5,600 bpd, Middle Distillates Hydro treating unit 16,700 bpd, heavy Gasoil Hydro treating unit 13,500 bpd, Catalytic Cracker unit 14,500 bpd, LPG Recovery unit 4,500 bpd, Propylene Recovery unit 3,700 bpd, Hydrogen production unit (PSA) 7.5 mcf/d, Sulfur unit 53 t/d and Sour Gas treating unit 158 t/d”.

Sharifrazi said the pipeline part of the project has been foreseen to be concluded in March 2008 and the refinery’s expansion/upgrading in March 2009. He also put the initial capital investment in the project at Euro 320 Mln.

Sasol in Talks with Iran for GTL Plant

Sasol of South Africa is discussing a possible gas-to-liquids plant in Iran, but the talks are still in the preliminary stage, according to a company spokesman.

Among other things, a feasibility study would be required, he said.

Iran recently cancelled a plan for a big GTL plant at Phase 14 of the South Pars gas field project, saying that it now favours a small plant with a capacity of 10,000 barrels per day.

There are also private-sector proposals for several smaller plants of about 2000 bpd capacity.

These smaller plants would not be linked to the Phase 14 development.

Iran among China’s top Four Crude Oil Suppliers

China’s net import of crude oil rose to 70.33 million tons and refined oil products, 12.03 million tons, in the first half of the year, said an official with China’s General Administration of Customs.

China imported 73.33 million tons of crude oil and exported 3 million tons in the first half of 2006, said Zhang Bingzheng, a statistical analyst under the department of statistics of China Customs, at an industrial forum held in Taiyuan, capital of north China’s Shanxi Province.

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Angola, Saudi Arabia, Iran, and Russia are the top four oil suppliers of the country in the first half year, said Zhang.

As for the refined oil, the country imported 18.23 million tons and exported 6.2 million tons in the January-June period, Zhang said.

According to him, China's net import of crude oil cost the country 32 billion U.S. dollars and refined oil products, 4.37 billion dollars.

The net import of crude oil and refined oil of the country rose by 17.6 percent and 48.3 percent year on year, respectively.

In the meantime, China produced 91.66 million tons of crude, up by 2.1 percent over the same period last year, and 84.82 million tons of refined oil, representing a year-on-year increase of 5.6 percent, in the first half, showed the statistics from the China Petroleum and Chemical Industry Association.

Both hit the new high of production record, compared with figures for past years.

The rapid growth of Chinese economy as well as its booming auto ownership contributes to the surging demand for oil in the country, said experts.

According to data released by the National Bureau of Statistics, China's GDP surged a year-on-year 10.9 percent in the first half of 2006, 0.9 percent higher than the same period of 2005.

Iran to Invest in Philippine's Petrochemical Plant

Iran will invest US$100 million (euro78 million) in a petrochemical plant in the northern Philippine province of Bataan, Tehran's envoy to Manila said

Ambassador Jalal Kalantari told reporters the petrochemical plant will produce 275,000 tons of high density polyethylene annually for export to Iran and Southeast Asian countries, and then increase it to 400,000 tons in five years.Kalantari did not mention the value of the production or when the operation will start, but said Iranian experts recently finalized the overhaul of the polyethylene plant at the Bataan Petrochemical Complex, a 530-hectare (1,309-acre) government-owned industrial park at about 80 kilometers west of Manila.

He said two-way trade was valued at US$1.03 billion (euro800,000 million) in 2005 in favor of Iran due to the large oil imports by the Phililippines, which amounted to US$995 million (euro777 million) last year.

Who will develop Iran's North Pars gas field?

Reservoir studies and preparation of the MDP of Iran's North Pars gas field were assigned to ParsPetro Zagros a month ago and were foreseen to be completed in 8-10 months' time.

Development of North Pars gas field was assigned to Shell in the 90s; however, the project came to a halt after a while and in mid 2005, NIOC asked POGC to resume the studies on the field and prepare the ground for holding the tender for its development.

In the past year or so, there have been rumors about assigning the development of the field to different companies. In June 2005, it was announced that the project would be assigned to the JV of PetroPars and the Indian IOC and the gas produced in the field would be exported to the Indian subcontinent. In Oct that year, it was stated that the said JV had even submitted its proposals to POGC, but in the following Nov it was announced that the Australian BHP was willing to undertake the project.

And now, Gholam Hossein Nozary, managing director of NIOC says: "Some talks have been held with the Chinese Sinopec and an MoU has been signed with it on the development of North Pars gas field", adding: "The entire yields of the field will be converted into LNG and sold to China".

EPC tender documents of Khalij gas layer of Aghajari ready

Hossein Biglou, director of corporate planning of NISOC said: "Development of Khalij gas layer of Aghajari oil field and Khami gas layer of Karanj oil field are on the agenda of the Company", adding: "The EPC tender documents of the former have been prepared and that of phase 1 of the latter are being finalized".

He stated: "The gas outputs of these fields, totaling around 90 mcf/d, can be used for injection into oil fields".

He also predicted that the said projects would be completed in the first half of 2008.

Last year the public relations office of NISOC had quoted the managing director of the company as saying: "To secure part of the gas needs of the injection plans and to produce condensate, the project to develop the 9 gas fields namely; Khami formation of Maroun, Bangestan of Karoun, Khami of Bibi Hakimeh, Khalij of Aghajari, Khami of Rag-e-Sefid, Khami of Pazanan, Khami of Karanj, Bangestan of Ghale Nar and Milaton has been prepared and the relevant executive works have started too. These fields are capable of producing some 875 mcf/d of rich light gas and 137,000 bpd of condensate".

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According to data released by the National Bureau of Statistics, China's GDP surged a year-on-year 10.9 percent in the first half of 2006, 0.9 percent higher than the same period of 2005.

Iran to Invest in Philippine's Petrochemical Plant

Iran will invest US$100 million (euro78 million) in a petrochemical plant in the northern Philippine province of Bataan, Tehran's envoy to Manila said

Ambassador Jalal Kalantari told reporters the petrochemical plant will produce 275,000 tons of high density polyethylene annually for export to Iran and Southeast Asian countries, and then increase it to 400,000 tons in five years.Kalantari did not mention the value of the production or when the operation will start, but said Iranian experts recently finalized the overhaul of the polyethylene plant at the Bataan Petrochemical Complex, a 530-hectare (1,309-acre) government-owned industrial park at about 80 kilometers west of Manila.

He said two-way trade was valued at US$1.03 billion (euro800,000 million) in 2005 in favor of Iran due to the large oil imports by the Phililippines, which amounted to US$995 million (euro777 million) last year.

Who will develop Iran's North Pars gas field?

Reservoir studies and preparation of the MDP of Iran's North Pars gas field were assigned to ParsPetro Zagros a month ago and were foreseen to be completed in 8-10 months' time.

Development of North Pars gas field was assigned to Shell in the 90s; however, the project came to a halt after a while and in mid 2005, NIOC asked POGC to resume the studies on the field and prepare the ground for holding the tender for its development.

In the past year or so, there have been rumors about assigning the development of the field to different companies. In June 2005, it was announced that the project would be assigned to the JV of PetroPars and the Indian IOC and the gas produced in the field would be exported to the Indian subcontinent. In Oct that year, it was stated that the said JV had even submitted its proposals to POGC, but in the following Nov it was announced that the Australian BHP was willing to undertake the project.

And now, Gholam Hossein Nozary, managing director of NIOC says: "Some talks have been held with the Chinese Sinopec and an MoU has been signed with it on the development of North Pars gas field", adding: "The entire yields of the field will be converted into LNG and sold to China".

EPC tender documents of Khalij gas layer of Aghajari ready

Hossein Biglou, director of corporate planning of NISOC said: "Development of Khalij gas layer of Aghajari oil field and Khami gas layer of Karanj oil field are on the agenda of the Company", adding: "The EPC tender documents of the former have been prepared and that of phase 1 of the latter are being finalized".

He stated: "The gas outputs of these fields, totaling around 90 mcf/d, can be used for injection into oil fields".

He also predicted that the said projects would be completed in the first half of 2008.

Last year the public relations office of NISOC had quoted the managing director of the company as saying: "To secure part of the gas needs of the injection plans and to produce condensate, the project to develop the 9 gas fields namely; Khami formation of Maroun, Bangestan of Karoun, Khami of Bibi Hakimeh, Khalij of Aghajari, Khami of Rag-e-Sefid, Khami of Pazanan, Khami of Karanj, Bangestan of Ghale Nar and Milaton has been prepared and the relevant executive works have started too. These fields are capable of producing some 875 mcf/d of rich light gas and 137,000 bpd of condensate".

Ahwaz-Bangestan could go to Pars Tat: PEDEC MD

Mahdi Baza'rgan, managing director of PEDEC revealed that talks were underway with Pars Tat on the development of Bangestan layer of Ahwaz oil field, adding: "If we reach an accord, the project will be assigned to Pars Tat as per the same terms and conditions set earlier by the Economic Council for assigning the project to PetroIran Development Company (PEDCO)".

He stressed: "Pars Tat, owned 50/50 by Iran's Mostazafan Foundation and the Russian Tatneft, has announced its willingness to undertake the project".

Saying that the development of Bangestan layer of Ahwaz field was assigned to PEDCO early 2005, he noted: "A year later, PEDCO said it was not in a position to undertake the project. Then, talks on the project started with Pars Tat and the field data were made available to them".

He added: "Pars Tat will be given a reasonable deadline for submitting its proposal".

Drilling contractor of Sarvestan & Saa'databad being selected

Mohammad Borzou, manager of the developmental plans with Iranian Central Oil Fields Company (ICOFC) revealed that the drilling contractor of the development of Sarvestan and Saa'databad fields would be selected by late Sep 2006.

He explained: "The technical proposals for the development of the fields were being evaluated and the commercial bids were on the verge of being opened", adding: "NIDC is taking care of the work-over of the existing wells in the fields and drilling of the new wells in them will start once the drilling contractor is chosen".

He noted: "The work-over of three wells in Sarvestan field has been completed and that of the wells in Saa'databad is underway".

Japanese Chiyoda targets Iran's LNG projects

Japanese plant engineering company Chiyoda Corp will focus on expanding its core business of building liquefied natural gas (LNG) plants over the next two decades, its chief strategy officer said.

Russia, Iran and North Africa will provide the company with the next phase of growth after it won a number of projects in Qatar, Takaharu Saegusa told Reuters in an interview.

"Construction demand for LNG projects is the most robust in the energy sector and our company expects it to last or even increase. LNG is our focus until around 2020-2030."

But rising prices of raw materials may continue to be a challenge for contractors, he said.

The LNG construction sector is booming as demand from consumer countries, especially the US, China and India, is expected to rise sharply. End-users such as electricity producers are shifting to the fuel, which emits fewer greenhouse gases than oil.

LNG demand is expected to increase to as much as 182mn tonnes in 2020 from 87.99mn tonnes, according to research from the Institution of Energy Economics, Japan (IEEJ) in May.

Iran is currently in dispute with the West over its nuclear ambitions and could face UN sanctions unless it freezes the work by the end of August, but Saegusa said the company wanted to do business there in future.

"Iran is in a difficult situation now but it has the world's second largest gas reserves and we want to target coming LNG projects there."

The JV of Chiyoda and Technip have recently signed a contract with Shell for Front End Engineering Design (FEED) of Iran's "Persian LNG" project.

Deadline extended for Bandar Abbas condensate refinery

Ali Reza Babaie, managing director of National Iranian Oil Engineering and Construction Company (NIOEC) said: "The participants in the tender for the construction of Bandar Abbas condensate refinery were given until Sep 1st to submit their technical and commercial proposals, but that deadline has now been extended by a month".

He also added: "The project's tender documents were given to five JVs of local/foreign companies".

In related news, Mohammad Barikbin, manager of planning and projects' control of NIOEC disclosed: "Construction of a 400 km long 32" wide pipeline from Assalouyeh to Bandar Abbas, to transfer 360,000 bpd feed of the condensate refinery, is on the agenda of NIOEC".

Apparently, three consortia of Nargan/Sazeh/Hyundai/Uhde, Tehran Jonoob/Bina/Golden Group and Petrofac/Namvaran/Sazeh Khavar have expressed interest in the EPC tender of the condensate refinery.

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Persian Gulf spare capacity problems

Persian Gulf oil producers are struggling to expand their spare crude output capacity to meet surging global demand and their plans are blocked by manpower shortages, security factors and their ageing oil reservoirs, according to the World Bank.

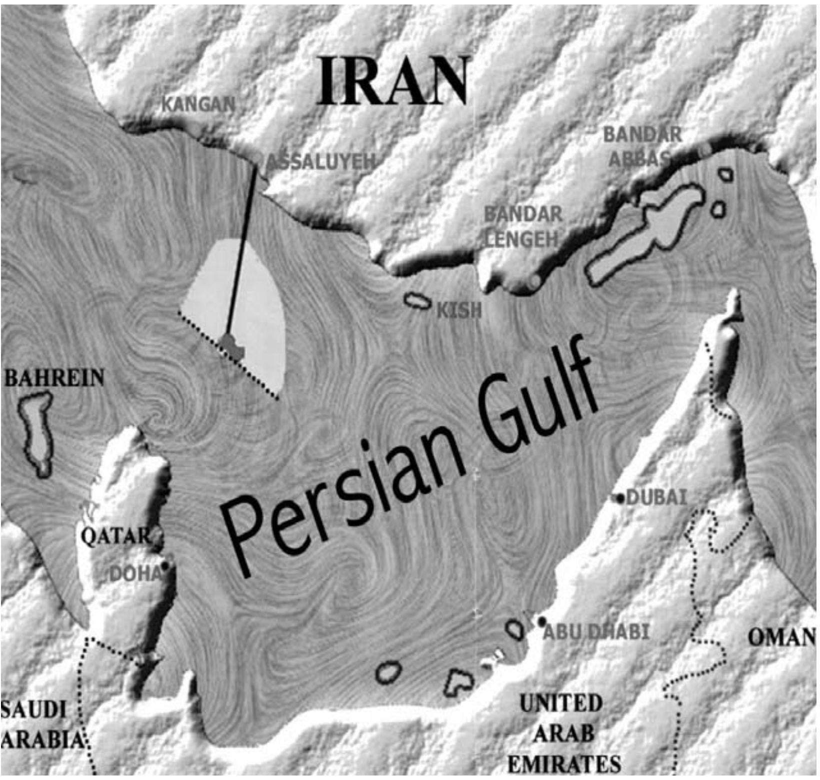
Such factors have led to a sharp decline in the region's spare capacity and allied with international demand to keep oil prices at historically high levels, the bank said in a study on the Middle East and North Africa (Mena) region.

By August 2005, the idle output capacity of the six main Persian Gulf oil producers Saudi Arabia, Kuwait, UAE, Qatar, Iraq and Iran has plummeted to only 1.7 million barrels per day, its lowest size since 2003 and one of its smallest levels.

As a result, oil prices have sharply increased and are expected to remain high because of obstacles facing the region in its efforts to expand capacity, including lack of manpower and equipment, ageing reservoirs, the boycott against Iran and instability in war-battered Iraq, the bank said.

While some regional producers have resorted to water and gas injection to maximise the flow of their wells, such techniques could be damaging.

"The lack of spare oil capacity has largely been shaped by the fact that Opec countries, particularly Saudi Arabia, have boosted production to meet global demand. However, there are underlying concerns about future capabilities of the region to generate spare capacity due to limitations on manpower, equipment shortages and, more importantly for the long term, aging oil reservoirs," the report said.



According to the study, supply shortages have triggered a renewed effort at exploration in the region. It noted that Kuwait has recently discovered new oil and gas deposits which could boost the country's reserves by some 10 per cent.

Algeria made 13 discoveries in 2004 and at least six in 2005. The country plans to increase production capabilities from a current 1.4 million barrels per day (bpd) to two million bpd. The UAE has also announced plans to add 200,000 bpd, increasing total production capacity to 2.7 million bpd.

In an effort to develop greater upstream production to improve their spare capacity, most Mena producers are planning to exploit heavy crudes. Heavy crude oils are sold at a discount rate due to the higher costs of refining them before they become end-use products.

As spare capacity decreases, producers are more inclined to increase upstream production on heavy crudes despite the price discounts. It cited Saudi Arabia, which currently produces 11 million bpd of heavy crudes and is planning to raise capacity to 12.5 million bpd by 2009, by investing heavily in oil field developments. It noted that Kuwait has taken similar steps, referring to its 2005 pilot heavy crudes scheme.

The study said regional oil producers are also attempting to develop new technology and extraction techniques to extend the life of ageing reservoirs and boost production in existing wells.

In Oman, which has heavier crudes than its neighbours, the government has invested heavily in new techniques that will boost well production, such as steam and polymer injection, the study added.

The World Bank report stated: "Such investment is also key for Iran and Iraq. However, Iran's ability to import new oil production technology is limited by sanctions.

"Iraq's adoption of new technology is limited by the security environment. Currently, these countries are depending largely on the reinjection of gas and water into wells, and in Iraq, the reinjection of excess fuel oil.

"Although reinjection is a standard practice in many older wells, it can negatively affect the long-term health of a well if not managed properly."

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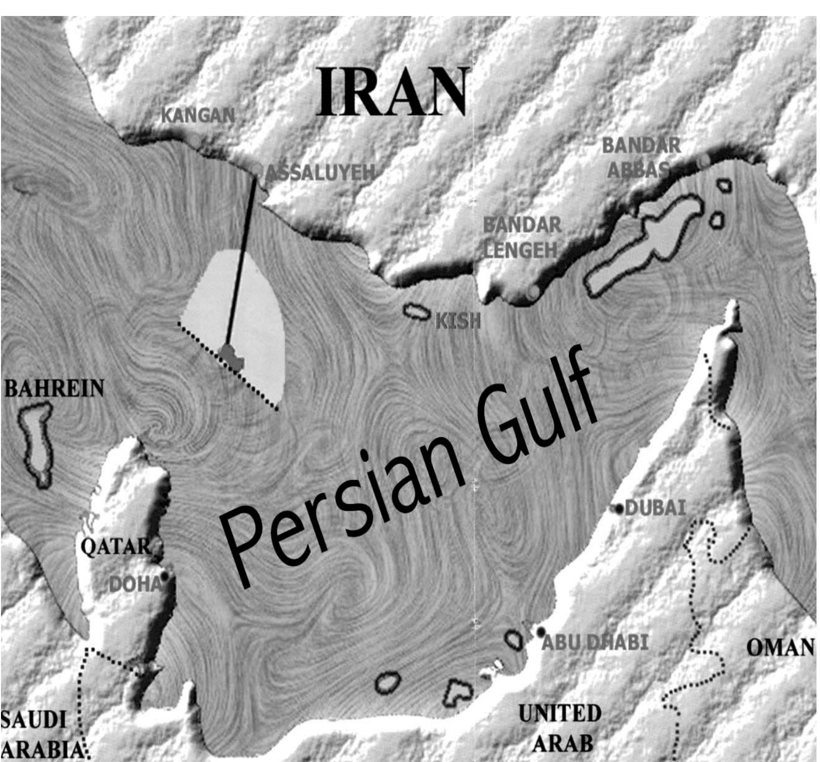

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Why Russians Love Gazprom

At Midday in Novy Urengoy, the largest city in the Nadym-Pur-Taz region of northwest Siberia, the streets are empty. Nearly everyone is working in the nearby natural gas fields. This windblown outpost at the edge of the Arctic Circle is home to 110,000 people, most of whom are employed by OAO Gazprom, the world's largest gas producer.

Outside it can be -40 or -50. "We work," says Oleg Paulukov, a laconic southerner who moved to Novy Urengoy 15 years ago at the age of 18. "Working for Gazprom is considered prestigious." The company bills itself as the "Pride of the Nation."

The Communist Party's state socialism dissolved nearly two decades ago, but Gazprom's corporate paternalism softens the rigors of life in a region the locals refer to simply as "the North." While the average Russian worker makes $350 a month, gas field technicians here take home up to $3,000. Roadside billboards proclaim "Glory to the gas workers!" Nationwide, Gazprom has 330,000 employees.

Workers in Novy Urengoy live with their families in apartment blocks painted shades of blue, pink, and yellow. Gazprom covers 97% of the cost of running 14 kindergartens, charging employees only 100 rubles, or $4, a month for child care. It provides interest-free housing loans, free medical care, and heavily subsidized overseas vacations.

POWER PLAY. Gazprom has provoked anxiety in the U.S. and Europe as it has become Russian President Vladimir V. Putin's favorite weapon in a new kind of Cold War—one haunted not by the specter of nuclear annihilation but by fear of going without heat in the winter.

Europe's growing dependence on Gazprom has given the Kremlin more leverage over the Continent, from Finland to Germany to Italy. During the recent summit of industrialized nations in St. Petersburg, Russia responded to the continuing impasse on its bid to join the World Trade Organization by delaying the access of U.S. energy companies to a major Gazprom gas project in the Barents Sea.

What most Westerners don't appreciate is that Gazprom's swagger—on display when it temporarily cut gas flow to Ukraine in January and later intimated it might shift resources from Europe to China—reflects more than the company's muscle abroad. The assertiveness also points to Gazprom's ascendency as Russia's preeminent economic institution and as a central player in domestic politics.

"MY TSAR AND GOD." Putin, who largely runs the company from the Kremlin, relies on Gazprom to solidify his broad popular support, even as he stifles opposition. His subordinates determine which small towns get connected to Gazprom's pipelines and then court voters based on this largesse. Gazprom alone generates 8% of national tax revenue, while the broader energy sector provides the main thrust lifting per capita income in Russia by about 10% a year.

In a clearing in the flat, sparsely forested Siberian tundra, a dozen workers from Novy Urengoy manhandle a thick metal pole sunk into the ground. Gazprom and two German companies are investing $1.5 billion to extract the weightless treasure buried here in an untapped subterranean field. If all goes as planned, by 2010 natural gas from this new source will be keeping millions of Germans warm in the cold months. "This is our task, and we'll fulfill it," vows Eduard Khudaynatov, Gazprom's local boss.

The voluble Khudaynatov refers, without apparent irony, to Gazprom chief executive Alexei Miller as "my tsar and God." Khudaynatov, 45, embodies at a local level just how intertwined Gazprom and Russian political life have become. He joined the company in 2003 after 20 years in Nefteyugansk, a center of the oil industry 300 miles to the south, where he became mayor of a municipality. Before taking over a Gazprom subsidiary he also worked for three years as a federal inspector of the northern Nenets region, serving as the Putin regime's eyes and ears.

GIFTS FROM THE NORTH. Novy Urengoy's first buildings went up only 30 years ago, when gas workers arrived from Central Asia and the Caucasus to begin drilling. During the economic anarchy of the Yeltsin era in the 1990s, Khudaynatov explains, Gazprom lost control of key assets, including the untapped field his crews are now readying for production. Putin and Miller have used the Russian courts, as well as tough bargaining tactics, to reassemble the lost holdings—part of Putin's larger effort to consolidate government control over the

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oil and gas industries.

The North has been generous to Gazprom, which extracted 560 billion cubic meters of gas from the area in 2005. That's 91% of the total produced in Russia and a quarter of all global output. Europe relies on Russia for 26% of its natural gas, a figure expected to rise to 38% by 2020. The company reported net income last year of $11 billion, on revenue of $48.9 billion.

"Gazprom," Khudaynatov says, "is a serious organization with corporate discipline, which today works for the state." The government owns a majority stake in the company, and the two are thoroughly entangled. Khudaynatov's idol, Miller, 44, like many in Gazprom's top ranks, has political ties to Putin from St. Petersburg, the President's hometown and power base. Dmitry Medvedev, another member of the St. Petersburg clique and chairman of Gazprom's board, also serves as Putin's first Deputy Prime Minister.

A PAIR OF SHOES. Gazprom's political heft would be underscored if, as is rumored in Moscow, Putin becomes CEO after stepping down from the presidency in 2008. (Putin has denied any such plan.) Medvedev, meanwhile, is widely seen as a leading candidate to replace his boss as President in two years. Not coincidentally, Medvedev has been traveling the length and breadth of the country, talking up the benefits his company can bring to towns that still lack gas.

Until recently, Kalyazin, 100 miles north of Moscow, was one such town. Its 15,000 residents live along the Volga River in Tver Oblast, an agricultural region that is one of the poorest in western Russia. Dating from the 15th century, Kalyazin has a sleepy, rundown feel, but a closer look reveals that it has enjoyed a mild economic rally during the Putin years.

Orders have risen at its shoe factory, five sewing factories, and a small plant that makes parts for MIG fighter planes. Outside of town, opulent new dachas are going up: getaways for rich Muscovites who are a growing source of local income.

"GAS WILL CHANGE OUR LIVES." Communist party apparatchiki drew up the first plans for providing gas to Kalyazin in 1950. But nothing much happened until 1991, when Gazprom began building a pipeline into Kalyazin from a town 50 miles away. Construction crews stopped and started over the next 15 years. While Putin's men have been widely credited with cleaning up dubious contracting practices common at Gazprom in the 1990s, the company remains inefficient at buying supplies and building pipelines, according to outside analysts.

When the first gas finally trickled into Kalyazin last Dec. 28, several hundred people braved the cold to attend an open-air ceremony marking the occasion. Celebrants lit a symbolic gas-fired torch outside the town's central heating plant. "Gas will change our lives fundamentally and bring us closer to civilization," Mayor Konstantin Ilyin says.

The theme of "gasification" ripples through Russian politics. One of the main reasons Kalyazin has gas heat is that in 2004 Tver elected a dynamic new governor, Dmitry Zelenin, a polished ex-businessman who campaigned on the promise of bringing gas to towns without it. As is the custom around the country, he traveled to Moscow, hat in hand, to convince Gazprom CEO Miller that Tver could uphold its end of the gasification bargain to build the smaller pipes that tie local users into a mainline.

"A BIG PLUS." By the end of 2006 all nine of Kalyazin's heating plants are to be converted to gas from fuel oil, which sells for about $280 a ton. The equivalent amount of gas—1,000 cubic meters—costs just $93 for industrial users and $56 for residential ones. Consumers will pay just over a dollar each month for gas to power their stoves, compared with $4.50 for bottled propane.

Electric bills will decline sharply thanks to the fact that residents will no longer have to use electric water heaters. "I'm proud of it because it's our Russian company," local hotel manager Irina Zhupanova says of Gazprom. "For daily life, of course [gas] is a big plus," says resident Elena Chertovskikh.

With Gazprom board chairman Medvedev maneuvering ahead of the 2008 presidential election, Russia is gasifying furiously. Kalyazin is one of 1,120 towns and villages the company has promised to hook up under its 2005-2007 program. The miracle of gas is to be bestowed on 60% of all Russians, compared with 53% in 2005.

NO CONSERVATION. While Gazprom makes headlines for its exploits abroad—45% of the gas consumed in Germany now comes from the Russian giant—the great bulk of Siberian gas always has been burned at home at prices heavily regulated by the state. Long after the Soviet Union was dismantled and the old gas ministry evolved into Gazprom, the Kremlin continued to curry favor with the masses by setting gas prices well below market rates.

It wasn't until Putin succeeded Boris Yeltsin in 2000 that Moscow began raising domestic gas rates in hopes of discouraging consumption in those places where gas was available and freeing more of it for export. Prices are still only one-fifth of rates in Western Europe and certainly no spur to conservation.

MORE TO EXPORT. Gazprom says it loses money on domestic sales, although most outside analysts doubt this claim. What's not in dispute is that the company makes healthy profits selling abroad. Last August the connection between the two markets became evident in an unlikely fashion in out-of-the-way Kalyazin.

In attendance at a large town meeting were not only Gazprom representatives but also Ulrich Hartmann, chairman of the parent of Germany's largest gas supplier, E.ON Ruhrgas, a major Gazprom customer and joint-venture partner. Hart mann's presence in the provincial Russian town signaled Kalyazin's role as a showcase for new energy-saving technologies, which Ruhrgas hopes Gazprom will adopt more generally.

"The more Gazprom can economize on gas," Kalyazin Mayor Ilyin explains, "the more gas it will be able to export, including to Ruhrgas and to Germany."

oil and gas industries.

The North has been generous to Gazprom, which extracted 560 billion cubic meters of gas from the area in 2005. That's 91% of the total produced in Russia and a quarter of all global output. Europe relies on Russia for 26% of its natural gas, a figure expected to rise to 38% by 2020. The company reported net income last year of $11 billion, on revenue of $48.9 billion.

"Gazprom," Khudaynatov says, "is a serious organization with corporate discipline, which today works for the state." The government owns a majority stake in the company, and the two are thoroughly entangled. Khudaynatov's idol, Miller, 44, like many in Gazprom's top ranks, has political ties to Putin from St. Petersburg, the President's hometown and power base. Dmitry Medvedev, another member of the St. Petersburg clique and chairman of Gazprom's board, also serves as Putin's first Deputy Prime Minister.

A PAIR OF SHOES. Gazprom's political heft would be underscored if, as is rumored in Moscow, Putin becomes CEO after stepping down from the presidency in 2008. (Putin has denied any such plan.) Medvedev, meanwhile, is widely seen as a leading candidate to replace his boss as President in two years. Not coincidentally, Medvedev has been traveling the length and breadth of the country, talking up the benefits his company can bring to towns that still lack gas.

Until recently, Kalyazin, 100 miles north of Moscow, was one such town. Its 15,000 residents live along the Volga River in Tver Oblast, an agricultural region that is one of the poorest in western Russia. Dating from the 15th century, Kalyazin has a sleepy, rundown feel, but a closer look reveals that it has enjoyed a mild economic rally during the Putin years.

Orders have risen at its shoe factory, five sewing factories, and a small plant that makes parts for MIG fighter planes. Outside of town, opulent new dachas are going up: getaways for rich Muscovites who are a growing source of local income.

"GAS WILL CHANGE OUR LIVES." Communist party apparatchiki drew up the first plans for providing gas to Kalyazin in 1950. But nothing much happened until 1991, when Gazprom began building a pipeline into Kalyazin from a town 50 miles away. Construction crews stopped and started over the next 15 years. While Putin's men have been widely credited with cleaning up dubious contracting practices common at Gazprom in the 1990s, the company remains inefficient at buying supplies and building pipelines, according to outside analysts.

When the first gas finally trickled into Kalyazin last Dec. 28, several hundred people braved the cold to attend an open-air ceremony marking the occasion. Celebrants lit a symbolic gas-fired torch outside the town's central heating plant. "Gas will change our lives fundamentally and bring us closer to civilization," Mayor Konstantin Ilyin says.

The theme of "gasification" ripples through Russian politics. One of the main reasons Kalyazin has gas heat is that in 2004 Tver elected a dynamic new governor, Dmitry Zelenin, a polished ex-businessman who campaigned on the promise of bringing gas to towns without it. As is the custom around the country, he traveled to Moscow, hat in hand, to convince Gazprom CEO Miller that Tver could uphold its end of the gasification bargain to build the smaller pipes that tie local users into a mainline.

"A BIG PLUS." By the end of 2006 all nine of Kalyazin's heating plants are to be converted to gas from fuel oil, which sells for about $280 a ton. The equivalent amount of gas—1,000 cubic meters—costs just $93 for industrial users and $56 for residential ones. Consumers will pay just over a dollar each month for gas to power their stoves, compared with $4.50 for bottled propane.

Electric bills will decline sharply thanks to the fact that residents will no longer have to use electric water heaters. "I'm proud of it because it's our Russian company," local hotel manager Irina Zhupanova says of Gazprom. "For daily life, of course [gas] is a big plus," says resident Elena Chertovskikh.

With Gazprom board chairman Medvedev maneuvering ahead of the 2008 presidential election, Russia is gasifying furiously. Kalyazin is one of 1,120 towns and villages the company has promised to hook up under its 2005-2007 program. The miracle of gas is to be bestowed on 60% of all Russians, compared with 53% in 2005.

NO CONSERVATION. While Gazprom makes headlines for its exploits abroad—45% of the gas consumed in Germany now comes from the Russian giant—the great bulk of Siberian gas always has been burned at home at prices heavily regulated by the state. Long after the Soviet Union was dismantled and the old gas ministry evolved into Gazprom, the Kremlin continued to curry favor with the masses by setting gas prices well below market rates.

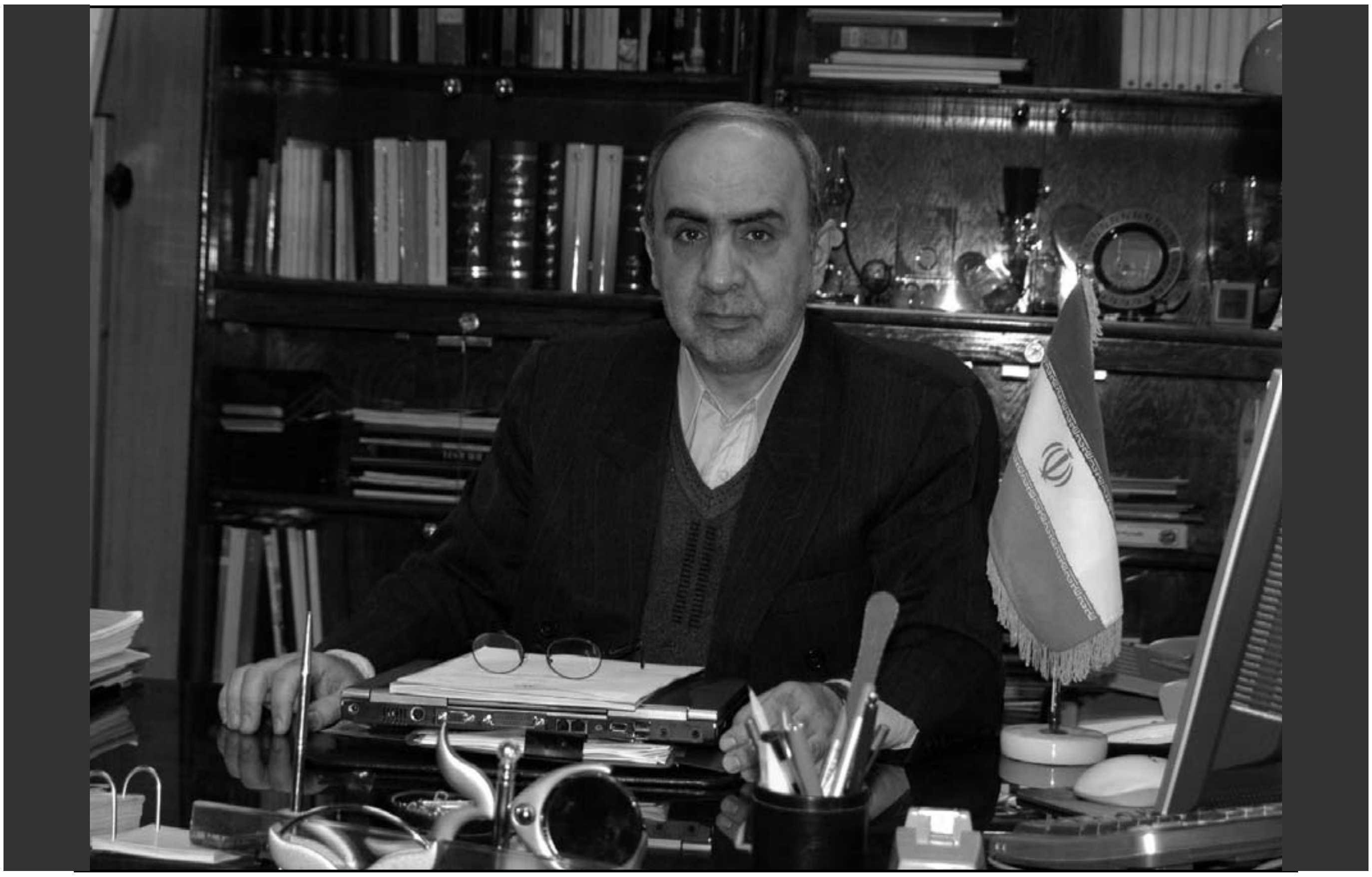
It wasn't until Putin succeeded Boris Yeltsin in 2000 that Moscow began raising domestic gas rates in hopes of discouraging consumption in those places where gas was available and freeing more of it for export. Prices are still only one-fifth of rates in Western Europe and certainly no spur to conservation.

MORE TO EXPORT. Gazprom says it loses money on domestic sales, although most outside analysts doubt this claim. What's not in dispute is that the company makes healthy profits selling abroad. Last August the connection between the two markets became evident in an unlikely fashion in out-of-the-way Kalyazin.

In attendance at a large town meeting were not only Gazprom representatives but also Ulrich Hartmann, chairman of the parent of Germany's largest gas supplier, E.ON Ruhrgas, a major Gazprom customer and joint-venture partner. Hart mann's presence in the provincial Russian town signaled Kalyazin's role as a showcase for new energy-saving technologies, which Ruhrgas hopes Gazprom will adopt more generally.

"The more Gazprom can economize on gas," Kalyazin Mayor Ilyin explains, "the more gas it will be able to export, including to Ruhrgas and to Germany."

How to Resolve Iran's Gasoline Issue



Iran's Cabinet and Majlis are nowadays frantically trying to resolve the long-running gasoline problem in the country. Only time will tell if the government can come up with the right decision.

In recent years, gasoline issue in Iran has been raised and discussed many times at the decision-making levels of the country and the dilemma is the result of the failure to make courageous decisions on the issue. Now, the government and Majlis have an opportunity to settle the issue by taking heed of the views and ideas of the experts of the affairs.

Management of gasoline production cannot be separated from that of consumption or demand. In fact, managing energy is closely linked to the management of the economic development of a country. The issues such as subsidies, investments, the general welfare and finally the public expectations cannot be ignored. Analyzing the prevailing state of affairs will lead to the roots of the problem:

The gasoline consumption trend in Iran

The trend of gasoline consumption during 1966-2005 shows an average yearly growth of 9.4%. During the said period, the lowest rate of consumption growth surfaced during 1995-1999, with an annual 4.6% and the highest came during 1966-1973, with 15.6%. This abnormal growth rate was due to the deep-seated changes that were brought about in the social, cultural and economic structures of the country. The trend encouraged consumption and moved to expand urbanization.

The gasoline consumption growth rate was 9.7% during 1974-1981. The rate was 8.3% during 1982-1989, when Iran and Iraq were fighting a war and the country's crude oil export revenues had dropped considerably. That average growth rate fell to 7.5% during 1989-1994. The gasoline price rose gradually during the 2nd Development Plan of Iran (Apr 1995-Apr 2000) and the consumption experienced a dramatic drop in this period, falling to 4.6%. This rose to 8.5% during 1996-2003.

During the last ten years (1995-2005), the gasoline consumption increased from 33 ml/d to some 66.9 ml/d, indicative of a 100% rise. At the same time, the gasoline production rose from 28.3 ml/d to 42.4 ml/d. In other words, while the production was raised by 66% in the past ten years, its

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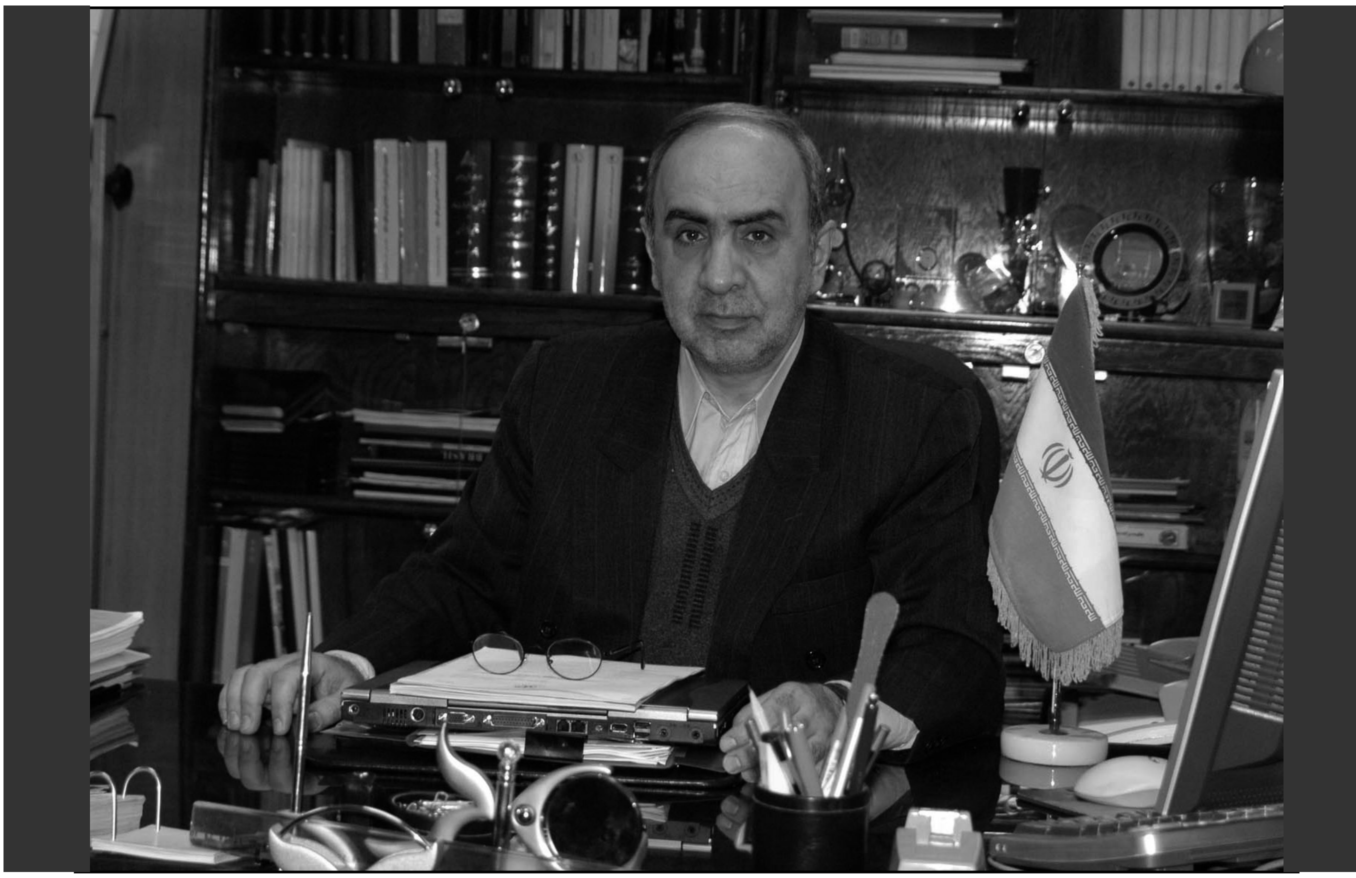

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To discern the cause of the dramatic rise in consumption, the effective parameters in it have to be examined.

Rise in the number of vehicles

Transportation sector in Iran is the prime consumer of petroleum products and accounted for 53% of the total consumption of the products in 2002. Some 99% of gasoline and 56% of gasoil were used up in the transportation system in 2005.

There were around 6.7 Mln vehicles (using gasoline as their fuel) in the country by April 2006, some 3.5 Mln of which have entered the transportation cycle during the last five years alone. Estimates put the number of motorcycles at around 7-8 Mln.

Given the current trend in producing vehicles in Iran, the number of vehicles is foreseen to increase further, thereby affecting the gasoline demand rate.

Price

The gasoline price has not been raised significantly during the recent years. In fact, it has been raised from Rials 450 to Rials 800 during the last five years and has remained unchanged in the past two years. On the other hand, the gasoline consumption rate indicated a 12.5% rise during the first two months of this Iranian year compared to the same period last year.

In view of what went above, it can be concluded that the current trend is no longer tolerable. Continuation of this tendency will need allocation of some $ 6-7 Bln per year for gasoline import.

On the other hand, the rise in the consumption will lead to further production of petroleum products from crude oil. This will in turn reduce the volume of crude that can be exported and consequently curb Iran's foreign exchange revenues.

At present, Iran's crude oil production capacity is around 250,000-300,000 bpd less than its OPEC quota and if this trend persists, the OPEC members might revise the quotas and make new decisions based on the production capability of the members.

High air pollution in big cities

Around 32% of the vehicles in Iran are over 30 years of age. This has increased the average fuel consumption rate of the private cars and taxis in Iran to 15 and 18 liters per 100 km respectively, compared to the average 8 liters in the world.

Purposeless subsidization

It is anticipated that, apart from the local production of some 43 Mln l/d of gasoline, around $ 6-7 Bln would be needed for the import of the product during this Iranian year.

Assuming that the real price of gasoline is Rials 5,000 per liter, the cost of gasoline consumption in this year would total $ 16 Bln. If the local sale revenue of about $ 2.1 Bln is deducted from the amount, around $ 13.9 Bln will have to be paid as gasoline subsidies (the consumption is assumed to be 73 ml/d).

Inadequate public transport

Statistically, the number of urban busses is around 75,000 and some 5,000-6,000 will be produced in Iran during the current year. This cannot meet the needs of the country at all.

Gasoline rationing is the only solution

At present, Iran is left with no alternative but to control and direct its gasoline consumption trend. Despite its specific repercussions, rationing gasoline is indeed the only possible option available.

Taking into account the local production capacity and the need for preserving the strategic reserves of the country, it is recommended that gasoline be rationed through the use of smart card, coupon or any other way, and the required preparations be made for the initiative now.

Concluding point

To avert any adverse impacts of rationing, those willing to use gasoline in excess of their quota should be given the opportunity to purchase the product at free market price. This has the following advantages:

-People can use more gasoline by paying more money; so no restriction is imposed on them.

-The real price of gasoline becomes understandable for people and gradually it will gain credibility.

-The revenues generated will be utilized for developmental projects.

-This will help rationalize the gasoline price.

It should also be noted that gasoline rationing and dual pricing are certainly not the very best solutions, but, under the circumstances, they are the best options available.

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Which Market Is Iranian Gas Heading To?

Pakistan and India are bargaining with Iran over gas pricing. These two countries are said to have offered half the price that Iran has asked for its gas during negotiations with Tehran. It would be suitable to compare those countries' gas market especially from an economic point of view with other potential buyers of Iranian gas. It is, however, obvious that political considerations will also be taken into account in the final decision making. This article is concerned mainly with economic considerations.

The first potential buyer of Iranian gas that immediately crosses the mind as replacement of India and Pakistan is the European Union. It is imperative to consider this Union's natural gas demand as well as economic advantages of European market to that of India and Pakistan for our country. In addition, Iranian gas has a number of advantages for Europe that should be considered. The knowledge about these mutual advantages can be used as an effective card on the bargaining table with India and Pakistan.

The following factors will be considered in this article:

- Comparison of the two alternatives' energy strategies;
- Rate of risk for either of two markets;
- Investment capability of each alternative in the development of Iran's gas reserves;
- The volume of Iran's commercial relations with either of them as well as the necessity of establishing Iran's commercial relations with them;
- Considerations for national interest and the impact of gas exchange on international relations;
- Finally, Europe's level of interest and demand for Iranian gas, which could be employed in the process of bargaining and imposing Iran's suitable conditions on the other party.

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A focus on Natural Gas

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Some of these issues have already been taken into account in the definition of the European energy policies while the others will need more time to be addressed; but the majority of the solutions to be implemented will not produce significant results on short or medium terms.

In this context natural gas is the primary energy source presenting the best characteristics for the next decades and it will be a real challenge for the gas actors to pilot its potential development. In parallel there is today an increasing risk that the natural gas industry becomes cyclical, as it is already the case for the oil industry. This evolution is not in the interest of the actors of our industry: upstream, the investments will be stopped in the periods of low prices; downstream, it will generate demand destruction and facilities underutilization. Furthermore the size of the gas markets remains limited in comparison with the volumes indexed on these prices: this is increasing volatility and this is reducing the possibility to sell high volumes to these markets without impacting their prices.

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Therefore the common interest of producers and market actors anxious about the sustainable development

of the natural gas industry is to enter in long term contracts with marketers holding a direct access to the final customers. Solidarity along these gas chains can be improved by the involvement of the producers in the downstream activities and of the marketers in the upstream.

First allow me to thank the Oil & Gas Forum for this opportunity to share you some statement and general issues about the European energy present and future, a most particularly that of natural gas.

Indeed, the recent high increase in the energy prices has been changing the facts of our industry:

- Oil prices have been over 50 $ per barrel for 5 months, reaching peak values close to 70 $ per barrel.
- Coal has undergone a similar trend, all the more that tensions on transportation were observed
- Natural gas is not escaping this trend, but with some delay and adjustment according to the specificities in the pricing of long term supply contra prevailing in Europe
- Power prices are also climbing, pulled up by the prices of fossil fuels and also by the decline of capacity surplus, generating more and more pronounced volatility on the spot market.

The magnitude, the duration and the generalisation of this trend in prices, questioned the certainties prevailing a few years ago, according to which the energy sector was entering a phase of maturity and was granted with a future regular and linear growth, linked to the general growth of the Gross Domestic Products.

Nowadays on the contrary, issues such as energy conservation, or even reduction of demand, energy independence, security of supply and environmental concerns are key concerns. Some of these issues have already been taken into account in the definition of the European energy policies, their impact will be measured only on the long run:

- Energy conservation, including the promotion of tradable certificates, implying deep changes in the consumers' behaviour.
- Renewable energies, where a fair balance remains to be found between their promotion, their acceptability and the preservation of competition European economies.

Other considerations are at an earlier stage of implementation, concerning the necessity of a higher diversification in primary energy mixes portfolios of the difference European countries. Once again But these solutions will only produce significant results on the medium to long run.

In this context, natural gas remains the primary energy source that presents the best characteristics, at least for the next decade:

- It is indeed the cleanest of all fossil fuels.
- Moreover natural gas is available in large volumes: 70 years of reserve (against 40 for oil) with a distribution of their location that is, more diversified and closer, to Europe.

Consequently, according to experts, natural gas consumption in Europe (including Turkey), should increase continuously at an average rate of 2,6% year, and reach 660 (Global Insight) to 700 bcm (Mc Kinsey) in 2015 compared with 510 bcm today, Gas producers and distributors should be able to seize the opportunity in terms of timing and conditions.

Two third of this growth is to be accounted for by power generation: natural gas is the primary energy source presenting the best characteristics for the next decades, especially in the Mediteffanean countries and the UK. The share of natural gas in total primary energy consumption in EU 25 has reached 24% in 2004, compared with 22% the US or 14% in Japan.

Because the production in Europe is likely to decline, and because the demand will continue to grow, Europe will have to find additional resources of natural gas to supply the markets.

A supply gap will be observed in Europe due to demand growth and declining production. Natural gas reserves located in EU countries (including Norway) are declining and represent or 3.4% of world total and are at a mature stage of development.

For instance, the UK, which has been self-sufficient for decades, will need to import significant and growing volumes of natural gas.

However Norway is undertaking new developments, Norway is developing such as the Ormen Lange gas field and will export this gas through the Langeled Pipeline to the UK. Combine with other developments in LNG from Snohvit expected by the end of 2007, the export capacity of Norway should increase by more than 45% until 2010.

Other Present suppliers of Europe are also projecting to increase their production.

Russia owns by far the largest resources of natural gas in the world and will remain a major supplier of Europe in the future with approximately 25% marl share. Gazprom has the ambition to increase volumes exported outside CIS by 25% in 2010, relying both on pipelines (extension of Yamal Pipeline, or planning construction of the North European Gas Pipeline, Blue Stram) and also on LNG developments (from Shtockman, in the of the natural gas industry is to enter in long term contracts with marketers holding a direct access to the final customers. Solidarity along these gas chains can be improved by the involvement of the producers in the downstream activities and of the marketers in the upstream.

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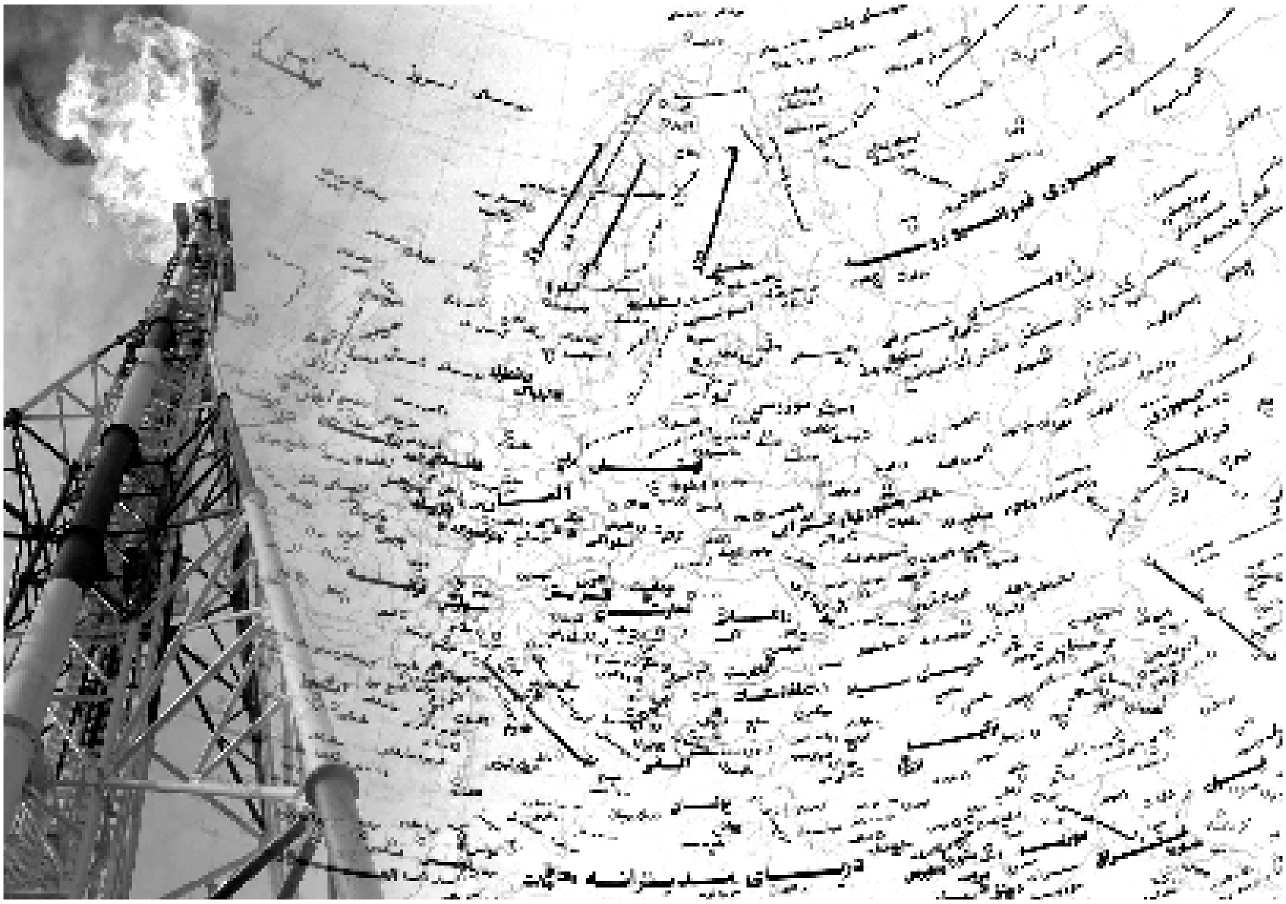


Barents Sea).

Algeria expects an increase of over 40% of exported volumes thanks to the extension of Arzew and Skikda liquefaction plants, completed the extension of existing pipelines to Spain and Italy, and the interconnection projects MEDGAZ and GALSI.

Nigeria,is also implementing gas projects and considers several LNG development projects (Brass LNG, OK LNG, new trains for Nigeria LNG) that could be added to the actual production.

Despite all these projects, the supply from Europe and historical suppliers of Europe will not fully meet the projected demand and new suppliers from new sources which could represent up to 15% of European imports in 2015 will have to be seriously considered.

North Africa, and the most promising projects with Egypt and Libya, Libya is the closest supply source, with go Libya, export prospects:

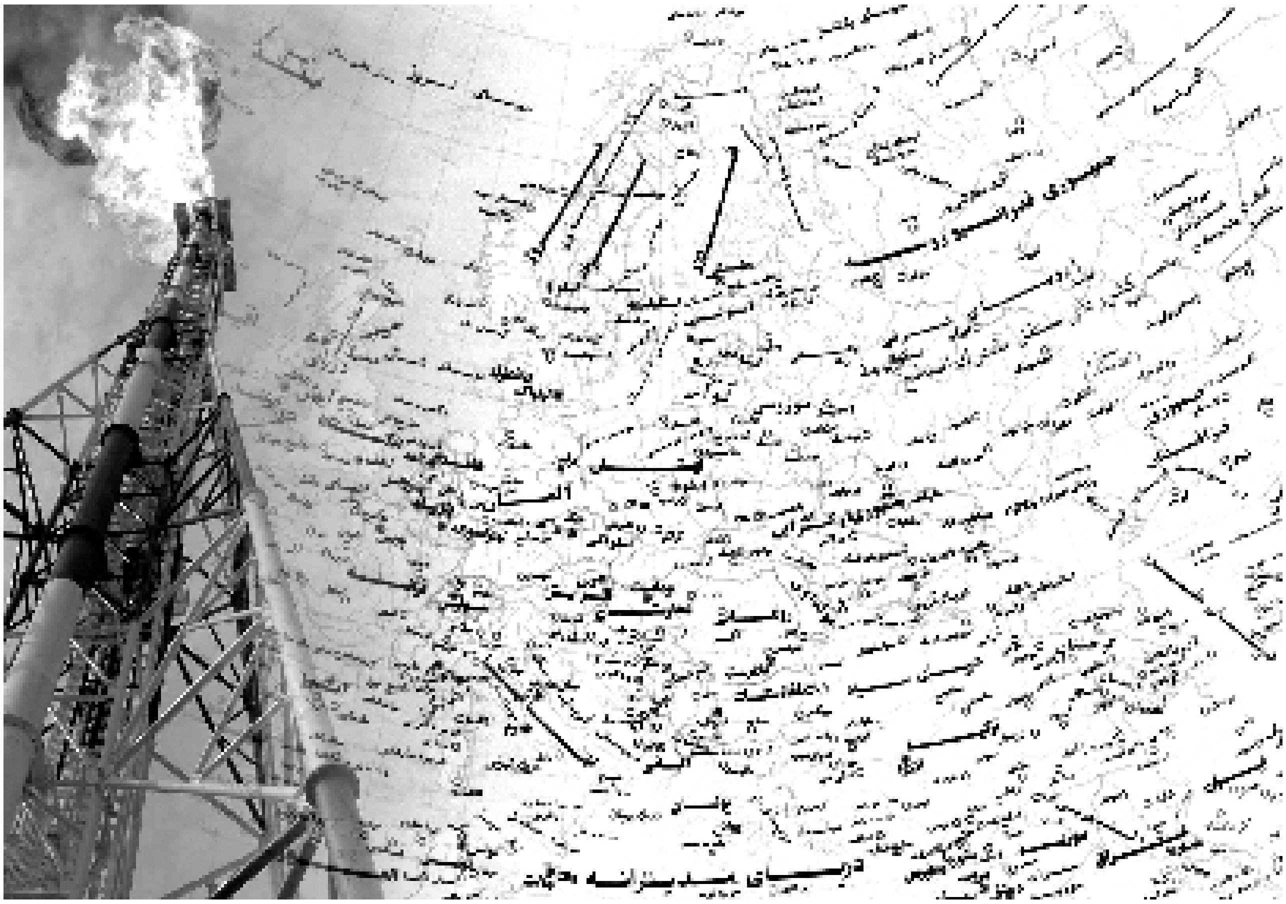
- Egypt has begun to export LNG in 2005 and is considering new LNG developments
- Libya is revamping its existing liquefaction plant and planning to build additional ones

Arabic and Persia Gulf countries (Iran, Qatar, Oman, Yemen....) own 40% of the world proven reserves, with Iran accounting for 15% of the world reserves .Those countries have the opportunity to contribute to the supply of Europe at a significant rate in coming years and some have already started to do so:

- Qatar has dramatically increased LNG export prospects,
- Yemen and Oman are planning building a new liquefaction plants.
- Iran could supply both LNG and pipeline gas, if proper conditions are met.
- Libya is revamping existing liquefaction plants and planning an additional one.

Africa (Angola, Equitorial Guinea, Mauritania) may also contribute, through LNG developments to the supply of the European market.

As LNG becomes more competitive and makes more remote sources of support accessible to the European market, most of the projects promoted by suppliers are LNG. As a consequence, the balance between LNG and pipeline gas will change significantly. So far, LNG imports into the EU are limited representing 6.3% of total imports. By 2015, we expect that the share of LNG the supply portfolio of Europe could reach as much as 20% of total need European gas cormparnies already are preparing this.evolution towards LNG will be possible thanks to the increase of regasification capacities in



Barents Sea).

Algeria expects an increase of over 40% of exported volumes thanks to the extension of Arzew and Skikda liquefaction plants, completed the extension of existing pipelines to Spain and Italy, and the interconnection projects MEDGAZ and GALSI.

Nigeria,is also implementing gas projects and considers several LNG development projects (Brass LNG, OK LNG, new trains for Nigeria LNG) that could be added to the actual production.

Despite all these projects, the supply from Europe and historical suppliers of Europe will not fully meet the projected demand and new suppliers from new sources which could represent up to 15% of European imports in 2015 will have to be seriously considered.

North Africa, and the most promising projects with Egypt and Libya, Libya is the closest supply source, with go Libya, export prospects:

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Europe.

After the recent commissioning of the UK terminal of Isle of Grain, extensive works are undergoing in 3 Spanish terminals and similar projects will start in Belgium.

Gaz de France is presently building a new 8bcm/y capacity terminal on the Meditenanea Sea. Some new projects have received all necessary approvals and are under construction: Sagunto and Reganosa in Spain, Milford Haven and Sm Hook in the UK.

Some projects are still at the stage of feasibility studies, such as Rovigo or P0 Empedocle in Italy, 3 projects in the Netherlands, etc.

Still, European gas companies, such as Gaz de France, will also consider pipeline gas as a way to secure new long term supplies and diversify the portfolios and their routes.

To this respect they are involved in new pipelines projects, such the pipeline between Lybia and Italy or Algeria and Europe.

Even if some significant steps have already been undertaken by players , on the supply and market side to secure new supplies, they will have to face major challenges.

Let me focus on the new challenges our industry is facing and the possible ways to cope with these challenges: the integration of the world gas market and risks associated with a more cyclical business.

As prices increase and as technology improves, distances for shipping gas to markets are also increasing. As a consequence, new resources are brought to the market, but also ,North America and European markets can now import LNG from the same resources orignating from the Atlantic Basin (Nigeria, Venezuela Trinidad…), and from the Middle East.

This kind of new competition also takes place on export projects A number of them are developing their capacities at a fast pace and are in competition order to win and secure market shares. For instance, new importing markets such as China, have benchmarked a selection of exporting countries. Some other buyers are organizing international LNG tenders (recently, KOGAS, for instance'). Europe will be soon supplied by 4 exporting regions of the world Europe, Africa, Middle East and Central and South America.

Therefore it will be a real challenge for the gas players to sort out credible projects for the most promising and reliable markets and then manage the development of natural gas reserves and of the necessary infrastructures in proper time to bring these reserves to the markets. In short, bring the right gas at the right place, with the right timing.

For instance in the UK, in the short to medium term, there are quite a lot of natural gas import projects that represent, in theory, more than what is required to meet the demand: both pipe projects, reinforcement of interconnector including reverse capacities, BBL (a pipeline across the North Sea between Netherlands and the UK') and LNG terminal projects, such as South Hook Milford Haven and Isle of Grain.

In Italy, the same situation may occur: there are quite a lot of new gas import projects, both by means of pipe or LNG terminals. Not to mention the North American market, where numerous LNG regaseification plants are planned.

Indeed, there is today an increasing risk that the natural gas industry become more cyclical than it has been, leading to a succession of periods with excess capacities and periods with a relative shortage of capacities.

Of course, this cyclical evolution is not in the interest of the stakeholders of gas industry and ultimately the producers and the consumers: upstream investments will be stopped or postponed in periods of low prices. In periods of high prices, it will generate demand destruction and stranded investment come due to the underutilization of existing facilities, weakening downstream player.

Depending on how gas markets are organized, an excess in capacity may not necessarily turn into an excess gas.

In Continental Europe, where most of the supplies are based on long term contracts, mainly driven by the price of competing sources of energy (products) and to a lesser extent by spot prices on European gas hubs (in 2000 only 8.3% of contracted volumes in the EU were linked to a gas index) the gas players have no choice but to adopt a rational and prudent behaviour namely, gas contracts are being subscribed according to the markets' needs, and not to fill the import capacities.

As you all know, this is not the case on the North American market, where the gas is developed and sold on short term markets and which already experienced in the past periods of excess gas and excess capacities and period limited supplies and of relative shortage of capacities.

That is not to say that spot markets cannot have a useful role: they can balance tight markets or from time to time absorb an excess of gas. They provide flexibilities to the market players and trading opportunities, for LNG as well pipe gas.

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They also provide some useful signals on the way the markets are heading towards, but we have to be cautious not to rely only on them and to overreach because we may amplify the cyclical tendency of the gas market.

I am convinced that to ensure a sustainable development of the natural gas industry in a world of increased competitions and uncertainties, we, producers and market players, need to rely on long term contracts and to promote different forms of cooperation all along the natural gas chain.

The long term contracts are not only necessary to finance the new projects, but they also mitigate the risks on both sides between producers holding reserves and marketers having a direct access to a strong a stable market.

In addition, forms of cooperation between producers and marketers could be helpful not only to strength their links but to share the same long term vision, understand the rationale of the risks of each others business and consequently mitigate the risks of necessary projects.

This competition is to be expected in the long term LNG trade, where the possibilities for re-routing the cargoes exist, according to arbitration opportunities, but are limited, and will concern especially spot cargoes, which represent in terms of volume about 10% of total trade.

This spot market relies on the marginal available excess quantities of liquefaction plants, most of the capacity being allocated under long term contracts. Long term contracts are necessary for the financing of LNG projects, especially grass root ones. They reflect the economic realities of the final markets they are supplying and vary considerably from one to the other. The European long-term contracts are mainly driven by oil products, and to a lesser extent by spot prices on European gas hubs or power market, depending from the country. In 2004, only 8.3% of contracted volumes in the EU were linked to a gas index.

Competition also exists on the side of the export projects. A number of them are very quickly developing their capacities and are in competition in order to win and secure market shares. For instance, new importing markets, as China, have benchmarked a selection of exporting countries. Some buyers are organizing international LNG tenders (recently, KOGAS, for instance). Europe will be soon supplied by 4 exporting regions of the world.

Therefore it will be a real challenge for the gas actors to pilot the development of natural gas reserves, in order to avoid the formation of a natural gas bubble once the measures mentioned in the beginning of my presentation-energy conservation, renewable energyies, etc-will starts producing tangible results.

Indeed, there is today an increasing risk that the natural gas industry becomes cyclical, as it has already been the case for the oil industry, with a risk of import capacities bubble, that may or may not turn into gas bubbles.

For instance in the UK, in the short to medium term, oversupply is probable: there are quite a lot of new gas import projects that represent, in theory, more than what is required to meet the demand: both pipe projects such as Langeled, reinforcement of interconnector including reverse capacities, BBL and LNG terminal projects, such as South Hook, Milford Haven and Isle of Grain.

In Italy, the same situation occurs: there are quite a lot of new gas import projects, both by means of pipe or LNG terminals. Even if most of the LNG terminal projects in Italy are all facing at the present time strong difficulties to come through, the risk of oversupply is there.

The excess in capacity will not necessarily turn into an excess gas because of the rational behaviour of the main gas players. Namely, gas contracts are being subscribed according to the markets' needs, and not to fill the import capacities. Moreover, diversion and flexibility options exist, and destination flexibility may even be contractually organised. Therefore, LNG in such a context will be a price taker more than a price maker.

This cyclical evolution is not in the interest of the stakeholders of our industry: upstream, investments will be stopped in the periods of low prices. Downstream, it will generate demand destruction in the periods of high prices and stranded investment costs due to the under-utilization of the existing facilities.

This cyclical tendency is reinforced by the imperfection of natural gas market places: the Henry Hub or the NBP are relatively narrow compared with the volumes indexed on these prices. This is increasing the volatility and limiting the possibility to sell high volumes on these markets without dramatically impacting their prices.

Under these conditions, the common interest of producers and of market players that are anxious about sustainable development of the natural gas industry is to enter in long term contracts with marketers holding a direct access to the final customers and to ensure that the pricing makes natural gas competitive towards alternate energies.

It is also for the policy makers to act in favour of the constitution of solid energy actors, able to guarantee a well balanced, reasonable and therefore sustainable energy development. More than in any other industry, long term visions are required in the energy sector.

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Interviews with TOTAL, Lukoil, Shell Managers in Iran

Iran's First Vice President Parviz Davoudi, during the inauguration of the recent Tehran oil exhibition, paid a visit to the foreign companies' hall and stood just in front of the TOTAL stand and then made short visits to the pavilions of the Russian, Ukrainian, and Spanish companies.

A reporter from the Persian-language daily Sharq asked Total manager in Iran Fabiani present at the opening of the oil exhibition about the foreign companies' reactions to certain reports on bribery in Total, investment, and oil market.

With rosary beads n his hand, Fabiani sat down.to answer questions.

Q: As the first question, why do you keep rosary beads?.

A: I like it and I hope the Iranians due to their religious beliefs are not unhappy about it. When you live abroad, you have to learn all good habits of other countries.

Q: Would you please point to other good things in Iran?

A: Apart from rosary beads and high-quality caviar that I like very much, I highly respect Iran's age-old culture. To me, the Iranians are highly cultured. There is no difference between Iran and France in terms of cultural and scientific issues. Every year Iranian graduates from Oil Industry University, Sharif University of technology, Amir Kabir Polytechnic University, and University of Tehran enjoy Total scholarships to study in foreign countries. They are able to compete with their foreign counterparts in top universities.

Q: What do you think about Iran's vice president having a thorough look at the Total stand and then just making short visits to some Russian and Ukrainian companies on the second floor?

A: Total is a company that does its job very well. We did nothing to draw his (Davoudi's) attention. He preferred to pay due heed to our company and it is an honor for us. Perhaps Total's 11-year performance in Iran has pleased him.

Q: Don't you think that large-scale economic cooperations need political support?

A: I am certain that the relations between Iran and France are good. Total is not an affiliate of the French government as it belongs to the private sector.

Therefore, our activity has nothing to do with Iran-France political ties. We never engage in political affairs.

Q: Does not the French government support Total politically?

A: Total is active in 130 countries. The French

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Q: France is a member of EU troika that holds nuclear talks with Iran. If Tehran finds itself in tough circumstances in the international scene, will the Total make further investments in Iran?

A: Total is not affected by the French government and highly respects all rules and regulations of the country it is cooperating with. But we are running an international company and are obliged to observe the international law. If the international law calls for sanctions, we will be obligated to put a brake on our work.

Q: Some circles argue that the Total's strong presence in Iran influences the policies of the French government and above all the EU. What is your opinion?

A: I totally rule out the idea. The Iranian people considerably mix up economic issues with political problems because they believe the two issues are very interdependent. They think the economic sector cannot make progress if not supported politically. But to me, it is not the case since economics and politics are different and separate in many respects.

Q: Your response contradicts your previous comments. On one hand you say the Total must follow the political pressure on Iran and on the other hand you believe that the economic affairs have noting to do with political behavior. How do you justify it?

A: My words were not contradictory. By international law, I meant the rules and regulations of cooperation. I did not talk about political problems. The French government held some part of the Total's shares 15 years ago. But now, it has no share. You should know that all foreign companies are duty-bound to abide by the international law. We observe the law not only in Iran, but in all countries.

Q: Let me put the question this way. Does the Total play an advisor's role and tell the French government about its political stance towards Iran so that the company's activities would be facilitated?

A: Not at all. We never get involved in political affairs – neither in Iran nor in France. I mean we do not hold political negotiations with Iranian and French officials. We are cooperating only in the oil and gas sectors.

Q: I would like to know your opinion on a report recently published by a Swiss newspaper. A team comprising top judges has started studying the Total's accounts. The Swiss paper has claimed that the Total has paid bribes to win a tender. Is that right?

A: We never talk about rumors. If we pay attention to such rumors, the work comes to a standstill. In my opinion, the gossipers are jealous of the Total's great success in Iran.

Q: Do you, mean the Total's rivals spread suchrumors?

A: There could be many reasons behind the publication of such news. Even the rival companies could be behind it. And maybe those countries, which are not happy with the Total's cooperation with Iran. We have no information in this regard.

Q: Do you deny the report on bribes?

A: I have no idea.

Q: What do you mean by "I have no idea"? Dou you deny it or prefer to keep silent?

A: I do not know who is behind the news. So, I cannot make any comments on it.

Q: Iranian people referring to history believe that most of the oil companies are not trustworthy. What do you think?

A: People may think about things they like. I have been working in the oil and gas sectors for 35 years. I reject the idea.

Q: What are other projects of Total?

A: Total will make investments in two projects – Pars LNG and Phase 11 of the South Pars (SP) field. The company has a 40 percent share in the Pars LNG while 50 percent belongs to the National Gas Exports Co. and the remaining 10 percent is owned by Malaysia's Petronas.

Q: When will you finish the Pars LNG project?

A: It will become operational by 2010.

Q: Some recent reports indicate the Total's huge profits gaind in the Phase 7 of the SP. The oil minister also announced that the project would not kick off if the figures in the contract did not change. Would you please elaborate on the issue?

A: Nobody imagined that oil prices would go up in that way. The minister is right and we agree and are ready to hold more talks on the contract. When we were negotiating on the Phase 11 contract, the oil prices were much lower. And now, we thanks to the price hikes are prepared to have more talks. But our decision at that time was right.

Q: Are there other projects under study?

A: Yes. We are studying some other projects. But I cannot reveal them right now. What I can say is that we have yet to be informed of the fate of the buyback contracts. It is nearly two years that no buyback contract has been signed. Firstly, we have to know about the type of the contracts of the Oil Ministry. Since we have no information about the new contracts, we do nothing.

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A: Yes. We are studying some other projects. But I cannot reveal them right now. What I can say is that we have yet to be informed of the fate of the buyback contracts. It is nearly two years that no buyback contract has been signed. Firstly, we have to know about the type of the contracts of the Oil Ministry. Since we have no information about the new contracts, we do nothing.

But we are eager to participate in new projects if the proposals are desirable.

Q: Do you mean that Total is not willing to take part in new projects under previous buyback conditions?

A: Exactly. We are not keen about participating in more projects with the terms and conditions of the previous buyback contracts.

Q: What is your proposal for making Iran's oil contracts more attractive and alluring more foreign companies?

A: Short-time period of buyback contracts is the main problem Technology cannot be transferred in a short time. Oil giants are not only manufacturers. Our expertise mainly focuses on participation in production that helps us transfer the know-how of exploitation.

Q: As an expert, who has been working in the oil sector for 35 years, what is your prediction about the future of oil market and prices?

A: It is a hard question and I cannot give an accurate response. But I believe as the oil prices soar, the state-of-the-art technologies become economical. The technology of converting heavy crude oil to light crude is among them.

Q: Iran's former oil minister Bijan Namdar-Zanganeh believes that the main oil consumers were behind the increase in its price. He argued that the hike made investment in the oil fields more uneconomical, guaranteeing the production. Do you agree with him?

A: Zanganeh's view is political. However it is clear that if a barrel of oil costs 200 dollars, it will not be economical for the big consumers, either.

Interview with Lukoil manager in Tehran. The Russian oil company had a strong presence in Tehran international exhibition.

Q: As a representative of a Russian oil giant how do you evaluate foreign investments in Iran particularly in the oil sector?

A: At present, the Lukoil Company and Belgium's Hydro Zagros are jointly working in Anaran field. In this project, Lukoil is responsible for upstream operations such as drilling and geological issues. A 200 million dollar investment has been made in the field, out of which 50 million dollars is directly provided by the Lukoil and the rest by the Belgian company.

Q: But I did not receive the response to my question. Considering Iran's international position and its nuclear standoff, what is your analysis of foreign investments in the country's oil and gas sectors?

A: We are very hopeful that the (nuclear) case will be settled. As you know, we took part in Iran's oil and gas exhibition. I reiterate that we (the Lukoil) will participate in Iran's projects not only under current circumstances, but in the future.

Q: Will you be ready too to make investment in Iran's oil and gas projects while sanction is a possibility?

A: This is a decision the high-ranking officials of Moscow and Tehran should make. But as a Lukoil manager, I voice the company's preparedness to cooperate with Iran. I hope Iran's nuclear standoff is resolved through diplomacy .

Q: The history shows that the oil giants highly influence their countries' political structures. Is it possible that the Russian oil giants' participation in Iran's projects motivates the Russian government to boost their cooperation with Iran?

A: The Lukoil is not a state-run company. Therefore, the stockholders decide about he Lukoil's participation and the investments.

However, we as an oil company reserve the right to offer some proposals to the Russian politicians. For instance, the politicians are all ears to our comments on Iran.

Q: The Russian companies have recently made some proposals on their participation in Iran's projects, including the South Pars. Has the Lukoil offered a new overture for taking part in new oil projects?

A: You know that the Lukoil has established an office in Iran and attended the Tehran International Oil, Gas and Petrochemical Exhibition. Our participation in Anaran oil exploration is just a short stride. We are eager to take major steps and implement big projects.

Q: Have Iranian officials welcomed your participation?

A: Yes. We have participated in both Tenders of 16 of Oil block and North Azadegan field.

Q: Have you received a response?

A: Unfortunately, we have not yet received a positive response from the National Iranian Oil Company (NIOC), but we are cooperating in the tender. We are scheduled to meet top officials of Iran's Oil Minister, including Oil Minister Kazem Vaziri-Hamaneh and exchange views in this regard.

Q: Is it an invitation from the minister or you have called for it?

A: Both sides. It's 50-50. We are keen to hold such negotiations.

Q: What are the main topics of your talks with the minister? Will it include the recent developments?

A: We aim to talk to the minister just about marketing

But we are eager to participate in new projects if the proposals are desirable.

Q: Do you mean that Total is not willing to take part in new projects under previous buyback conditions?

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Q: But big economic projects cannot be separate from politics.

A: I am not willing to say anything about it. The future talks will shed light on everything. The main point is that the ranking officials of the Lukoil are ready for talks.

Q: Who will represent the Lukoil in the meeting with Iranian minister?

A: It depends on Iranian Oil Ministry's decision.

Q: Can the Lukoil be successful in competition with European companies in Iran while some of them have been working in the country since 40 years ago?

A: We have scores of rivals in all Western states. We are enthusiastic about Iranian projects.

Q: What are strong points of Lukoil compared with its rivals in Iran?

A: We possess advanced technology in the oil industry. In addition, we have huge money. Still, we are ready to cooperate with Iranian companies and make them our partners. We aim to help the Iranian companies move with us neck and neck in the projects. We do not want the Iranian companies to play the role of a subsidiary contractor.

Q: Will Lukoil keep on participating in Iran's projects if the country is faced with harsh conditions through the United Nations Security Council?

A: We are not able to solve political problems. But the Lukoil is willing to stay and work in Iran.

The last nterview was made with the new Shell manager Merer in Tehran, who said his company is determined to cooperate with Iran.

He started his work in the capital by attending the Tehran International Oil, Gas and Petrochemical Exhibition.

The manager briefly responded to Sharq's questions, promising to give full explanations later

Asked about foreign investments in Iran's oil and gas sectors, he said, "Iran holds the world's second largest gas reserves and third largest oil reserves. In order to have reliable energy resources in the world, domestic and foreign investments should be made in Iran's energy sector It is fortunate that Iran's oil minister and the first vice president pointed to the issue in their speech in the opening ceremony of the Tehran exhibition."

Shifting to changes in the buyback contracts with the aim of attracting further foreign investments in Iran, he added, "If some articles are added to the buyback contracts that serve Iran, the NIOC and foreign investors, encourage long-term cooperation, and lead to increase in oil reproduction and sustainable production, that will be good."

What are the projects the Shell is seeking in Iran?

A: The Shell Company plans to have a long stay in Iran – a country it has been working in for more than 50 years. Current projects in particular "Persian LNG" pave the way for the Shell's long presence in Iran. We also hope to expand our cooperation with the country in the fields of gas, oil recycling, and joint investments.

The name of the Shell Company has been associated with the Soroush and Norouz oil fields during the recent months. The Shell undertook the responsibility of developing the two fields in a bid to add 190 thousand barrels of oil to Iran's daily output. Although the project finished and became operational last year, the production due to different reasons was halted and sometimes faced problems. The Oil Ministry has not yet taken the project, waiting for removing the shortcomings.

Q: When will the defects of Soroush and Norouz fields be corrected?

A: The equipment and installations of the two fields were delivered to the NIOC last year. The things we are committed to are going well and we will fulfil them by the year end. Of course, the mentioned problems have no impact on production and sale of Soroush and Norouz crude oil.

Merer's comments, however, are open to question because any defect or technical problem affects the production.

Q: U.S. President George W. Bush has recently urged his administration to reduce Washington's dependence on the Middle East oil. Will the decision affect the investments in the region's oil fields?

: Cheap energy is no longer available. Hence, investments in the fields of previously uneconomical oil reserves and modern technologies have been boosted. To have reliable energy sources, I predict the investment in the Middle East will reach its peak.

Q: As a manager of an oil giant, what is your opinion about the current oil prices?

A: Today, oil price is not stable. The high price of oil encourages investment in exploration and increase in reproduction of oil and other sources of energy.

Q: What is your assessment of development of Phase 13 of the SP field and the oil minister's comments on improvement of Persian LNG contract?

A: The Shell and the NIOC signed a contract on the project in 2004. We should be committed to the contents of the contract. The agreement includes a stage named "FID" that allows the two parties to study the contents of the contract and change them according to new conditions after carrying out the initial measures. The "FID" of the Persian LNG contract in the Phase 13 comes within a couple of months.

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Regulations on Monetary and Banking Operations in Free Trade-Industrial Zone of the Islamic Republic of Iran

CHAPTER ONE: Defijbutuins

Article 1

In these Regulations, the following terms are used in lieu of the relevant phrases:

Regulations: Regulations on Monetary and Banking Operations in the Free Trade-Industrial Zones of the Islamic Republic of Iran.

Authority: The organization of each of the Free Trade-Industrial Zones of the Islamic Republic of Iran.

Zone: Each of the Free Trade-Industrial Zones of the Islamic Republic of Iran.

Bank Markazi: Central Bank of the Islamic Republic of Iran.

Bank: Bank and branches which are authorized to operate in a Zone.

Branch: A bank branch in a Zone that is a unit of an Iranian or foreign bank (the parent bank) which engages in authorized banking activities in accordance with the parent bank's charter and within the framework of the Zone's laws and Regulations.

Institution: A non-bank credit institution which is established and operates in a Zone in accordance with the provisions of these Regulations.

Offshore Banking: Conducting various banking operations solely in foreign currencies.

High Council: The high council of the Free Trade-Industrial Zones of the Islamic Republic of Iran.

Chapter Two: Conditions for Establishment of Banks and Credit Institutions

Article 2

The use of the words "bank" and "institution" in a Zone is authorized solely in compliance with the provisions of these Regulations.

Note

Banks that obtain authorization for offshore banking activities are required to affix the term "offshore" to the name of their bank.

Article 3

The establishment of an Iranian bank, with due regard to the amount of shares specified under

Note 2 of the "Law of Modification of the Law on the Administration of Free Trade Industrial

Zones" ratified in 1375, and institution and the opening of bank and institution branches, whether

Iranian or foreign, is conditional upon approval by Bank Markazi, with the proposal by the

Authority and ratification of the majority of the member of the High Council of Free Zones.

Note 1

Banks that intend to engage in offshore banking operations are required to obtain special authorization for above-mentioned activities from Bank Markazi, upon proposal by the Authority

Note 2

The establishment of foreign exchange dealership is possible upon the permission of the Authority

Article 4

The articles of association of the banks and institutions and any modification thereto must be approved by the majority of the members of the High Council of Free Zones after suggestion of

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In view of this increase in demand, Europe's level of natural gas output has almost remained constant since 1987.

In 2003, Europe's natural gas import was 204.7 billion cubic meters, being 41.4 percent of its total gas requirements. Russia, Algeria and Nigeria have respectively provided 130.6, 30.8 and 8.4 billion cubic meters of Europe's gas requirements. If Turkey is also considered a part of Europe, It can be said that Iran with gas export of 3.5 billion cubic meters has occupied the fourth place. The other Middle East countries have provided a total of 5.5 billion cubic meters.

Europe's interest in diversification of a part of its gas supply has been strengthened due to disruptions occurred last winter as a result of differences between Russia and Ukraine causing a lot of inconveniencies for Europeans in that season. Europe imports about 68 percent of its gas requirements only from Russia and it is, therefore, highly dependent on Russia for security of its gas supply. It is therefore logical that Europeans decide to reduce such level of dependency.

On the other hand, it seems that the Middle East has priority over Africa for Europe. First, it is unlikely that there would be more gas in Africa for supply to Europe. Second, construction and maintenance of offshore pipelines for gas transfer is very hard task and costly. However, Middle East gas will provide a third route to Europe which will pass through Turkey, in addition to Mediterranean and East European routes. Predicting this issue in time, Turkey has had several routes under study and negotiation for connection to Europe's gas network. One of such routes called "Nabaco". It has lately been supported and welcomed by the European Union. On the other hand, Turkey is preparing infrastructures for negotiation with gas owners in the Middle East and Caspian Sea region.

Iran has more than 17 percent of world gas reserves. It is considered one of the best potential sources for diversification of European Union's gas supply. It seems that, for the following reasons, European market is more suitable for Iran compared to markets in India and Pakistan.

1. Both India and Pakistan lack clear strategies and long-term planning in their energy sector and, as a result, their energy market is in no way guaranteed. In addition, although the energy and gas market of these two countries are not under exclusive control of government, the private energy sectors in India and Pakistan are not fully developed to be able to control and improve the market. Therefore, the gas market in these two countries is considerably high risk If a gas export contract with those two countries is concluded, the possibility that they would not keep their commitments for receiving enough gas will be very high; consequently the return of investment of the project would be faced with difficulty. Of course, in gas contracts , necessary mechanisms are generally included in order to prevent such a loss. However, experience shows that especially when the party to a contract is a government which does not observe its commitments, such mechanisms can not be very effective.

Currently, the available information shows that India is facing difficulty with full absorption of LNG import volumes according to contracts it has concluded. On the contrary, the European energy market is well established and based on clear strategies, and it is thus very unlikely that the European Union disregards its commitments.

2. The investment problem is the principal factor in development of Iran's vast underground gas reserves. Meeting its domestic gas requirements, striking balance between domestic supply and demand, and creating suitable conditions for gas export are all affected by this main problem. Iran's presence in markets such as India and Pakistan does not create significant incentives for international oil companies to have cooperation for development of the country's gas reserves. This is due to the issues mentioned earlier. However, entering into European market will definitely ease and expedite such a process.

3. Commercial relations between Iran and Europe are much wider, and perhaps not at all comparable with those of India and Pakistan. Iran has significant imports from the European Union which is not proportionate to its export to this Union. Iran's gas export to the European Union can improve the trade balance between Iran and the EU.

4. Turkey is on the threshold of joining the European Union and does not have any critical and serious problem with the Union. The requirement for gas could also expedite Turkey's joining to the European Union. Under such a condition, Iranian

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Article 5

The registration of banks and institutions in a Zone is contingent upon issuance of the permit subject of Article (3) of these Regulations. The registration office in a Zone is required to demand the said permit prior to the registration of banks and institutions.

Article 6

The branches of the mainland's banks which are established in a Zone before the ratification of these Regulations, shall be managed as before in accordance with the regulations and rules of their parent bank.

Article 7

A bank may be established only as a public joint stock company with registered shares and an institution only as a public or private joint stock company with registered shares, in accordance with the provisions set forth in the law approved in 1347 (1968), amending part of the Commercial Code, in the following manner:

(a) Banks whose capital belong to the Iranian banks or government organizations for a ratio exceeding fifty one percent (51%).

('b) Institutions whose capital belong to Iranian or foreign natural or legal persons.

Article 8

The minimum capital, whether contribution or working capital, of Zone banks and institutions mentioned in Article (7) of these Regulations are determined as follows:

A. Iranian banks: At least 15 billion Rials (15,000,000,000), all of which should be deposited in cash with Bank Markazi,

B. Iranian institutions: At least 5 billion Rials (5,000,000,000), all of which should be deposited in cash with Sank Markazi.

C. Foreign bank branches: At least 5 million (5,000,000) dollars all of which shall be deposited with Bank Markazi.

D. Foreign institutions: At least five million (5,000,000) dollars, all of which should be deposited with Bank Markazi,

Article 9

Establishment of branches, sub-branches and representative offices by the banks and institutions set up in a Zone is permitted, upon proposal by the Authority and authorization by Bank Markazi.

Chapter Three: Conditions for Activity

Article 10

After obtaining the permit for establishment, subject of Article 3 of the Regulations and having registered in registration office of the Zone, banks and institutions may commence their activities in compliance with the provisions of these Regulations and upon submission of the following detailed documents to the Authority:

- Notice of registration published in the Official Gazette;
- One copy of the registered Articles of Associations.
- Notice of the address of the Head Office.

Article 11

Monetary and credit guidelines and policies of a Zone shall be as stated below:

A. All banks and institutions and their branches that have obtained permits to operate in the liree Trade-Industrial Zones and are engaged in activities in the Zones are governed by these Regulations and the Law on Non-usury Banking Operations.

B. While adopting the monetary and credit policies, Bank Markazi shall make special arrangements for the Zone's banks and institutions in order to facilitate investments in the Zone and to safeguard their competitive position vis-a-vis the Free-Zones of other countries.

Article 12

Banks subject to Note (1) of Article (3) of the Regulations ate not authorized to accept deposits and to grant credit facilities in Rials.

Article 13

Rules governing the foreign exchange operations and transactions by the banks and institutions in a Zone are as follows:

A. Inflow of foreign exchange in any manner from a Zone to the mainland is permitted.

B. Outflow of foreign exchange from the mainland to a Zone shall be subject to the rules and guidelines of the mainland.

C. Upon compliance with the provisions of these Regulations and relevant rules, banks and the Authority and confirmation of Bank Markazi.

Article 5

The registration of banks and institutions in a Zone is contingent upon issuance of the permit subject of Article (3) of these Regulations. The registration office in a Zone is required to demand the said permit prior to the registration of banks and institutions.

Article 6

The branches of the mainland's banks which are established in a Zone before the ratification of these Regulations, shall be managed as before in accordance with the regulations and rules of their parent bank.

Article 7

A bank may be established only as a public joint stock company with registered shares and an institution only as a public or private joint stock company with registered shares, in accordance with the provisions set forth in the law approved in 1347 (1968), amending part of the Commercial Code, in the following manner:

(a) Banks whose capital belong to the Iranian banks or government organizations for a ratio exceeding fifty one percent (51%).

('b) Institutions whose capital belong to Iranian or foreign natural or legal persons.

Article 8

The minimum capital, whether contribution or working capital, of Zone banks and institutions mentioned in Article (7) of these Regulations are determined as follows:

A. Iranian banks: At least 15 billion Rials (15,000,000,000), all of which should be deposited in cash with Bank Markazi,

B. Iranian institutions: At least 5 billion Rials (5,000,000,000), all of which should be deposited in cash with Sank Markazi.

C. Foreign bank branches: At least 5 million (5,000,000) dollars all of which shall be deposited with Bank Markazi.

D. Foreign institutions: At least five million (5,000,000) dollars, all of which should be deposited with Bank Markazi,

Article 9

Establishment of branches, sub-branches and representative offices by the banks and institutions set up in a Zone is permitted, upon proposal by the Authority and authorization by Bank Markazi.

Chapter Three: Conditions for Activity

Article 10

After obtaining the permit for establishment, subject of Article 3 of the Regulations and having registered in registration office of the Zone, banks and institutions may commence their activities in compliance with the provisions of these Regulations and upon submission of the following detailed documents to the Authority:

- Notice of registration published in the Official Gazette;
- One copy of the registered Articles of Associations.
- Notice of the address of the Head Office.

Article 11

Monetary and credit guidelines and policies of a Zone shall be as stated below:

A. All banks and institutions and their branches that have obtained permits to operate in the liree Trade-Industrial Zones and are engaged in activities in the Zones are governed by these Regulations and the Law on Non-usury Banking Operations.

B. While adopting the monetary and credit policies, Bank Markazi shall make special arrangements for the Zone's banks and institutions in order to facilitate investments in the Zone and to safeguard their competitive position vis-a-vis the Free-Zones of other countries.

Article 12

Banks subject to Note (1) of Article (3) of the Regulations ate not authorized to accept deposits and to grant credit facilities in Rials.

Article 13

Rules governing the foreign exchange operations and transactions by the banks and institutions in a Zone are as follows:

A. Inflow of foreign exchange in any manner from a Zone to the mainland is permitted.

B. Outflow of foreign exchange from the mainland to a Zone shall be subject to the rules and guidelines of the mainland.

C. Upon compliance with the provisions of these Regulations and relevant rules, banks and institutions are permitted, within the framework of the internationally accepted banking rules and principles, engage in foreign exchange operations and services such as the following:

(1) Maintaining correspondence relationship with other banks.

(2) Conducting all kinds of operations relating to documentary letter of credits, bills for collection, foreign exchange letter of guarantee and foreign exchange money.

(3) Foreign exchange deposits in various forms that the banks and institutions accept must be in internationally traded currencies as listed by Bank Markazi.

(4) Purchase and sale of foreign exchange.

(5) Upon approval by Bank Markazi, issuance and purchase and sale of bonds, shares and investments.

(6) Transactions in gold and silver.

(7) Obtaining various kinds of credit facilities

(8) Granting various kinds of credit facilities.

D. Commissions on banking operations, the buying and selling rates of foreign exchange, interest paid on various deposits as well as interest charged for facilities granted shall be determined by free market conditions.

E. Foreign exchange dealers are allowed solely to buy and sell foreign currencies whose rates are fixed on the basis of supply and demand.

F. Transfer of funds, whether Rial or foreign exchange, by foreign exchange dealers shall be conducted exclusively through Zone banks and institutions.

Article 14

Banks and institutions established in a Zone are not entitled to increase their capital by means of re-evaluation of their assets.

Article 15

Banks and institutions of a Zone are required at all times to deposit with the Bank Markazi a portion of their deposits as the statutory deposit in ratios determined by Bank Markazi; the ratios of statutory deposits may vary in terms of the type of deposits and the scope of the activities of the banks and institutions; however, such ratio shall not be less than ten per cent (10%) nor exceed thirty per cent (30%).

Article 16

Banks and institutions of a Zone are required to retain a portion of their annual net profits as legal reserve; the ratios of these reserves shall be a minimum of fifteen percent (15%) and a maximum of twenty percent (20%) of the net profits; continuation of such a retention shall be optional when the accumulated amount of such reserves has reached the amount of the capital.

Article 17

All foreign currency assets and liabilities of the banks and institutions subject of paragraph (a) of Article 3 of the Regulations must be converted at the relevant foreign exchange rate as at the end of each financial year. The differential resulting from such conversion of assets and liabilities whose maturity dates exceed one year from the date of conversion, shall not be transferred to the profit and loss account.

Article 18

Banks and institutions of a Zone are not authorized to accept their own shares as security for granting facilities.

Article 19

For the purpose of mobilization of financial resources, the banks and institutions of a Zone are authorized to issue bonds, participation and investment instruments. Rules governing the issuance of such instruments shall be approved by Bank Markazi.

Article 20

Banks and institutions of a Zone are not authorized to undertake the following operations:

(a) Purchase and sale of goods, except gold and silver, directly through banks and institutions of a Zone for commercial purposes.

(b) Transactions in immoveable exceeding the ceiling determined by Bank Markazi, except the banks and institutions whose principal purpose is transactions in immoveable;

(c) Purchase of shares and participation in the capital of one or more companies, and or purchase of securities for their own account in amounts exceeding the ceiling set by Bank Markazi;

(d) Granting of credit facilities to the Managing Director, and members of the Board of Directors and companies in which they hold interest, in amounts exceeding the ceiling set by Bank Markazi;

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(e) Granting of credit facilities to the member of the Board of Directors and the directors of the Authority and top-ranking officials, directors of the departments and inspectors of Bank Markazi, unless in compliance with special regulations to be approved by Bank Markazi.

Article 21

In the event that the capital of a bank or institution of a Zone, as a result of the losses sustained, falls below the minimum amount stipulated in Article 8 of these Regulations, the capital must be replenished within a maximum period of six months.

Chapter Four Regulations Governing the Supervision Over Operations of the Banks and Institutions of a Zone

Article 22

Bank Markazi is empowered to exert supervision on the activities of the banks and institutions of a Zone through utilizing the devices and mechanisms provided for in the Monetary and Banking Law.

Article 23

Banks and institutions subject of Note (1) of Article (3) of these Regulations are exempt from the provisions of Article (22), and the supervision of Bank Markazi shall be effected through the following mechanisms:

1- To pay their legal deposits for each month to the account of Bank Markazi, in the amounts set by Bank Markazi, not later than 25th day of the next month.

2- To keep the headings of their accounts, books and financial statements, as are used and to the extent possible, in accordance with the specific forms.

3- To observe the international standards set by Basle Committee, Switzerland, on capital sufficiency in case of the branches of the offshore banks and institutions in a Zone, their contribution or paid-in capital shall be counted as their capital in computation of their capital sufficiency

4- To send to Bank Markazi all the required information and statistics in the following manners:

- Detailed position and legal deposits for each month on a monthly basis, not later than 25th day of the next month.
- Balance sheet and profit and loss account, as certified by independent auditors and the Authority, on annual basis, for each year, not later than the end of next Khordad (June).

5- To provide other information required by Bank Markazi whenever Bank Markazi determines, such information shall be considered confidential and shall not be made public, whether specifically or individually.

6. To cooperate with and put the necessaiy information at the disposal of Bank Markazi inspectors who shall be dispatched to the Zone with the written order.

Chapter Five: Miscellaneous Regulations

Article 24

Appointments of the Managing Director and the members of the Board of Directors of the Zone's banks and institutions has to be approved from the standpoint of their professional capability and qualifications.

Article 25

Each bank or institution in a Zone is responsible for, and must compensate, losses and damages sustained by their customers as a result of their operations. The Managing Director and the member of the Board of each bank and institution are also responsible vis- a -vis their shareholders and customers for losses and damages suffered by such shareholders and customers resulting from the violations of these Regulations or their charters by any of them.

Article 26

The business hours of banks and institutions shall be determined by the Authority.

Article 27

For the purpose of facilitating the exchange of cheques and banking instruments, a clearing house shall be established by the banks and institutions operating in the Zone, whose operating costs shall be financed by the said banks and institutions.

Article 28

The manner of verifying the balance sheet, keeping books, papers and documents, investigating violations, manner of dissolution and bankruptcy of the banks and institutions and other cases not stipulated in these Regulations, shall be carried out in accordance with the Monetary and Banking Law, as approved in 1351 (1972).

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5. From a national security point of view, perhaps European Union has much more power than Pakistan and India to influence international relations, especially on key issues pertaining to Iran's relations with international community. Dependence of European Union on Iranian gas can improve mutual relations, thus, reducing US ability to unite European Union with itself against Iran. Iranian gas export to the European Union can be within a framework of wider energy cooperation, by further covering Iran's nuclear issues and helping its resolution.

The Russian government and "Gazprom", its largest state oil and gas company, have recently expressed willingness to cooperate and participate in the construction of gas export pipeline from Iran to India. For a country such as Iran, possessing 17 percent of world gas reserves, any cooperation with important companies on gas marketing is desirable and considered as a long-term investment. However, such cooperation should be considered cautiously.

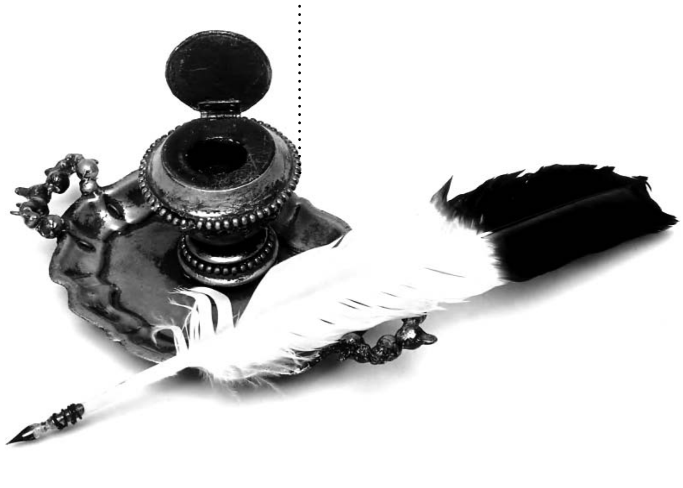
As mentioned earlier, due to last winter's Russian gas disruptions to Europe as a result of historical differences between Russia and Ukraine as well as some alarming remarks by the Russian authorities regarding future gas supply to Europe, the European Union has decided to further diversify its gas supplies. It seems that the Russians have been somewhat concerned about Europe's resolve on supply diversification. Therefore, there is every possibility that the Russian rival, i.e. Gazprom, be interested to prevent entry of its new rival into the European market and diverting it to the Eastern market. Even if Iran wanted to enter into Western market, it could not do so independently and need to do it only through Gazprom. Such a situation would maintain continuous control by Gazprom over its rival and its desired market. Thus, any dealings with Russian Gazprom would require high vigilance and clear strategy to serve both parties interests. In addition, the past records of Gazprom should also be taken into consideration. At some stages, Gazprom expressed willingness for the development of different phases of South Pars Gas Field. But, in practice, it did not have a serious attitude. This attitude led to the suspicions that it was perhaps pursuing a policy in order to sabotage development of its rival gas reserves. With respect to Russian behavior, there is also a more important analysis and possibility which can be mooted as follows:

Relative increase in the world dependence on natural gas has impacted the oil market. Today both oil and gas have undergone changes in their roles, gradually transforming energy geo-politics. Under new conditions, gas is assuming a more important role in energy market and Russia enjoys a better position in the gas geo-politics as compared to oil geo-politics. This is due to the following factors:

Firstly - Russian gas reserves are much larger than its oil reserves and

Secondly – pipelines are still more popular for transferring gas. Due to its large land area and geography connecting east and west parts of the world, Russians can have a determining role in Europe, India and China, having demands for gas. Therefore, they wish to maintain their advantageous position in the gas market. If the above analysis is correct, coordination and unity between Iran and Russia, possessing a total of more than half of the world's gas reserves, could be vital and strategic and its importance and value should be taken into consideration in any international developments. If there is available gas in Iran for export (there are serious doubts in this respect which are out of the scope of the present article), the European gas market is definitely preferable for Iran compared to Indian and Pakistani markets. Unless, these two countries pay attractive prices for gas and provide suitable facilities to overshadow the above mentioned risks and differences.

Managing Director



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Managing Director

Exports of Oil to Poor States at Low Price

There should be some motives behind exporting oil to poor countries at a discount and low price.

Of course, whoever has offered such a proposal should reveal the motive. However, some motives are imaginable.

Referring to history, the first oil shock came in 1970s. After the year of 1973, the industrialized Western countries waged massive and tough propaganda against the Organization of Petroleum Exporting Countries (OPEC). The hue and cry caused long queues in the United States' gas stations, prompting the Americans to stage large-scale demonstrations and blame the OPEC for all economic problems facing the world, including the industrialized states.

Scores of plans were discussed at that time in order to put the OPEC under pressure. For instance, the OECD member states and the industrialized countries were urged to raise the prices of their export products in a bid to compensate for some part of the soaring prices of oil.

In fact, they made such a decision to raise the value of their propaganda. But the poor states, which imported oil, sustained the highest loss.

The OPEC also carried out some measures to lighten the atmosphere. Among its initiatives was the organization of the first OPEC summit in Algeria in 1975. The move aimed to show that the OPEC had not given in to the mounting pressure and escalating propaganda.

As another step, the OPEC set up a fund in the same year, aiming to make investment in its member states through the surplus oil revenue and grant low-interest or ex gratia loans to the poor countries through the fund.

However, when a relaxed atmosphere again prevailed, the fund turned into a weak body.

If Iran is trying to adopt the same strategy, i.e. the country has likened the current condition with that caused by the initial oil shock, it should know that the price hike is similar to the increase in oil prices at that time, but the OPEC is not currently facing the high charged atmosphere it experienced in the 1970s.

All know that the OPEC's output is now at maximum level. At that time, the OPEC due to oil sanctions was charged with playing a role in raising the prices, but there is no such a speculation at present.

Various issues have caused such a situation and the OPEC is producing at full. c capacity. Although the industrialized states sometimes expect the OPEC to boost its production, they have not made severe propaganda against it.

The issue is not so serious. Even if it is the case, it could be settled by the OPEC through activating the fund at this juncture.

In an article entitled "From OPEC Fund to OPEC Bank" published in a recent edition of our magazine, the issue was thoroughly discussed. The article said the OPEC thanks to some reasons should develop the fund – not for granting low-interest or ex gratia loans. Since the oil prices have considerably increased,, but because the liquidity turnover is very high from which benefit the western banks.

Hence, the OPEC is better to turn the fund into a bank and trade in an international bank in the West, gaining high credit and using the benefits from the liquidity turnover. It also helps it gain the benefits by itself.. In other words, banks will not enjoy the benefits any longer.

In addition, almost all OPEC member states are concerned about the importation of high-price oil and

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In addition, almost all OPEC member states are concerned about the importation of high-price oil and earning of huge petrodollars as they are beyond their economic capacities and consequently cause different problems. Most of the OPEC member states are now suffering from similar economic illnesses.

For this reason, most of the states' hard currency reserves have mechanism in placed similar to that of Iran

The money the fund collects could help the bank make investments in overseas projects – not in domestic economic projects. Then the earnings of the international projects pave the way for supporting those countries, where the investments are made. The proposal as discussed in the previous edition could be also put into practice by the OPEC.

Therefore, support for the poor countries put forward in the 1970s is not justifiable under the current conditions.

Another motive behind the support is to exercise diplomacy and bolster international ties at this juncture that the country's oil revenues have soared. There is no problem with the decision, but the country has repeatedly adopted the same strategy before, spending huge amount of money. If the country plans to improve its political position in the international scene, it should have a clear view of its consequences.

The other possible motive is that the country may find itself responsible toward the poor states. If the government has such a view, it should know that a government represents a nation and the revenues belong to people. In fact, the government is a trustee. So, if the initiative aims either to improve diplomacy or to fulfill religious and political duties, the nation should be briefed and accept it.

Otherwise, a gap would be created between the nation and the government if the case is not clarified for the people because they would wonder why the government plans to spend huge money for the poor states while their own country is suffering from the ever-increasing gap between classes, unjust distribution of revenues, poverty, and underdevelopment.

The decision can be studied from two aspects.

Firstly, there must be a clear reason behind such a responsibility toward the poor states. What has obliged us to feel such a responsibility toward the international community?. Even if there is a document or solid evidence that obligates the country to fulfill such a commitment, the government must convince the people or it causes a gap between the nation and the government.

Second, another possible motive behind the strategy is to make the government popular in the international scene and win the peoples' hearts. In that case, the people should be briefed, as well.

Otherwise, the plan will surely fail, causing the gap between the people and officials.

Even if the country intends to do it out of charity, the people should know whether Iran is the sole state that donates or all OPEC member states adopt the same strategy.

It makes no difference even if the country gives the aid within the OPEC rules and regulations because Iran as the pioneer should elaborate on its motives, which will be later imposed on other OPEC member states.

The plan and its political goals, however, will most likely – above 95 percent – fail. If the country has presented the initiative to the OPEC as an overture with the aim of gaining its positive effects, it is regarded as a political maneuver. But if the government is determined to put it into force, it must be authorized by the people.

The last point is that the government of President Mahmoud Ahmadinejad is completely different from that of his predecessor Mohammad Khatami in terms of social, ideological, political, and economic policies.

As the oil prices go up, unreasonable reconstruction in many fields has accelerated, causing great concern.

Developments after the 1970s oil shock can help us predict the future events.

At that time, the shah doubled and even tripled the development budget without providing the infrastructure, and paying no attention to the dull market, and other limitations.

Today the government vows to receive the development budget before the first six months of the current Iranian calendar year (started March 21, 2006) while the annual budget bill has been passed some months ago.

Even the government has promised to demand for an equal amount for the second half of the year through passing a budget act.

Apart from the OPEC and its fund, the shah perhaps intended to win international fame through being lavish with public assets and making illogical investments.

So, if the government forgets the fact that it is the people's representative and makes extravagant use of the national wealth, the history repeats itself.

Under current circumstances, paying attention to the post-1970s developments and consequences can be fruitful and warns us against the traps and problems ahead.

The country should avoid those measures that could create a gap between the people and the officials.

earning of huge petrodollars as they are beyond their economic capacities and consequently cause different problems. Most of the OPEC member states are now suffering from similar economic illnesses.

For this reason, most of the states' hard currency reserves have mechanism in placed similar to that of Iran

The money the fund collects could help the bank make investments in overseas projects – not in domestic economic projects. Then the earnings of the international projects pave the way for supporting those countries, where the investments are made. The proposal as discussed in the previous edition could be also put into practice by the OPEC.

Therefore, support for the poor countries put forward in the 1970s is not justifiable under the current conditions.

Another motive behind the support is to exercise diplomacy and bolster international ties at this juncture that the country's oil revenues have soared. There is no problem with the decision, but the country has repeatedly adopted the same strategy before, spending huge amount of money. If the country plans to improve its political position in the international scene, it should have a clear view of its consequences.

The other possible motive is that the country may find itself responsible toward the poor states. If the government has such a view, it should know that a government represents a nation and the revenues belong to people. In fact, the government is a trustee. So, if the initiative aims either to improve diplomacy or to fulfill religious and political duties, the nation should be briefed and accept it.

Otherwise, a gap would be created between the nation and the government if the case is not clarified for the people because they would wonder why the government plans to spend huge money for the poor states while their own country is suffering from the ever-increasing gap between classes, unjust distribution of revenues, poverty, and underdevelopment.

The decision can be studied from two aspects.

Firstly, there must be a clear reason behind such a responsibility toward the poor states. What has obliged us to feel such a responsibility toward the international community?. Even if there is a document or solid evidence that obligates the country to fulfill such a commitment, the government must convince the people or it causes a gap between the nation and the government.

Second, another possible motive behind the strategy is to make the government popular in the international scene and win the peoples' hearts. In that case, the people should be briefed, as well.

Otherwise, the plan will surely fail, causing the gap between the people and officials.

Even if the country intends to do it out of charity, the people should know whether Iran is the sole state that donates or all OPEC member states adopt the same strategy.

It makes no difference even if the country gives the aid within the OPEC rules and regulations because Iran as the pioneer should elaborate on its motives, which will be later imposed on other OPEC member states.

The plan and its political goals, however, will most likely – above 95 percent – fail. If the country has presented the initiative to the OPEC as an overture with the aim of gaining its positive effects, it is regarded as a political maneuver. But if the government is determined to put it into force, it must be authorized by the people.

The last point is that the government of President Mahmoud Ahmadinejad is completely different from that of his predecessor Mohammad Khatami in terms of social, ideological, political, and economic policies.

As the oil prices go up, unreasonable reconstruction in many fields has accelerated, causing great concern.

Developments after the 1970s oil shock can help us predict the future events.

At that time, the shah doubled and even tripled the development budget without providing the infrastructure, and paying no attention to the dull market, and other limitations.

Today the government vows to receive the development budget before the first six months of the current Iranian calendar year (started March 21, 2006) while the annual budget bill has been passed some months ago.

Even the government has promised to demand for an equal amount for the second half of the year through passing a budget act.

Apart from the OPEC and its fund, the shah perhaps intended to win international fame through being lavish with public assets and making illogical investments.

So, if the government forgets the fact that it is the people's representative and makes extravagant use of the national wealth, the history repeats itself.

Under current circumstances, paying attention to the post-1970s developments and consequences can be fruitful and warns us against the traps and problems ahead.

The country should avoid those measures that could create a gap between the people and the officials.

Iran's Hydrocarbon Discovery Greater than Expected: NIOC MD

The hydrocarbon reserves discovered in the first year of Iran's 4th Development Plan (Apr 2005-Apr 2010) has been much greater than foreseen in the Plan, said Gholamhossein Nozary, managing director of National Iranian Oil Company (NIOC).

Addressing the forum themed "Ninth Admin, Productivity, Oil Industry" Nozary elaborated: "Exploration is the very first step for development in the oil industry. While the 4th Plan has foreseen a volume of 637 Mln barrels crude oil equivalent of hydrocarbon reserves discovery in the five years of the Plan, last year (first year of the Plan) alone, some 6.313 Bln barrels crude oil equivalent reserves were discovered".

As for the amount of well drilling, Nozary stated: "In 2003, some 287,000 meters of drilling were achieved and in 2005 the drilling was boosted by 60,000 meters".

Concerning the production/consumption of hydrocarbon energy in Iran, Nozary said: "Based on this year's statistics, Iran's daily oil & gas production is equivalent to 7. 817 Mln barrels of crude oil. Some 2.4 Mln bpd is being exported, 80 mcm/d of gas is being injected into oil fields and around 50-60 mcm/d is used to feed the country's petrochemical plants. The rest, which represents 55% of the production, is used locally. The intensity of consumption of energy in Iran is alarming and will lead to an energy crisis".

The NIOC MD touched on the need for $ 75 Bln investment in Iran's oil industry during the 4th Plan and added: "Just to keep the present level of crude oil production, an annual production rise of 300,000-350,000 bpd is necessary, because the pressure drop in the wells causes that much of depletion in their production".

Elsewhere in his address, the NIOC MD said: "Iran is presently producing a mean of 4.07 Mln bpd of crude oil and 436 mcm/d of gas from 2,940 active wells and has 23,500 km of transfer pipelines".

Iran Gas to Match Global Prices

The cost of natural gas Iran is offering to Pakistan and India "cannot be very far away from international prices", Iranian President Mahmoud Ahmadinejad said in comments published.

Ahmadinejad also said that the Indian "mistake" of voting against Iran at the International Atomic Energy Commission (IAEA) meeting in Vienna last year would not hit bilateral ties.

He said Iran had a lot of offers for its gas from Europe "with very high prices.

Nevertheless, we would like this pipeline to be constructed and stretch between Iran, Pakistan and India. We want this pipeline to be the pipeline of brotherhood and peace. And of course we would very much like to be flexible."

But he made it clear that the National Iran Oil Company (NIOC) would work out an agreement with economics in mind and it would want to sell the natural gas at the best possible price.

"This natural gas pipeline will be securable and bankable operation," said Ahmadinejad, the highest-ranking Iranian to speak on the issue that is bogged down by differences over pricing and US objections to collaboration with Iran.

"With that in mind, its prices cannot be very far away from international prices.

"I think we can come to agreement. (We should give) some time to the experts of the three countries to reach an agreement."

The president said there were also differences between India and Iran over the sale of liquefied natural gas (LNG).

"I myself am personally following matters. I have directed my colleagues to approach the Majlis (parliament) and ask them where we stand on the LNG issue.

Iran and India, he said, had many shared interests but insisted that New Delhi's vote against Tehran at the IAEA meet last year in the company of the US was a "mistake".

"We were dismayed with the position taken by the Indian government. This came as a surprise. Having said that, this will not play a role in determining our relations.

"Ours is not the kind of relationship that will be affected by one mistake. I think the relations are important enough that if one of the parties makes a mistake, they would correct that mistake themselves."

Ahmadinejad also spoke at length about the Iranian nuclear row that many feel could trigger another military showdown in the region.

He said Iranians "no longer have any confidence, any trust" in the position taken by the West and other countries that are seeking to curb Tehran's nuclear programme, saying it was meant not to produce energy but to covertly develop weapons.

"We are interested in continuing with negotiations. But their most recent behaviour is reason enough for us to doubt their sincerity," he said.

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"We are interested in continuing with negotiations. But their most recent behaviour is reason enough for us to doubt their sincerity," he said.

"Given everything that has happened, we no longer have any confidence, any trust." He said the West was not looking for a dialogue. "In all honestly, they do not want to talk to us but want to impose their wishes on us.

They want to deny us our rights. But they have miscalculated. The time for such behaviour is in the past, it's finished... And they will regret the miscalculation they have made."

Crescent Gas Deal Need not be Terminated

Disclosing the discussions in the meeting of some members of the Energy Commission of Majlis with the authorities of Iran's Supreme Court of Audit, Bureau of Investigation and the Ministry of Petroleum about the gas sale to the U.A.E, known as the Crescent deal, Hossein Afarideh, a member of the Commission said: "The meeting dealt with issues such as gas sale to U.A.E, its contract mode, the price in it and the price of gas in the region for comparison. Finally, it was concluded that the Crescent deal need not be terminated, though some amendments or revisions in the contract were recommended".

He added: "The deal has taken four years to conclude. This came only after intense negotiations with NIOC officials and the contract was approved by NIOC's board and the relevant authorities at different stages".

Pointing to the inter-relation between the price of oil and that of gas in the deal, he stressed: "Part of this 25-year contract is linked to the price of oil in the first seven years and from the eighth year on, the whole deal is linked to the price of oil".

According to Afarideh, compared with Dolphin deal (export of Qatar's gas to the U.A.E), which involves none of the said factors; the Crescent deal is a relatively balanced contract.

Saying that the Crescent Company's works for the contract were discussed in the said meeting, he concluded: "Crescent has fulfilled its contractual commitments, but NIOC has failed to fulfill some of its commitments".

Statoil to Invest in Gathering Associated Gases of Kharg Island

Norway's Statoil and Iranian Offshore Oil Company (IOOC) will be signing a Memorandum of Understanding (MoU) to collaborate in gathering the associated gases produced in Iran's Kharg Island, said Hadi Nejadhosseinian, Iran' deputy oil minister in int'l affairs.

Nejadhosseinian, who is attending the fourth Iran-Norway energy forum, explained: "The signatories of the Kyoto Protocol are committed to reducing the amount of toxic gases that pollute the environment and if the reduction of such pollutants is not possible in their own countries they are allowed to do that in other countries. To that end, six plans were proposed by Iran to the World Bank and finally the project to gather the associated gases of Kharg Island was chosen for the purpose. It has now been decided that the Norwegian Statoil will undertake part of the investment required for gathering the associated gases produced in Iran's Kharg Island".

Saying that reduction of pollutants in Norway is costlier than what can be done in Iran, the Iranian oil official disclosed that: "The MoU between Statoil and IOOC will be signed during the present forum".

Nejadhosseinian also said that during the meetings with the Norwegian energy officials the ways to overcome problems in the energy cooperation between the two countries are being debated as well.

No Change in Norsk Hydro's Plans in Iran: CEO

Norsk Hydro's drilling program in Iran has not been affected by the Iran's political climate, Norsk Hydro chief executive Eivind Reiten said in an interview with Dow Jones Newswires.

Reiten said that Norsk Hydro is in close cooperation and dialogue with the authorities in the Norwegian government and the E.U. on the possible impact upon its Iranian investments there of negotiations between the United Nation and Iran over the latter's nuclear program.

"We have substantial drilling activity in Iran. If an (energy) embargo is imposed which hampers us from operating, we will have to act accordingly," Reiten said.

"For the time being, we're carefully moving ahead, observing the political situation. There is no change with our plans," Reiten said.

"We hope solutions are found to enable us and other companies to continue commercial operation" he said.

"Our long-positioning is that we're investing in a very oil-rich area" and we're pleased with that, Reiten said.

Norsk Hydro is in an eight month negotiation phase with the National Iranian Oil Company on the commercialization of its first oil production, Reiten said.

"We gained approval to proceed a few months

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"It depends on NIOC, but during 2007 we'll probably be able to conclude negotiations" and will have a clearer plan, Reiten said.

"We have good working relations with them" and have "great hope" for our operations there, he added.

Meanwhile, Norsk Hydro is not ruling out the possibility of investment in Canadian tar sands or U.S. oil shales, Reiten said. "We would not exclude that. We could move in, but our plate is full these days with drilling in Iran, Ormen Lange and the Shtokman project," he said.

"It's not likely soon, but is something that's under consideration, as with many other new areas," he said.

Talks for Development of Iran's Anaran Block Underway

Talks between Iran's Petroleum Engineering & Development Company (PEDEC) and the Norwegian Norsk Hydro on development of Azar oil field of Iran's Anaran block started, said Mahmoud Mohaddes, director of the Exploration Department of NIOC, adding: "The negotiations will take around 6 months to conclude".

He went on to explain: "If the talks turn out to be conclusive, development of Azar field will be assigned to Norsk Hydro. Otherwise, six months after the field is declared to be commercial a tender will be held for its development and the exploring company will be allowed to participate in it as well". Pointing to the parallel talks with Norsk Hydro on exploration/ development of Khorram Abad block, he said: "Talks with Hydro on this block were halted for some time because the required approval from Iran's Economic Council (EC) was taking a long time. After the EC's approval, the talks were resumed. This contract will be signed once the issues raised in the talks on exploration of the block are finalized".

Commenting on Iranmehr, Forouz & Tosan blocks, Mohaddes said: "At present, NIDC's drilling rig has been made available to the contracting companies (Repsol and Petrobras) for drilling the four exploratory wells in the three blocks, which will take a year to complete".

Concerning Zavareh-Kashan exploratory block, he explained: "The issue of commercial production of the block has not yet been finalized with the contractor of the project. The contractor will be submitting a report on the outcome of the tests of the wells in the block, based on which the commerciality of the field will be determined. The contractor has not prepared the report yet because the last well of the block is still undergoing tests".

As for drilling in Farsi block, which started three months ago, he explained: "Drilling of the first well of the block has been completed and that of the second well has moved up to the depth of 2,030 meters. This will be completed in the coming days and will be followed by the test of the layers of the well.

EPD Tender Issued for Reshadat

Iranian Offshore Oil Company (IOOC) has issued the tender documents for Engineering Procurement Drilling (EPD) of Reshadat oil field, located in the Persian Gulf. The EPD project is for 29 wells in the field and is foreseen to take 3 years to complete.

The participants in the tender have been given until September 23rd this year to submit their proposals.

Tasdid, a local producer of offshore structures, has already been chosen for the manufacturing of 5 Jackets of the platforms of the field.

Heavy crude of Zagheh halted

Production of 16,000 bpd of crude in Iran's Zagheh field has been halted because well No.1 of the field has been jammed by the buildup of the heavy substances of its crude oil and asphalt, said Bahman Samimi, manager of heavy crude oil fields with PEDEC.

Talking to Mehr news agency about the latest with the heavy crude oil production, he stated: "Production in the fields containing heavy crude oil reserves has been stopped".

Kouh-e-Mond, Zagheh, Ferdos, Paydar, Boushehr and Ramshir fields are amongst Iran's most important reservoirs containing heavy crude oil.

The volume of Iran's heavy crude oil reserves totals 20 Bln barrels, most of which are in Kouh-e-Mond field.

Production of heavy crude oil started in Kouh-e-Mond, but since the field lacks the needed pressure its crude production proved to be problematic.

According to Samimi, this huge volume of heavy crude oil in Iran makes it necessary to find some ways for its production, which, according to Mehr news agency, is regarded as one of the main objectives of NIOC.

Based on the current statistics, the volume of heavy crude oil reserves in Canada is 1,860 Bln barrels, in Venezuela and Russia each 1,200 Bln barrels, the U.S 55 Bln barrels and Iraq 34 Bln barrels.

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