Eghtessad Energy
Energy Economics

March. 2009 / No.112

Published by:
IRANIAN ASSO - CIATION FOR ENERGY ECO-NOMICS (IRAEE)
ISSN 1563-1133

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Adamiyat Advertising Agency

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بسم الله الرحمن الرحیم

In The Name of God

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Articles on Oil & Gas in the English section, in cooperation with IranOilGas.com

Oil Industry in Focus March 2008-2009 Period

The year 2008 proved to be a year of significant peculiarities and underwent still one-of-a-kind developments. Some of these developments can be categorized in the following order:

100th Birth Anniversary of Oil Industry in Iran

The March 2008-2009 period, marked the 100th birth anniversary of oil industry in Iran. In consideration of oil industry 's status and impact on Iran's economic and social developments, such a birth anniversary was basically expected to provide an opportune moment for conducting an analysis of a one hundred year old experience and highlight the dark sides of the industry during this period of time. It was also about the right time to produce intellectual and cultural products relevant to the industry and its history. For this purpose, special budgets had been allocated to the official and state-run organizations and institutions; however, almost all the credit went into preparing performance reports and nothing more. Some non-governmental organizations and centers organized scattered forums in an attempt to extract knowledge and examine the experiences of the past 100 years. In the absence of government support, these forums which mainly centered on the weight and influence of oil on Iran's economy and financial market, failed to yield maximum results. Other topics and issues were either neglected or received insufficient degrees of attention. In fact other important oil-related subjects were overshadowed by such economic and financial aspects as huge oil price hikes in recent years, government's approach, and attention to economy's absorption capacity and adherence to the hard currency reserve mechanism. A host of other subjects and issues relevant to oil were not raised at all. On this occasion, there was room to pose such questions as to what economic, political, cultural and social trends of the past have been influenced, reinforced or even weakened as a result of the emergence of oil in the Iranian society? And as to why oil has failed to ignite the engine of national development in the same way it has given way to economic growth? And as to why Iran remains a major importer of oil-related know-how, equipment and services? And how effective has oil acted to push Iran towards practicing the policy of hardware/software segregation at the national level causing productivity crisis? Have we benefited from the geo-political opportunities of being an oil rich nation or have we been exposed to its threats? And why? There are many such questions which, if properly examined and dealt with, will lead us the way towards a brighter future.

World Economy in Crisis

Last year coincided with the emergence of a deep and extensive crisis which began with the US economy and then expanded over a larger portion of the world. The US housing sector was first to be hit by the crisis. Financial institutions and the stock exchange markets were next to collapse. The crisis is in fact unprecedented and not comparable with any previous crisis in the United States or elsewhere in the world. In the past crises, the US economy served to be a production oriented one. Today, however, it has turned into a service oriented economy. In the past, the US economy had never emerged as an economy relying on hegemony with huge negative balance in trade, production and domestic consumption.

In the course of the US's 1930s crisis, the US dollar was not as strong as it is today and new economic players such as China and India had not been born. The people were living in a bipolar world and the cold war era was dominant. There resided no such paper transaction or even stock exchange markets. People knew nothing or little about financial vehicles and instruments. Information and communication technologies had not yet been introduced to financial cycles and transactions. Money and documents enjoyed no identity independent from goods and real values and globalization was still no proper sphere for political influence.

The crisis has not yet reached its peak. Restoration of calm and improvement of the situation in the near future is but naïve optimism. Meantime, it has become evident that technical progresses in economy well surpass theoretical progress. Technically speaking, economic globalization has been materialized at a space way faster than the emergence of policy making structures intended to control and supervise the about-to-be globalized economy. Practical and theoretical attention to ethical and legal aspects of advanced economic and financial mechanisms in the application of these instruments has come with a delay.

The current world crisis is expected to be followed by significant and proportionate theoretical developments in economics, hence, slowing down the trend of globalization and preventing economic and financial instruments and technologies from becoming operational and instead making them proportionate with the trend of theoretical and structural developments.

Global Oil Prices

Back and Forth Shifts

Global oil prices experienced unprecedented sways last year. Under circumstances when during the early days of 2008, OPEC's crude oil basket price had reached the record high of USD137, prices fell to as low as USD39 when this article was being authored. Oil prices began a downward trend under the influence of global economic crisis. Demand for energy and crude oil dropped sharply due to severe economic recession in the world's major consumption poles. The price of some oil products such as gasoline in some cases fell below crude rates. That was reflective of the depth and severity of the crisis. Hence, it was once again proved that global oil prices are unforeseeable and cannot be relied on and that wise and rational oil economies are expected to adhere to hard currency reserve mechanisms, safeguard and insure their local economies in the face of global oil price fluctuations. World economy is unlikely to recover in the short run and global oil prices are not expected to experience any hikes. Stipulating high oil prices in the country's new budget bill is risky. As winter fades off and summer approaches, oil market situation may turn even worse. Under such a critical economic situation and high rate of unemployment and the people now skeptical about restoration of economy, there will be less summer holiday makers and naturally less demand for gasoline in the United States in summer.

US Presidential Elections and Obama's Win

World's political situation was, to a great extent, influenced by recent presidential elections in the United States. Election of a black American whose family had migrated to the US just a few decades ago, as president was worth pondering. As regards oil, Obama has opted for more radical policies in order for the country to become independent from imported crude oil. In his campaign, Obama spoke of policies that had to do with the living environment protection. However, realization of these policies, particularly under the present conditions, is a matter of wait and see requiring huge investments in the generation and production of new clean energies, an ideal which seems to be far from reality at least for now.

Performance of Oil Industry

Last year proved to be a relatively sustained and quiet year in Iran's oil industry management. In the new Iranian cabinet, oil ministry was the last to have its minister approved by the parliament. Of course, that too did not last long. Concurrent with the introduction to parliament of a new oil minister and his approval and the subsequent administrative and managerial changes, there was established relative stability in the ministry. It was generally believed that implementation of oil industry's development plans and projects would speed up; however, that ideal was never fully materialized. It appears that the progress of the Iranian oil industry has been impeded by the following factors during this period of time:

1- The former government of Iran had devised certain plans for oil industry that in some cases were not in compliance with principles of planning, accurate studies and reliable statistical and information bases and for that matter, some of those plans led to dead ends. Meantime, hasty changes and modifications had been made in the administrative structure of the Iranian oil industry complicating the course of action within the industry. Therefore, organizing oil industry plans required a basic revision of the programs of the past particularly in the industry's upstream sector. Such a revision had to be made by people other than those who had a share of the design of these plans. More importantly, in the past, oil industry boasted the success of its performance. Such a state of affairs placed the management of oil industry in a passive position. The inertia would impede revision of plans and naturally, the management of oil industry in the new government was heir to a heritage that made things more and more difficult to proceed.

2- The management of oil industry was gripped with some kind of passivity insofar as attraction of foreign partners was concerned. In the past, success of the country's détente diplomacy had been exemplified by the attraction of foreign capitals and cooperation by international oil companies in Iran. This was to the extent that signing contracts with foreign companies was considered a goal rather than a means for the extension and development of the nation's hydrocarbon fields. The new management was reluctant to lag behind and in the absence of reputable and credited European companies, oil contracts were concluded with companies which lacked necessary qualifications. Delegation of works to low-profile foreign oil companies or transfer of projects to reputable companies via third parties slows down progress and augments cost of projects.

3- As regards use of oil industry's internal financial sources, the government prioritized short term measures to capital and time incentive development projects and thus, huge financial resources available to oil ministry out of Royalty Interest were allocated to the cabinet's provincial visits instead of being injected into oil industry's development projects. Import of billions of dollars worth of oil products in excess of what had been stipulated in the budget bill is just an example. Such policies adopted by the government served to wreck any likely workouts by the oil ministry. And in this manner, future prospects are expected to turn even more complicated for the oil ministry concurrent with the drop of oil prices.

4- Imposition of economic sanctions has further impeded import of equipment and machineries required by oil industry, new projects in particular. This impediment has prolonged the period for the implementation of projects and doubled the costs.

It so appears that the policies of principle 44 of the Constitution should be weighed accurately in order to prevent some structures and bodies from becoming more vulnerable.

Natural Gas Market Developments

There resided certain significant breakthroughs in the natural gas market last year as well; intensification of crisis in Pakistan-India relations pursuant to the catastrophic bomb explosion in the Indian city of Mumbai lulled the subject of Iran's natural gas exports to India and Pakistan via "Peace Pipeline" project, raising still more ambiguities concerning the subject. Developments in Georgia and the pressures exerted on Russia as a result of these developments urged Russians to use their natural gas as a weapon against Europe while Europeans responded by trying to diversify suppliers of natural gas to Europe via Nabucco pipeline. In mid 2008, Gas Exporting Countries Forum (GECF) took the initiative, this time with more enthusiasm, to represent itself as a serious player in the natural gas market. Russians' efforts aimed at maintaining their monopoly in Europe's natural gas market with a view to controlling rivals were obvious.

Economic recession in the west was associated with relative stalemate in LNG market. One of the main reasons underlying such a standstill was that the United States, the world's once largest consumer of LNG, was actually out of picture

Europe; Russia and Crisis of Gas Interruption

Afshin Javan – Seyed Gholamhossein Hassantash

Gerhard Shruder had convinced members of the European Union (EU) that "Vladimir Putin" has become Europeanized. The Russian economy has been liberated from the state monopoly and conditions were favorable to establish a gas union with him. As a result, the EU gradually became dependent on "Gazprom". But this mighty giant failed in its loyalty frightening the Europeans by cutting gas to Ukraine in two stages. This event caused larger members of the EU especially Germany and France and the rest of their allies to show their horror of Gazprom's monopoly by tilting towards gas resources in Central Asian countries and even Iran. Perhaps the Russians have learnt from the Americans to use energy as a weapon and a lever of power.

An expert of the "Jamestown" Research Founda-

tion believes that Iran, which is holding the world's second largest gas reserves, has been faced with a golden opportunity. In an interview with Deutsche Welle Persian Servive, he emphasized that if Iran adapts a new policy with respect to gas and acts more actively, the country would be able to make rivalry with Russia in the European market in the future. Micheal Laubsch, the head of foundation for defending freedom and citizens' rights in Central Asia believes the West is in serious need for gas and substitute energy has not been found yet. Germany purchases most of its gas requirements from Holland and Norway. Germany and Europe should give priority to diversification of gas resources in order to meet their requirements.

The Gazprom company, having a monopolistic role in Russia's gas industry, reduced its gas supply to Ukraine from January 1, 2009 on the pretext of price dispute as well as Ukraine's debt. The Russians entered a new round of game with a skill shown in recent years.

But the controversy between Moscow and Kiev led to serious reduction in gas supply for the six countries of Czech Republic, Turkey, Poland, Hungary, Romania and Bulgaria. In addition, it also affected other European countries.

This action by Russia, whether it was deliberate or was an oversight, brought about nothing other than impairing Russia's credibility for supplying gas to Europe in the long term. Meanwhile, however, it delivered a clear message to Ukraine and Europe that Russia is opposed to the creation of Europe-Atlantic region. Also, lack of respect to Russia's will can lead to grave consequences for the energy supply to Europe. In other word, Russia still considers former republics as its security jurisdiction.

Ukraine is the most important route for Russia's gas transit to Europe. Some 80 percent of Russian gas is exported to Europe through Ukraine. This issue makes Ukraine's important role valuable for Russia.

Contention between Russia and Ukraine started when Ukraine rejected Russia's proposal to raise gas price from $179.50 to $250 for every 1000 cubic meters in 2009. Russia believed that its presented proposal had significantly been lower than the country's proposed price to Europe. In a reaction to the rejection of the proposal, Russia initially charged that Ukraine owed $600 million to Russia. By intensification of the tension, Russia initially requested payment of $418 per 1000 cubic meters and later asked for $450 per 1000 cubic meters of gas.

After four (4) days of hot debate between Moscow and Kiev, on January 5th,

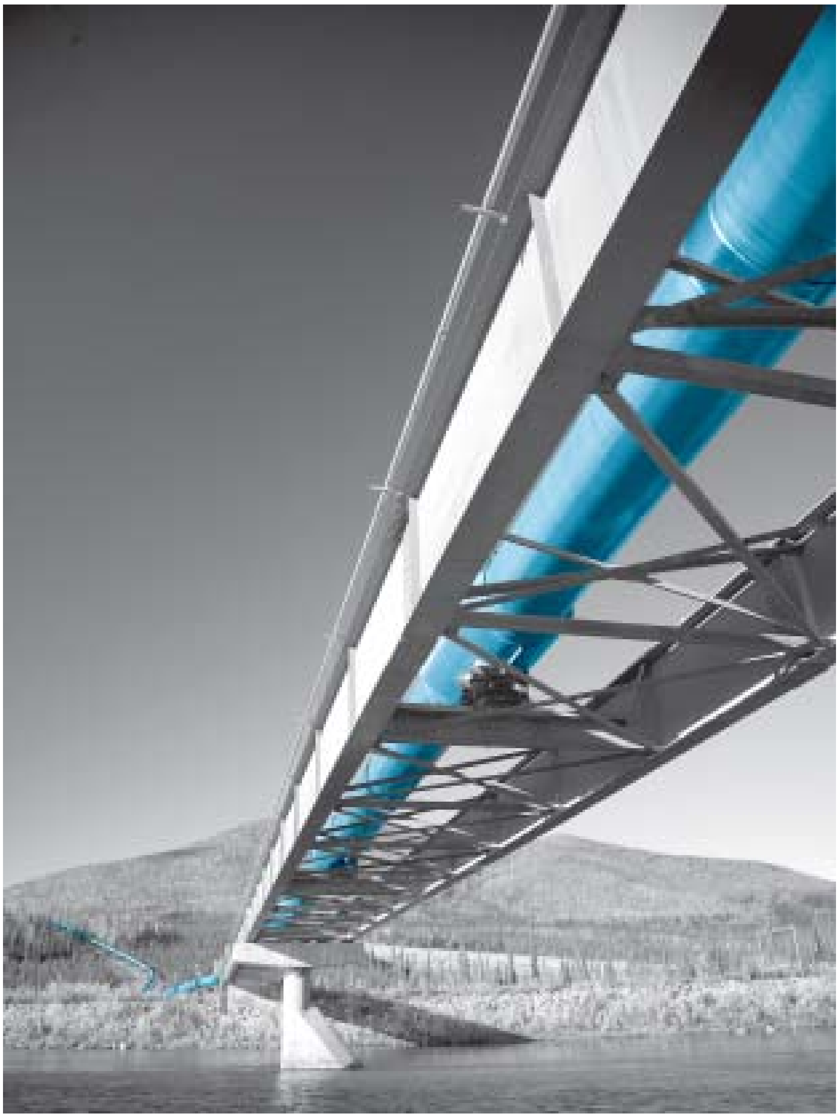
2009 Putin and "Alexei Miller" Chairman of Gazprom appeared on Russian TV and issued the order to cut 20 percent gas export to Ukraine. This was the beginning of dispute between the two countries. It could also brings to mind that Moscow's unhappiness is about Ukraine joining to the North Atlantic Treaty Organization (NATO).

However, the growing trend of gas demand in Europe causes intensification of their concern about Russia's action. In 2007, natural gas demand in Europe was about 500 billion cubic meters per year. Based on predictions, this demand will reach to 800 billion cubic meters in the next decade.

Germany's dependency on Russian gas is about 40 percent and it is predicted that this dependency will reach to about 60 percent by the year 2020. This is while some European countries are dependent on Russian gas by about 80 to 100 percent.

Kremlin has wisely recognized such a dependency. By its performance on January 1, 2009 Kremlin in fact reminded that the role of energy as a geo-political tool is a key role and very important.

With intensification of the gas crisis, the EU announced that one of its foreign policy priorities



would be securing the energy security. Vladimir Sokor, an expert in gas affairs, points out to this issue as: "After ten (10) years, Europe finally realized that the purchase of gas from Iran and Turkmenistan must be directly planned by high-ranking authorities from Brussels rather than by the private sector."

The establishment of "Caspian (Khazar) Energy Company" by Austria's "OMV" and German's "RWE" was the first measure to export gas from the Caspian Sea region. They had political and economic support from the European governments. This company intends to initially conduct research with respect to gas export of the Caspian Sea region to Europe. However, Micheal Laubsch, the German specialist, is uncertain about immediate outcome of this company. In his view, it will take years for this region's gas to enter directly into the European market even by establishing "Khazar Energy Company." With this condition, many questions are raised which should be taken into consideration: Will Russia benefit from this move? Will Europe be pursuing other sources of gas supply? How can Iran's role be evaluated in this respect? Will Europe pursue development of LNG terminals? Will Europe increase its gas storage capacity? Will nuclear power plants be expanded in Europe?

It seems Russia's action, although designed wisely, will not be to its advantage because Europe will definitely think about diversification of its gas supply as well as diversification of energy supply basket. This will endanger Russia's revenue from natural gas in the long term.

Certainly Russia seeks with all its power to maintain the monopoly in Europe's gas market and making its entire endeavor to control the rivals. Contrary to the past, Russia is now purchasing gas from Turkmenistan and others at more just prices so that they would not begin to think about substitute routes. Perhaps approaching Iran and Qatar and taking recent delight by this country (Russia) in "Gas Exporting Countries

Forum" and holding its seventh meeting in Moscow in the last days of 2008 can also be evaluated in this respect. Also, the Russians show interest in Iran's gas production and transportation projects to destinations in East Asia markets and announced their readiness to collaborate. Russia has also made all its efforts to influence "Nabucco" and the countries situated on the route to possibly create a discord among those countries.

Meanwhile, Europe is increasing its LNG import terminals. At the same time, the Europeans, casting a half glance at France that provides about 90 % of its electricity from nuclear power plants which can be less vulnerable to interruption of natural gas supply, are also considering development of nuclear power plants in this continent.

But Russia has put all the blames on Ukraine and has even talked about other gas export routes to eliminate Ukraine. Meanwhile Russia to prove its innocence, has even requested the EU observers to monitor and control its gas supply and export. But is this issue acceptable to Europe?

Anyway, a new chapter has been opened in the gas trade and we must wait and see what move European will demonstrate with the Russian chess players.

Meanwhile, the role of Iran's huge gas reserves as a great resource of gas supply to Europe is unavoidable. However, Iran's great distance to Europe as well as different transit routes together with different legal regimes raises this question that how much we should charge to deliver gas to Europe? Whether using net back pricing system will not cause the gas price be acceptable for us at the country's border point? Is Russia aware of this matter and has started this game in view of this issue?

Following the recent crisis, the Europeans once again paid attention to "Nabucco" pipeline and speeded up their idea. Of course, many people are acknowledging that Nabucco and diversification of the Europe's gas sources will have no sense and meaning without Iranian gas.

It seems that diversification of the gas supply origins is so important to the Europeans that they don't even pay attention to US pressures for purchasing gas from Iran. Just like in the 1980s, the diversification of the energy supply origins was so important that they did not pay attention to US pressures for not securing gas from the former Soviet Union. Perhaps the Europe's problem lies more in the issue that securing gas from Iran is not only limited to the domain of trade and whilst Iran lacks the available gas for sale, recording Iran in the list of gas suppliers to Europe will necessitate making investment in the country's upstream gas sector and development of different phases of South Pars gas field. This is why the Europeans will not be able to bear the burden of resisting US pressures. If Iran welcomes Obama's recent announcement for unconditional negotiation with Iran and negotiations start, the atmosphere can be more balanced and stabilized facilitating the possibility of efforts by the Europeans in this respect. Thus, such a thing may not please the Russians.

The Russians have recently proposed to Iran and Azerbaijan that they can swap the gas from these two countries, being the only two alternative countries to supply gas to Nabucco, to the EU at the net back price of the European market. This proposal manifests more Russia's seriousness to maintain control of Europe's gas market exposing Iran to more serious and sensitive choices.

Anyway, it must be accepted that Russia is a big player in the area of gas trade and as long as Iran has not participated in this game, it is not possible to express opinion about the rules of the game.

Sources are available in the Journal's office

Serajeh will be ready to store gas in 2 years: Official

In the first phase of using Serajeh (in Qom) underground storage, some 7 mcm/d of gas will be injected into the depleted reservoir in summer and some 10 mcm/d of gas will be reproduced from it in winter, says managing director of Iranian Gas Storage Company (IGSC) Masoud Samivand.

According to the Borna news agency, Samivand added that ICOFC had completed drilling 7 wells in Serajeh and Iranian Oil Turbo-Compressor Company (OTC) had won the tender for supplying the project's compressors.

Samivand also explained that: "OTC has a contract with the German Siemens for fabricating those Turbo-Compressors, but if Siemens fails to supply them, they will be secured from somewhere else. The Turbo-Compressors will have to withstand Serajeh's highest reservoir pressure of 4,500 PSI".

Samivand added that facilities for injecting gas into Serajeh would be ready next year and gas could be reproduced from it in two years' time.

Iran hikes gas price for IPI pipeline

Iran has increased the price of natural gas it plans to sell to India through a pipeline passing through Pakistan to USD 7.2 per mBtu, which makes it the most expensive fuel in the country as of date.

Iran, which holds the world's second largest gas reserves, last month informed New Delhi that it will charge about 20 per cent more for the gas it will sell through the long-delayed Iran-Pakistan-India pipeline, sources said.

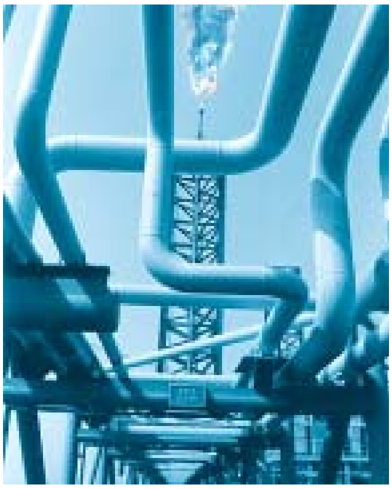
The move apparently has been triggered by the drastic fall in international crude oil prices which have dived from USD 147 a barrel in August 2008 to below USD 40 now.

While in the previously agreed formula, Iran was to charge 6.3 per cent of the 10-month average of crude oil plus a fixed USD 1.15 per mBtu, it now wants 12 per cent of the average crude oil price plus USD 1.1 per mBtu, they said.

In the old formula, taking crude price at USD 60 per barrel, the cost of gas at Iran-Pakistan border translated into USD 4.93 per mBtu. But according to the new formula, gas price will shoot up to USD 5.9 per mBtu although crude prices have crashed below USD 40 a barrel.

Besides, India would have to pay USD 1.1-1.2 per mBtu in transportation cost and transit fee for wheeling the gas through Pakistan, making it the costliest gas in the country.

Iran, Iraq to jointly develop shared fields



Iranian Central Oil Fields Company (ICOFC) and Iraq National Oil Company (INOC) on Thursday signed a deal on cooperating for the exploration and development of joint border fields, ICOFC managing director announced.

Alireza Zeighami said that according to the deal, joint technical groups will be formed in three months in order to explore border fields. "Collecting preliminary information and carrying out feasibility studies is expected to take nine months," he added,

Zeighami stated that the fields are located in the Iranian provinces of Khouzestan, Ilam, and Kermanshah.

NIGEC to set up a JV with Turkish firm for transit of Iran's gas

The National Iranian Gas Export Company (NIGEC) and a Turkish company signed an agreement yesterday for transiting Iran's gas to Europe.

According to the news agency of Iran's oil ministry, based on this agreement, the Turkish company and NIGEC will set up a 50/50 joint company for the purpose. This joint company will then apply for permission from Turkey's government to allow the transit of 35 Bln cubic meters/year of Iran's gas to Europe through Turkey.

NIGEC could later allocate its 50% shares in that joint company to the private sector.

Azerbaijan calls on Iran to cooperate in oil-and-gas industry

Azerbaijan calls on Iran to cooperate in the oil-and-gas industry. Possible cooperation between Azerbaijan and Iran in the oil-and-gas sector may be beneficial to both countries, Azerbaijani Foreign Minister Elmar Mammadyarov said at a meeting with Iranian counterpart Manouchehr Mottaki on Feb. 19.

The use of Caspian oil-and-gas resources plays an important role in ensuring international energy security, Mammadyarov said. The ministers met as part of the seventh meeting of an Azerbaijani-Iranian joint economic cooperation commission.

The meeting involved ministers and heads of various departments. Documents are expected to be signed between the two countries as a result of the meeting. Trade turnover between Azerbaijan and Iran hit $452.874 million in 2008.

Bunkering planned for two more ports south Iran

Talking about Iran's efforts to sell Fueloil as bunker material in Iran's Persian Gulf ports, commercial manager of National Iranian Oil Products Distribution Company (NIOPDC) Gholamreza Rabbani said: "Two years ago we sold about 200,000 tons of Fueloil in bunkering, but last year bunkering operators at two Southern ports of Bandar Abbas and Kharg managed to sell a total of 1.1 Mln tons of Fueloil as bunker material. Hopefully, this year (ending 20th March) we expect to raise the figure to 2-2.5 Mln tons at three ports of Bandar Abbas, Assalouyeh and Kharg".

According to the Moj news agency, Rabbani added that four companies were handling the bunkering operations at the said three ports, explaining: "In addition, tenders have been held for selecting operators for bunkering at South of Qeshm Island and Mahshahr port. Hopefully, the winners of these tenders will be named before the end of this year so that bunkering could start soon at those areas too".

Oman starts oil production from shared field with Iran

The West Bukha field in Oman has commenced production with initial flow rates of approximately 10,000 barrels per day of good quality, light sweet, 42 degree API oil and 30 MMcf per day of associated gas from the Mishriff-Maudud and Thamama reservoirs. Production is from two wells through a recently installed six-slot unmanned platform located in 90 metres of water approximately 25 kilometres from the Musandam Peninsula. The field is considered to have additional untapped potential which will require further appraisal.

Production is tied through a sub-sea 12-inch multiphase flow line to the nearby Bukha production platform. The Bukha gas condensate field, also in Block 8, commenced production in 1994 and today can flow an additional 10 to 15 MMcf per day of non-associated gas with condensate. Output from the two fields is transported to shore by a 33-kilometre multiphase pipeline for processing at the Khor Khwair plant in the Emirate of Ras Al Khaimah. Oil and condensate are slated for export and gas is delivered to industrial and commercial users in the Emirate.

Eagle Energy (Oman) Limited, a wholly-owned subsidiary of Heritage, acquired its 10% working interest in Block 8 offshore Oman in 1996. The licence area covers 423 square kilometres containing the Bukha gas condensate field and the West Bukha oil field. The West Bukha field straddles the maritime boundary between Oman and the Islamic Republic of Iran.

Bulgaria is interested in buying Iran's gas: NIGEC MD

Managing director of Iran's National Iranian Gas Export Company (NIGEC) Reza Kassaie Zadeh said Bulgaria has expressed interest in buying Iran's natural gas.

According to the PR office of NIGEC, Kassaie Zadeh said Bulgaria was considering some kind of participation in Iran's gas projects, explaining: "BulgarGas, representing Bulgaria in negotiations with NIGEC, has expressed its readiness to buy Iran's gas and participate in the construction of Iran's gas export pipeline as well".

The NIGEC chief said Bulgaria has also shown interest in investing in Iran's LNG projects particularly in 'Iran LNG' project, in purchasing Iran's natural gas to be carried through 'IGAT 9' gas trunk pipeline and also in transiting and swapping Turkmen gas through Iran.

For buying Iran's gas, BulgarGas has been invited to participate in the upstream sector of the country's gas production.

Iran mulling sub sea oil storage tank

Managing director of Iranian Oil Terminals Company (OTC) Mousa Souri said his company has started studying construction of sub-sea crude oil storage tanks in the Persian Gulf and Oman Sea.

According to the Mehr news agency, Souri explained that building sub sea oil storage tanks has its practical precedence in Japan, Norway and even Saudi Arabia. He said Japan has so far stored over 60 Mln barrels of crude oil in storage tanks 42 meters below sea level.

Souri said OTC has started studying the subject in collaborating with Kerman Technical University and Geographic Organization of Iran's Army, and once the results of the studies are out, the work will start on building sub sea tanks for storing crude oil.

Up until now, operators of marginal oilfields have been placed in a position of dealing with either the prohibitive logistics of installing a pipeline or the drawbacks of using a conventional Subsea Crude Oil Storage (SCOS) system.

Teekay Navion Shuttle Tankers, a division of Teekay Shipping Corporation, has developed a gravity-based crude oil storage solution, which is currently pending a patent in Norway. Unlike existing systems, Teekay's SCOS eliminates contact between the crude oil and seawater.

An Analysis of the trend of oil investments in an interview with deputy for investment at the National Iranian Oil Company

Oil, Creating Capital and in Need of Capital

Fatemeh Heydarian

Introduction:

Exploration, production and oil supply to the market necessitates application of complex technologies and huge investments. The analysts believe that the oil producers, mainly from developing countries, cannot and should not individually bear all the burden of making all the investments.

During the past century, the strategic importance of oil for the world economy has always been considered as a factor absorbing major oil companies and the owners of capital to this area. Due to oil's high value, there are very small numbers of producers not influenced by policies and the plans of foreign investors in the long term. Such a trend has not had a direct impact on their current policies. The Islamic Republic of Iran is one of the few countries which have not given permission to the investors to go beyond economic and technical issues.

Today, due to developments taking place in the globalization era, the Iranian oil industry, like its other rivals, is thinking about attracting foreign investments and is also searching for countries to make investments in Iran's downstream industries. By maintaining its current position in meeting energy requirements, Iran is also determined to develop its future place in the international and regional systems.

In order to be acquainted with NIOC's policies in the area of investment, "Mashal" reporter has conducted the following interview with Dr. Hojjatollah Ghanimi-fard, deputy managing director for investment affairs in the National Iranian Oil Co.

As the first executive accepting the responsibility of deputy for investment in NIOC, kindly tell us about the duties of this post and what is its role in the oil industry? Will this deputy announce any specific planning for expanding investment in Iran's oil industry?

The investment issue in the petroleum industry is not a new subject. So far, a lot of our colleagues within NIOC or in its subsidiary companies have done a great deal of service in this respect. Under the current circumstances, this deputy has some measures under detailed investigation in order to coordinate all the investments in the upstream and middle-stream sectors. But the subsidiary companies are the organs to implement the plans. The deputy for investment in NIOC would not interfere in the process of implementation. However, coordination is carried out by this deputy in order to facilitate and speed up the process of investments. In some cases, plans of action have been defined within the task of this deputy if there is a need to prepare specific method for contracts.

Within such a framework, it is hoped that we can present financiers and foreign investors interested to participate in Iranian petroleum industry within the possibilities existing in the Iranian oil and gas industry. Also, we should specify the available information regarding investment possibilities inside the country so that clear planning can be shaped in the future for the efficient advancement of the goals of the petroleum industry.

The current international conditions impose various pressures on Iran and its petroleum industry. What is the outlook for investment in the Iranian petroleum industry?

When international pressures are discussed, it is necessary to make distinction between declarations of the sanctions and its actual implementation. In the vocabulary, sanctions is defined as a political matter used as an instrument to influence countries against one or more political entities. If the sanctions can be considered as a factor to impose political pressures, it should be seen whether the people introducing such a measure in the oil and gas sector possess sufficient means and tools to implement it for the political purposes that they have announced?

When such pressures are not fairly implemented against a country based on international regulations, it has never been effective judging from the past record of the performance of international system. Such decisions can be evaluated as successful when the targeted countries lack the capability to counter these pressures. In the case of Iran, the sanctions have t been much efficient because pressures had unjustly been imposed. Also, our country possesses high capacities to counter foreign pressures. The sanctions considered by the US after the revolution had been imposed by the alliance of a limited number of countries at international level and failed to attract the assistance of the whole international system.

Of course, this does not mean that the pressures imposed have not brought about relative problems for the country's economic projects. But the relative difficulties resulting from these pressures have been (and will be) followed by progress in construction activities. We have already witnessed a lot of cases displaying such advancements in the petroleum industry.

A glance at a set of construction activities implemented, including renovations and rebuilding carried out during the imposed war and after that, confirms the reality that pressures imposed on Iranian oil industry have not been effective. It can even be claimed that our independence in this industry has been consolidated. Today, the independence in the petroleum industry is definitely felt more than in the beginning days of the revolution. Given the current condition of Iranian oil industry, the outlook for any kind of investment looks bright and promising.

Considering this viewpoint, which points have been factored in investment in the petroleum industry? Have you prepared a specific internal document in order to achieve these goals?

The 20-Year Perspective Document is the main document for long term oil and gas plans. Termination of this document will be nearly 17 years later. In this document, all the necessary anticipations have been made. With respect to each sector, the required domestic and foreign resources have even been quantitatively determined. It should be noted that a few countries can be found in the Middle East to have compiled their long term 20-year plans. Or if such a document has been compiled, it is not comprehensive and does not include everything necessary. For this reason, the best reference source to find the petroleum industry's future plans is in the Perspective Document.

Certainly, duties entrusted on the petroleum industry based on this document are to compile the country's Five-Year economic plans and yearly budgets to be approved by the Parliament (Majlis). The planning by deputy for investment has been made within the framework of the projects declared in advance.

What is your evaluation about the performance of petroleum industry within this framework? Will it be feasible to achieve excess production pointed out in this document with the current trend?

Compilation of long term planning in the economic sector are usually made based on normal situations rather than under peculiar and emergency conditions. For this reason, it would be necessary to carry out long-term and middle term planning to implement these documents so that yearly budgets can be prepared during practical implementation. It is clear that when a normal condition changes into an emergency one, part of the former goals will inevitably be revised and reconsidered from timing and quantitative points of views. After investigation of the 20-Year goals, you will notice that we have not already achieved some of the declared goals of the document. However, this fact does not imply that we have deviated from our course in trying to achieve the goals. Rather, the conditions to achieve the objectives have been changed. As an example, changes in the different commodity markets have occurred facing the implementation of oil industry's projects with delay and different prices.

It is evident that the people in charge should always be prepared for unforeseen conditions even when the continuation of development plans is not possible. They should not leave the projects unfinished. During the past two years, the managers in the field of energy economics have been faced with a number of problems for procuring commodity due to changes occurring in the oil and product's market, development in the commodity markets and particular technical services required by the country's economy. As a result, there has also been a change in the oil and gas projects. Some of these changes have caused some progresses unforeseen in any previous document. It is clear that under this situation, our priorities have undergone some changes and it would require a longer time to achieve our goals.

In the upstream oil industry and under the buyback contract, the investors usually receive a part of their profit in the form of the sale of the produced product from that project. It is similar to gas contracts that the profit is paid off to the investor from the sale of condensate. If we return to the current state of the oil market, these investors should have been faced with drastic price difference in their current profit given the fall in world oil prices. Has any solution already been found in order to compensate this situation?

The first point is that no foreign investment has been made in Iran's upstream oil and gas sectors since the beginning of Islamic Revolution. Thus, buyback contracts are not considered as foreign investment in the oil industry. Buyback contracts are essentially service contracts with the difference that in the service contracts, the contractor receives cash payment in return for implementing the task. While in the buyback, the payment will be made only after the work is completed and the operation of the field is transferred to the employer (in this case, the completion of the work means achieving output based on the anticipated ceiling during a determined period).

In the buyback, the payments will not be in cash. Based on initial agreements, a part of the produced product (crude oil or product) can be allocated as a means of payment. Based on available background in the oil industry, this share can comprise different percentages up to 60 % of the crude oil output. It is 50 % for Azadegan field. In the case of gas projects, the financiers or the contracting party are paid in the form of condensate, LPG or the produced sulfur. So, cash payments in such contracts will be changed to payments in the form of product with the difference that the produced product given to the party to contract is calculated based on the market price. If the party to contract rejects to accept the market price, in that case the product is sold in the market to pay the installments.

What would happen if the prices decline?

In these contracts, it is usually agreed that a predetermined percentage of the produced product or crude oil is used as a repayment. If there is no limitation in the volume of production, it can be used as a basis for repayment based on the project's volume of output. The value of the product is calculated based on current price in the international markets. For example, in the case of decline in the price of condensate, more volume of condensate can be provided to the other party of the contract to compensate for the price deficit.

But sometime legal limitations for the withdrawal amount are specified and the determined percentage can not be exceeded. For example, when the value of the crude oil provided to the other party can not cover the installment at current prices, the unpaid amount of the installment will practically be transferred to the next period. Many contracts related to the development of the country's gas fields (not oil contracts); usually have a two-year period at the end of repayment grace period to extend the payments. It means that lengthening of the repayment period is also included in the contracts because in the world markets. Gas has a particular condition compared to crude oil.

Due to the recent fluctuations in the oil market, we witness that OPEC has made new decisions with respect to reduction of the output ceiling which will have significant impact on the revenues of the major producers. Beside the issue whether the members are bound by these decisions or not, won't the country be faced with reduction in revenues due to this reduction in output?

When a country is a member of an international organization - although it takes its national interest into consideration - but in order to support the organization and consolidate the organization's place in regional or international place, the members at times accept to obey the decisions along with preserving their national interests. Although, such decisions might not on the surface conform to their interests, but these decisions actually converge with the interests of the organization established based on the members' national interests.

In the initial understanding, the recent OPEC decisions have endangered the economic interests of the members. However, whenever this organization has pursued output reduction, it was intended to modify prices in the market and move towards stability. By observing lesser output ceiling, the members try to achieve higher prices. Certainly, such an increase should not be in such a way as to bring OPEC face to face with the energy consumers. On the contrary, the organization is pursuing stability of the oil markets by making such decisions to prevent the depression that would befall both groups of producing and consuming countries.

This issue should also be considered that any time the major oil companies are faced with lower prices in the market; their subsidiary companies in their own countries also encounter with problems due to the reduction in their profits.

On the other hand, every time the price of oil goes down, the price of the products and also the refineries' revenues will decrease. The decrease in profits of the refineries and major oil companies means that these economic institutions will confront difficulty for their survival and a kind of depression will occur in a particular sector of the economy of the countries. Also, these factors will be followed by the expelling of a number of employees and increase in unemployment will add to the domestic economic pressure. Thus, it is observed that only the producers will not incur a loss at the time of reduction in prices. It is for this reason that the reduction in OPEC output should not be interpreted as against the consumers because it will ultimately lead to an increase in the price. This is to modify the declining trend of the price in the market that will damage both groups of producers and consumers. The members that have voted for output reduction, at some time will have lesser revenues but it should not be forgotten that the current market is like a sick person that should consume a bitter medicine to recover in the long term.

It does not appear, therefore, that economic prescription is a mistake although the OPEC members may be forced to experience the reduction in revenue until the time the stability in prices is achieved in the market. However, when an appropriate increase in prices is observed, it can be compensated. Bringing the supply sector under control to modify the prices' system is an obvious matter.

Currently, the fluctuations is not evaluated as the result of the fundamental factors in the oil market. How can it be expected that the role of non-fundamental factors be reduced by regulating supply and demand or make modifications to the pricing system in the perspective of one to two years?

The pricing issue in the oil market is a very complex issue. It can not be examined from mere economic view. For this reason, the experts who work in the area of oil price know that there is not any specific economic model which can exactly answer such issues. The oil prices can not even be predicted with an acceptable percentage whether by new models using artificial intelligence or the former mathematical models trying to convert anything existing in the market into quantity. So, we should accept that there are factors - away from total measurable factors in these models and economic frames - which could influence the market trend. For this reason, the exact prediction of the prices is not often made by any market expert. Rather, a range of price is mainly presented. As this range is wider and gives a wider maximum and minimum, it is an indication that the analysts were careless. Under the current condition, this question is raised that whether the prices can fluctuate due to factors other than fundamental factors such as supply, demand, storage of surplus capacity and … and continue its declining course? At the current circumstances, the answer is inevitably positive since the non-fundamental factors have also had a significant impact during the recent months. However, OPEC possesses an element known as a 40 % circle of the crude oil supply. From the total available fundamental factors, this organization is making endeavors to make decision only linked with this 40 %. Because, the fundamental section of the oil market is a part of all the factors having impact on the price. And OPEC has relative power to influence only a part of these factors (supply). So, the organization's decisions will not immediately have a direct impact on the market. It can not even have the expected impact in the medium term. Thus, factors outside of the market – like current factors in paper markets – can change the prices and move them towards the direction not dictated by fundamental factors.

How can these factors be brought under control?

Since these factors function in the free economic market and there is usually no control by the governments on this market, it appears that they can always influence the oil market. In the early July 2008 (middle of the month of Tir 1387), the price of WTI crude oil in the U.S. reached about $146 per barrel. But the same crude was traded in the same market for $31 per barrel in the past few weeks. Has the level of supply increased during these six months to the extent that it could reduce the price for more than $110? Have the level of demand during six months been reduced to the extent to break the prices to this level? The answer is completely negative because there are factors outside the market that are able to influence the number of paper transactions. Also, the factors like the economic conditions in the consuming, producing countries and even other economic sectors have always impacted the oil market. Also whether developing countries would move towards a balanced growth in a period of a few years or their economies would go in the direction of depression and liquidation can also influence our analysis with respect to the oil market.

Currently, a significant part of Iran's oil transactions is in non-dollar currencies. Haven't the fluctuations in the value of dollar and its increased value changed the preference of the oil managers?

When a decision is made with respect to changing the foreign exchange in oil transactions, this is considered as an agreement reached between the seller and the buyer that can be implemented through both parties' banks. Our initial agreement with the buyer may be for the dollar but ask for another foreign exchange when receiving the sum. When the behavior of the owner of an international currency is stable and predictable, we merely consider the economic issues in our decision making regarding the exchange of currencies to one another. The point that which foreign exchange has a higher value is merely an economic issue and exactly considered as a banking affair. It does not even directly concerns oil transactions since it is ultimately two banks that exchange money with each other. If a country like U.S.A - that has an international foreign exchange – uses it as a political weapon, the question is: would it be necessary to use this currency because its value has been strengthened? While it is known that this country can halt any transaction conducted with dollar or block any money transferring into Iran.

Should we accept the danger of expropriation of our properties for the sake of strengthening dollar by 10 or 20 percent compared to the past few months?

Let us have a look at Eastern markets. Regarding the energy club and offers made by the Shanghai members, can investments by this group promote Iran's share in future oil markets?

It appears a major part of investment between members of such organizations is a bilateral issue between countries following multilateral understandings. They usually reach agreement bilaterally. Some regional coordination can speed up this trend. If a common fund for investment is assumed to be effective, its performance has again some ambiguity. Especially in the gas and oil sectors requiring heavy investments, such expectancy from multilateral organization of the countries is not possible. However, by creating an energy group within Shanghai group for more coordination, it is hoped that these countries comprising major consumers and producers could establish a closer link with each other in Asia. But the expectation to achieve huge investments in common energy field in the member countries will be faced by some challenges in the short term. The removal of such challenges requires more time.

In view of agreements reached for creation of "Gas Exporting Countries Forum", how can you evaluate Iran's position in regional gas investments such as "Nabucco"?

Again we have returned to the investment issue. We should note a fact that these investments are made within the framework of bilateral or multilateral agreements. The organizational structure which is formed by more than two members will cause members to understand more about each others' possibilities and capacities. They can also recognize investment needs in other countries and guide their monetary and financial possibilities towards the group's potential capabilities to create facility for investment. However, it must again be emphasized that the gathering of energy producers or exporters and establishing a common forum will not necessarily be equal to practical investment in member countries. At least in the early years of the performance of these organizations, we should not have the expectation or hope that it would happen.

Would you anticipate Iran's widespread investments in refining industries have an economic justification in the future when the market of these products are saturated?

In view of the consumption rate and the need for oil products inside the country, we are obliged to make such investments in order to rectify the price pattern for the products and consumption pattern for the consumers. As a country hastily moving toward development, Iran will require varied and more products in its industries. So, our refining capacity will also require development although we may see some saturation in this respect in the Persian Gulf region.

If some day in the future we consume these products and simultaneously become among the importers, we may experience economic advantage and purchase products at lower prices in a short period of time displaying uneconomic the huge investments. In the long term, however, economic advantage will be more manifested because investment in the downstream refining industries not only create added value for us but it will also create employment increasing our power in the region and the world in such a way that we will be able to maneuver in the absence of these products. Anyway, all these cases can justify investments in downstream industries even under current conditions.

Has the deputy for investment compiled any plan for construction of reservoirs for storage of strategic products such as gasoline and for the possibility of wide-spread purchasing of reservoirs at current market conditions?

Since a long time ago, the national oil products' distribution company has implemented a lengthy plan in this regard to provide reservoirs mainly for expanding storage of the products. Meanwhile, I think it would be better to obtain more complete explanations regarding the project's progress from our dear colleagues in this company.

Based on which long term strategy have you invested on the downstream industries in Malaysia and Indonesia?

Indonesia is a country with a population of more than 220 million people. On the other hand, it is a long time that this OPEC member has been turned into a net importer of crude oil. Thus, in view of Indonesia's increasing need in the future years for importing energy –for both crude oil and product – it seems it will be a suitable area and place for downstream investment in Asia. An expanded and significant market for crude oil and product will be opened for us by this country in the future. Therefore, participation with this country has been evaluated as positive.

Regarding Malaysia too, the country's need for products in the future is under our investigation. Today, this country is moving in a direction that can export part of the products from the refinery in the southeast of Asia to the Far East countries.

In other word, we look at Malaysia as a place that is not only in need of providing part of its required domestic products but in an ideal condition – in view of its proximity to the Far East region - to provide a terminal for the supply and transportation of our products from the joint refineries. Iran will also provide the required crude oil for the common refineries and as a result, added value will be created with part of its profits returned to Iran.

On the other hand, this trend will also open the door for us in the products' markets in remote areas as we have not so far achieved a significant place in the product's market. Therefore, this investment can bring about several economic advantages.

Analysis of OPEC's Performance - Interview with Iran's Permanent Representative to OPEC

OPEC in Need of Time to Manage Oil Market

Source: Mashal

How do you assess the impacts of OPEC's crude production cuts on oil market?

This is not the first time OPEC is planning to cut production. In the past 50 years, OPEC has, on various occasions, taken up supply management. A comparison of the recent production cuts with similar cases in the past proves the Organization's measure to be a success. The figures and statistics provided at OPEC's ministerial session in the Algerian city of Oran unveiled the very fact that production cuts have hindered further price falls, though there is still a long way ahead for OPEC to restore high prices.

Have the Organization's recent achievements helped to Strengthen integrity among member states?

the nature of OPEC's performance has and still does require integration. Of course, under the present circumstances, integration among member states has been reinforced. Evidently, any decision adopted by OPEC to either increase or cut production aims to affect the market. There is no doubt that crude prices would have grown progressively less, had OPEC member states refused to cut production. Naturally, OPEC will keep on managing crude supplies for as long as market stability has not been restored. OPEC will continue undergoing this evolutionary course.

There are certain cases that should be raised for discussion at OPEC's March 2009 meeting. For the restoration of stability in the market, OPEC may opt for further production cuts to the extent that would satisfy producers in terms of income and at the same time assure consumers that there is no room for concern about future crude supplies and ultimately persuade investors to invest in the industry.

Does OPEC's crude production cuts at regular intervals have to do with wrong assess-

ment of market conditions or is it the outcome of OPEC's performance?

OPEC's decisions are made in accordance with the latest information available. Our decisions are subject to reassessment at all times. For instance, in October 2008, OPEC cut its production ceiling by 1.5 million barrels in compliance with the latest market assessments, however, complementary information revealed the fact that there still resided surplus supplies. Thus, any measures drawn by OPEC rely on available information and consensus by the member states. Although in our late 2008 sessions, some of the member states insisted on further production cuts, supply rates were specified based on OPEC secretariat's analysis of information and conclusions made by the expert meetings backed by the member states. We do not have full access to market findings due to the gap in the transfer of findings, however, that does not mean our assessments lack authenticity. Figures are assessed at different junctures of time in order to convince members that they are making the best possible decision.

In November 2008, technical analysts put price key support at USD50 per barrel. That would provide OPEC with ten days before it approached the stage of sharp price falls. OPEC's extra-ordinary meeting was held in Egypt on November 25th, 2008, however, it fell short of coming to any conclusions, though, the member states were already fully aware that any later decision would fail to control prices.

Why did the member states neglect to act accordingly at the right time?

I don't believe that OPEC decisions are ineffective. There is no doubt that crude prices would slip sharper in case OPEC refused, in its December 17th meeting, to put further production cuts into effect. Of course, market analysts may come up with different figures at various junctures. Stock exchange players have their own specific analysis of market, whereas, OPEC focuses on fundamental factors such as supply, demand and reserves. In Algeria's Oran meeting, the factor underlying OPEC's decision for introducing huge production cuts of 2.2 million barrels per day, was the level of crude reserves which had surpassed the recent five years' average. The average reserve levels in the past five years had not exceeded 52 days, however, OPEC had perceived the figure was approximating 57 days. Production ceiling had to be reduced in order to contain reserves. Assessment of OPEC's past decisions is yet another factor involved. Pursuant to each decision made, OPEC is in need of time to assess market reaction. In the Egypt meeting, the outcome of November production cuts was not available to the member states and for that matter no fresh decision was adopted in order to provide OPEC with the opportunity to present a clear analysis of the measures drawn by the Organization to the member states in the course of Algeria meeting.

assuming that the recent back and forth shifts in the oil market have their root in non-fundamental factors such as influx of wandering capitals into the market and development of financial bubbles, how would OPEC expect to stabilize the market by controlling fundamental factors?

The effect of non-fundamental factors is an already accepted fact. At a time when WTI experienced peak prices of USD150 a barrel, OPEC insisted that fundamental factors could not justify such high price levels. Devaluation of US dollar gave way to false prices and oil's paper market was filled with billions of US dollars to the extent that crude transactions exceeded the real volume of supplies significantly. That trend was but false demand stirred up by stock exchange dealers. However, the situation is currently in reverse. Value of US dollar is on the rising and oil prices are experiencing a downtrend. Stock exchange actors are displaying "Sell Position", therefore, false sales have set the stage for further price falls. The role that stock exchange workers play in this market is evident. OPEC has no control on stock markets, whereas, countries which are host to these stock markets (US and Britain) can devise laws that would prevent pricing or involvement by these stock markets in sharp fluctuation of prices. OPEC, however, is not expected to neglect or underestimate its role as a market moderator.

OPEC has cut production rates, but demand in the US as the largest consumer of crude is experiencing a downward trend. Will dwindling supplies by OPEC influence the entire oil market or not?

The current economic crisis is extremely intense. The extent of this crisis is believed to be wider than the crisis which emerged in the post-second World War period while the degree of its impact on demand cannot be clearly estimated. The crisis keeps on pushing forward, therefore, its impact on oil demand swings. Under the present circumstances, industrialized states are releasing worrisome growth rate figures and indexes (higher unemployment rates and reduced industrial products, dropped confidence index and drop in consumer cost). We are in need of time in order to realize the dimensions and impacts of this factor. Meantime, non-OPEC producers of oil, through their uncoordinated measures, slow down the progress and efficiency of OPEC's decisions in the oil market. World economy should return to the state of stability and there should emerge signals indicating an end to the recession period. OPEC calls on the non-OPEC producers of oil to cooperate for the revival of market similar to the 1998 experience, although bringing the market situation back to normal is not a short term process and requires time.

Regardless of the nature of this crisis, analysts believe that there are surplus supplies of 5 to 7 million barrels per day in the market. Are the OPEC member states prepared, in terms of incomes, to give in to such huge production cuts?

In fact, over 90% of the economies of some oil producing states invariably depend on oil incomes which vary according to the volume of production and global prices of crude. Thus, low prices of oil cannot be compensated for through over-production. Various states are sensitive to the notion of price. They have been convinced that overproduction is not the solution to fill their income gap, rather, these are oil prices that should be adjusted. Securing adjusted and fair prices is the factor that persuades integrity within OPEC. Meantime, at times, producers prefer to repair and improve some of their fields. Producers are unlikely to insist on producing more heedless of low prices. Oil prices have dropped by 70% since July. No several hundred barrel overproduction will be able to compensate for such a loss. There is, therefore, consensus among OPEC member states over the need for price improvement rather than overproduction. This is not an easy task under the present conditions, however, OPEC member states are urged to display short term self restraint in order to win more sublime and lofty aspirations.

Should collective adherence of OPEC member states to recent decisions be viewed as a positive approach?

I personally believe that interaction by various oil producing states for improving prices can involve and encourage serious adherence to commitments. Even the present degrees of adherence can yield positive results. Further production cuts by OPEC in the future would not imply shortage of supply and higher prices. OPEC is resolute to contain supply surplus so that prices are stabilized in a balanced market. Therefore, OPEC is not expected to cut production beyond supply surplus rates.

OPEC's quota does not include NGL and Condensate. Could member states compensate for production cuts through over-supply of these products?

We have specified quotas for the supply of NGL and Condensate since they compete with crude oil. Some of these items are mixed with crude in refineries and used as feedstock, therefore, these products are included within the framework of supply and demand. Non-OPEC crude and OPEC and non-OPEC NGL and Condensate supplies fall within non-OPEC supplies. This volume is considered in the world's supply and demand balance in order to reduce general demand while the remaining portion of demand is secured by OPEC as moderator. Thus, NGL and Condensate supplies can be calculated within the general supply and demand balance.

all producers of oil including OPEC member states are encountering investment problems, and industrialized states have reduced interest rates. Will that not speed up outflow of capital from oil producing states?

Reduced interest rates persuade entrepreneurship, development and investment. But that is not the sole factor. Oil industry projects are influenced by various factors such as the host country, investment agent, supporting financial institutions and transfer of know-how. That is to say, in addition to an investor, a project also needs to be supported by huge financial resources. Under the present economic conditions, large financial institutions are inclined to finance economically feasible and rewarding projects only. These institutions remain reluctant to invest in oil industry when prices are low. Improved prices and normal market situation can attract investors to this sector of industry. No immediate investment in oil industry is likely to be made when investors are exposed to high levels of investment risks. In some cases, the cost price for the production of each barrel of oil exceeds present prices. Notwithstanding reduced interest rates, no likely fresh investments are expected to be made in the oil industry unless oil prices are stabilized.

Oil Price Assumptions of Producing Countries in 2009 Budgets

Source: MEES

The latest data from a selection of oil producing countries shows that, to calculate 2009 budgets, seven countries are assuming higher oil prices than for their 2008 budgets, seven anticipate lower prices and four expect no change (see table). However, as a result of the fall in oil prices from a peak of $147/B in July last year to the current level of around $40/B, and with projections of an economic slowdown across the globe, many countries have already revised down their initial forecast budget oil price, and others are likely to follow suit if crude remains at current levels or falls further. Some producing countries have revised upwards their estimates because the 2008 budget projects were very conservative – Algeria, for example, had assumed a price of $19/B for 2008.

For 2009 Iran has cut its assumption to $37.50/B from the initially forecast $45/B (MEES, 12 January), Qatar has adopted $35/B rather than the initial $55/B, with these following a downwards revisions by Oman to $45/B from the originally proposed $55/B (MEES, 8 December, 2008), and Mexico to $70/B from the original $80/B (MEES, 15 December).

Russian Prime Minister Vladimir Putin on 20 January ordered the Finance Ministry to recalculate the budget based on an oil price of $41/B, rather than using the current $95/B, which is the highest price of the countries surveyed by MEES. Bahrain's Prime Minister Shaikh Khalifa bin Salman Al Khalifa is also planning to meet with parliament to discuss basing the 2009 budget on a price of $40/B or $45/B rather than the currently projected $60/B. Norway is maintaining the second highest price forecast at $90.50/B, but Oil and Energy Minister Terje Riss Johansen said in October last year that a plunge below its assumed level would not impact public finances because the country has built up a considerable surplus from sustained high prices over the last few years.

Saudi Arabia has adopted an expansionary budget for 2009, and while it does not reveal its oil price estimate an average of Saudi Arabian banks' figures suggests a level of around $40/B (MEES, 5 January). On unveiling its 2009 budget, which is also expansionary, Algeria has pegged oil at $37/B, predicting that petroleum revenue will rise from 2008 after adopting a conservative $19/B, although for 2008 petroleum revenue was raised significantly in a supplementary budget (MEES, 19 January).

Oman's budget, also expansionary, anticipates a doubling of its deficit, but the country will adopt cost cutting measures if the oil price falls below its assumption (MEES, 12 January). Iraq has based its budget on $62.50/B, projecting a deficit of ID18,093bn ($15.33bn). This is optimistic given the ongoing financial crisis and Iraq will find it challenging to secure sufficient investment for planned projects and to raise living standards for its people (MEES, 5 January).

Iraq's oil revenue climbed to $61.884bn in 2008, compared to a projected figure of $35.465bn and from $39.8bn in 2007. Abu Dhabi has unveiled its long term aims, which include an ambitious plan to reduce dependence on oil (MEES, 12 January), but the UAE's dominant oil producer does not reveal oil price assumptions and its yearly budget deliberations remain opaque.

Dubai has assumed an oil price of $45/B for its 2009 budget, which anticipates an operational surplus of Dh3bn ($817mn) this year, compared to Dh11.4bn ($3.1bn) in 2008 (MEES, 19 January).

While oil producers' budget oil assumptions currently range from $35/B to $95/B, the prices needed by OPEC producers to balance external accounts are in many cases somewhat higher, according to estimates released by PFC Energy. Venezuela will need around $100/B this year, and this will rise to $102.68/B in 2010, Iran will need over $80/B in both 2009 and 2010, while Saudi Arabia and Kuwait need oil prices in the $50s/B over this period, while the UAE will require crude in the $40s/B. Algeria and Qatar will need the lowest prices, of under $20/B and $10/B respectively for 2009, mostly due to their growing gas exports (MEES, 8 December 2008).

Budget Oil Price Assumptions* For Selected Oil Producing Countries ($/B)

Country	2009	2008	2007	2006	2005	2004	2003	2002	
Algeria	37	19	19	19	19	19	19	22	Calendar Yr
Bahrain	60	40	40	30	30	20-21[1]	20-21[1]	15-18	Calendar Yr
Indonesia	45	95	65†	57†	35†	36	27.90	22	Calendar Yr
Iran	37.50†	39.7†	33.7	34.5	19	19	19	19	21 Mar-20 Mar
Iraq	62.50	57†	50	---	26	21	---	---	Calendar Yr
Kuwait	50†	50	36	36†	21	15	15	15	1 April-31 Mar
Libya	45†	64	---	---	---	---	---	---	Calendar Yr
Mexico	70†	49	42.8	36.5†	27	20	17	15.50	Calendar Yr
Nigeria	45†	59	40†	33†	30†	25	22	18	Calendar Yr
Norway	90.50†	95.96[4]	60	70	52	37.65	28.74	20.88	Calendar Yr
Oman	45	45	40	32	23	21	20	18	Calendar Yr
Qatar	35†	55	40	36	27	19	17	16	1 April-31 Mar
Russia	95†	74	61	40	28†	22	21.50	18.50	Calendar Yr
S Arabia	40[5]	48[1]	42.5[1]	38[1]	25[1]	18.50[1]	18[1]	15.50[1]	Calendar Yr
Sudan[2]	75†	45/72	30/50	---	---	---	---	20	Calendar Yr
Syria[3]	42/51	42/51	42/51	35	21/25†	---	20/24	20/24	Calendar Yr
Venezuela	55-60†	35	29	26	17-23	20	17-18	18.50	Calendar Yr
Yemen	55†	55†	55	40	---	21	21	18	Calendar Yr

* Budget oil price assumptions are based on the price of export crude.
† Draft.
1. MEES estimates.
2. Low price for Dar Blend, high price for Nile Blend.
3. Low price for heavy crude, high price for light crude.
4. Revised to 585 Krone ($95.96) in October from 360 Krone ($70.50 at May 2008 forex rates).
5. Average of Saudi Arabian banks' estimates.

Priorities of Petroleum Projects in Iran's 5th Development Plan

Source: IranOilGas.com

According to a report by the Borna news agency, following projects have been given priority in the petroleum industry division of Iran's 5th Development Plan (April 2010-April 2015):

1- Neka-Jask oil & Sarakhs-Jask gas pipelines

Neka-Jask oil pipeline is 1,550 km long and aims to carry one Mln bpd crude oil of Caspian Sea littoral countries to the Sea of Oman. Some talks have already been held with Kazakhstan and Russia to get their support for the pipeline project.

As for Sarakhs-Jask gas pipeline project, Turkmen gas fields like Dolatabad and Iolotan are foreseen to be supplying the gas to be carried by the line. Construction of some LNG plants at Jask Port have also been foreseen in the plan.

2- Construction of storage tanks for 100 Mln barrels of crude oil

Construction of storage tanks for 100 Mln barrels of crude oil at regions such as Kharg Island, Qeshm Island, Jask Port, Chabahar Port and Bandar Abbas Port, 20 Mln barrels of storage tanks for each.

3- Development of Pars Special Economic Energy Zone-2

Development of gas fields like North Pars, Golshan and Ferdowsi, and creation of oil, gas and petrochemical upstream and downstream industries plus formation of Pars Special Economic Energy Zone-2, adjacent to Assalouyeh.

4- Export of gas to Europe through 'Persian Pipeline'

Persian gas pipeline is foreseen to be 1,863 km long, 56" in diameter and will have a capacity to carry 110 mcm/d of Iran's gas to Europe. The gas outputs of phases 20-24 of the South Pars have been foreseen to supply the gas of the Persian pipeline.

Companies like OMV of Austria, EGL of Switzerland, ENI & ENEL of Italy and E.ON of Germany have been engaged in serious talks with Iran over their partnership in the Persian pipeline project.

5 - Production of one Mln bpd of crude from oilfields West of Karoun River

The oil ministry has been impelled to establish 'Arvandan Oil/Gas Production Company' to handle a 'crude oil production hub' counting on the outputs of the following fields in the West of Karoun River: Yadavaran, Darkhoain, North Azadegan, Band-e-Karkheh, Azadegan, Arvand, Jufeyr and Sousangerd. These fields are estimated to house a total of 43 Bln barrels of heavy and 8 Bln barrels of light crude with minimum of 12 Bln barrels of them recoverable using primary methods.

Development of Jufeyr has been assigned to Belorusneft, that of Azadegan to PetroIran, North Azadegan to CNPC of China, Yadavaran to Sinopec of China, Arvand to Arvandan Oil/Gas Production Company and phase 3 of Darkhoain to ENI of Italy.

6- Transforation of Bandar Abbas into refining hub of Persian Gulf

Construction of 3rd phase of Bandar Abbas refinery plus that of Hormoz heavy crude refinery and 'Persian Gulf Star' refinery will give Bandar Abbas Port the capacity to refine nearly one Mln bpd of crude oil.

7- West Ethylene Pipeline (WEP)

The West Ethylene Pipeline will split into two branches. The ethylene feed of WEP in one branch will be supplied by Kavian and Morvarid petrochemical plants of Assalouyeh, and that of the other branch will be supplied by the 8th Olefins of Gachsaran.

WEP will carry the feed of petrochemical plants of Mamasani, Kazeroun, Dehdasht, Andimeshk, Broujen, Lorestan, Kermanshah, Kordestan, Mian Doab, Mahabad and Hamedan.

8- Export of natural gas to Pakistan, India and China (IPIC)

The project to export Iran's natural gas to Pakistan, India and (later) to China through a pipeline has so far proved to be a nonstarter. If the pipeline is ever built, it will carry 60 mcm/d of gas in phase 1, and some 110 mcm/d in phase 2.