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IRAN OPENS UP: NEW GOALS, NEW DEALS

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Ever since the initiation of the talks of the Geneva interim deal in 2013, the whole world has been on its toes watching and predicting the future of the Shia capital of the world; Iran. For a country that has been marred with sanctions for almost four decades, the opening up of the Iranian economy and its oil and gas fields is a big deal not just for Tehran but for countries around the world.

An analysis of the situation post JCPOA shows the relentless pursuit by the Iranian government to invite foreign investment into the Persian land. The government of Iran has been actively engaging with multiple countries and international corporations around the world to secure new deals and investments. Luckily for Iran, the feeling is mutual for most competitive players in the market. Iran's abundance of vast energy reserves which serves as the backbone of its economy, is highly unexplored and unexploited compared to its Arab neighbours. Iran is in dire need of foreign funding and technical expertise to gauge the potential of these reserves, and the revenue that can be generated out of it. Iran's oil industry officials have previously put total investments required in various sectors of the oil industry at $445 billion, including $230 billion in oil, $130 billion in gas, $20 billion in refining and distributing oil products, and $65 billion in the petrochemical industry.[1]

Iran Petroleum Contracts (IPC) – New Contract Model vs Old Buy-Back Agreements

The first step the country took in order to achieve its goal was to frame a new investor contract offering better incentives than the buy-back agreements Iran offered in the past. It offers a framework for new energy deals to be negotiated project-by-project in a tailor made fashion, rather than a uniform contract model for all investors. The new contract model intends to give the investor a share of the oil they produce, and the freedom to sell it in the global market. Iran's old buy-back deals paid companies a fixed fee regardless of how much oil they produced and offered them no incentive to exceed output targets. Buy-backs also paid no compensation to companies that spent more than budgeted amounts to develop a field. The new model however is based on the sheer output volume of oil generated. The more oil they pump, more the profit. On the down side, the investors will also equally share the burden of a decrease in production.[2]

The buy-back agreements were limited to a period of 7 years which according to top officials of leading energy giants was not enough time to procure adequate returns on their investments. Under the new model, the contracts will be valid for a period of 20 years and can be extended to 25 years upon mutual agreement by the parties involved.

Another advantage of the new model is that if at all the companies come up empty handed after exploring the site that was agreed upon, they will be given the freedom to explore nearby areas for other fields. The buy-back model lacked this kind of flexibility and were forced to stick to the development plan that was originally agreed upon.[3]

A Ray of Light on Iran's Ambitions

Although this plan to re-phrase the framework was announced in 2015, it has gained contemporary prominence in light of the recent deals that have been signed by Iran. So far National Iranian Oil Company (NIOC) has inked over 28 memoranda of understanding (MoUs) with both Iranian as well as international energy companies.

The latest multi-billion dollar contract signed between the NIOC and a consortium consisting of the French energy giant Total, China National Petroleum Corporation (CNPC) and Iranian Petropars on July 3, 2017 marks the first major investment in Iran post the JCPOA agreement. From among the MoUs, this is the one deal that has turned into a contract so far. The total cost of the project to develop South Pars Phase 11 is estimated at a whopping 4.8 billion euros. Total owns the largest stakes at 50.8%, followed by CNPC at 30% and Petropars at 19.9%. As per the new contract model, the agreement signed is for a period of 20 years. This deal also marks the comeback of the French Total to Iran after more than a decade since the firm developed South Pars Phase Two and Three in the 1990s.[4]

The NIOC also signed a deal on July 17, 2017 with Japan's engineering group Toyo and Petropars to revamp the facilities and upgrade gas production at the Salman oil and gas field situated on the Iran-UAE maritime border. Once financial and feasibility studies are conducted, if the MoU were to turn into a contract, then it would be an Engineering, Procurement, Construction and Finance (EPCF) type contract with the Japanese firm funding the project.[5]

Apart from these two, Iran has also signed preliminary agreements with companies like Italy's Eni, Royal Dutch Shell, a number of Russian firms including Gazprom, Philippines'

National Oil Company (PNOC), etc. According to the deputy for development and engineering at the NIOC, Gholamreza Manouchehri, Iran plans to sign at least 10 more deals by March 2018.[6]

The Question of Farzad B: Will the Indian Deal remain Indian?

Iran and India have been recently caught in a conflict of interest regarding the Farzad B gas field situated in the Farsi block in the Persian Gulf. The field was first discovered by OVL; the overseas arm of the Oil and Natural Gas Corp. (ONGC) in 2008.[7] The reserves in Farzad B are estimated to be almost thrice as big as the largest oil field in India. The project has cost the OVL-led-consortium which includes Oil India Ltd and Indian Oil Corp. over 80 million dollars so far.[8] OVL and IOC each hold a 40% interest in a license to develop the block, and OIL 20%.[9]

The negotiations for the development of the field could not be concluded due to the myriad of sanctions imposed on Iran that restricted investments in the country's energy sector to not more than 20 million in any 12-month period.[10] However, with the signing of the P5+1 Deal, India lost the upper hand it initially had, as the probability of Iran securing a partner with more experience and deeper pockets became more of a reality. Iran's frustration with India's habit of dragging its feet was clearly indicated when they withdrew the production sharing contract (PSC) that was offered to India in 2013, and instead planned to auction the field.

In June, 2017 Iran signed a basic agreement with Russia's Gazprom over the development of Farzad B gas field, but the details of the agreement have not yet been revealed. India has put forth a figure of 11 billion dollars as its final offer to develop the massive natural gas field and build the infrastructure to export the fuel, as long as Iran guarantees a "reasonable return" on the project.[11]

The fact that this deal might slip away has caused India to react by cutting oil imports, putting India's imports of Iranian crude for this fiscal year at 3,70,000 barrels per day (bpd) from current 510,000 barrels per day (bpd).[12] India is Iran's second largest importer of oil after China, and at a time when oil prices remain low, the question of who needs who more prevails, especially in a relationship that has been driven by complementary interests in the energy sector.

Right Strategy at the Wrong Time?

Iran is hoping to re-enter the oil market at a time when the effects of global warming and the renewed debate on climate change are forcing countries to re-think their energy strategies and diversify from their traditional reliance on fossil fuels. Most countries are exploring greener and cleaner technology, and constantly re-iterating their commitment to reduce their carbon footprint. Also, the introduction of newer forms of fuels like shale oil is challenging the status quo of conventional oil powers. At this juncture, with all these complexities in play, whether Iran will be able to establish its stronghold in the oil market or if it will continue to struggle for its market share is a question that may be answered in the near future.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

Notes

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3 Ibid

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10 Sujata Cheema, *India-Iran Relations: Progress, Problems and Prospects* (New Delhi: KW Publishers, 2016), p.175

11 Saket Sundria and Debjit Chakraborty, "India Gives Iran $11 Billion 'Best Offer' on Farzad-B Gas Field", *Bloomberg*, July 3, 2017, available at https://www.bloomberg.com/news/articles/2017-07-03/india-gives-iran-11-billion-best-offer-on-farzad-b-gas-field, accessed on 25 July 2017.

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