

## Iran Oil and Gas - The Emerging Giant



### Introduction

Iran Oil and Gas: The Emerging Giant details the structure of foreign investment in Iran's upstream and downstream petroleum industry; reviews the pricing opportunities in crude oil and gas; describes the market potential of natural gas in relation to Iran's strategic location; discusses the improved contractual terms and the improved rate of return on investment Iran's PSC agreements; will provide insight to petroleum companies that only those that have operated in Iran have gained; and includes an exhibit of a typical joint venture petroleum company set of by-laws.

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## Iran Oil and Gas - The Emerging Giant

### Report Overview

Four years after the election of President Khatami, Iran's attitude to the rest of the world has subtly changed, a stance reciprocated in much of the rest of the world. Time and again through a variety of polls, the Iranian people have shown their commitment to the challenging path of progress at home and greater contact with Iran's diplomatic and trading partners.

With stability and greater awareness of the need for economic change, Iran's population of more than 60 million provides an attractive market for a variety of industrial and consumer goods. Its strategic position offers the cheapest commercial route for bringing Caspian oil to the international market.

### The report:

- Sets Iran in its rich historical context that has evolved into the Islamic republic, a heritage of which Iranians are proud and appreciate when foreigners take the time to learn about it.
- Analyses the different political strands that make up today's Iranian government and ruling structure, helping to bring clarity to what often appears so confusing.
- Looks at the new opportunities in Iran's oil and gas production and associated petrochemical industries, explaining policy imperatives and political obstacles.
- Reviews the government's economic plans, including the five-year plan that began in 2000, assessing the opportunities for foreign business and developments that need to occur if the ambitious plan is to reach fruition.
- Discusses Iran's place in the Middle East and the potential for improved relations with its neighbors, a vital part of policies to increase trade and ensure that its voice in the oil exporters' grouping, OPEC, produces beneficial results.
- Describes Iran's relations with the major powers and the European and Asian trading blocs and assesses the chances for a breakthrough in re-establishing links with the US.
- Reviews a variety of future scenarios including variations in the oil price and prospects for increased gas utilization, helping to set risk into a context.

- Describes the varied experience of foreign business in Iran and looks to ways of improving the opportunities for expanding trade.
- Provides useful background details on who's who, both in a current and historical listing, some common Persian words and expressions, as well as President Khatami's Dialogue of Civilizations.

**Iran Oil and Gas - The Emerging Giant** provides vital coverage of what is happening in the country, set in a context for more complete understanding.

### **Audience:**

The report, published in an easy to read format, is essential reading for:

- Oil and gas exploration and production companies
- Government advisors
- Risk managers
- Project finance specialists
- Equipment manufactures and suppliers
- Investment banks
- Specialist advisors, including law firms, management consultants and consulting engineers
- Pipeline engineering companies.

### **This report:**

- Details the structure of foreign investment in Iran's upstream and downstream petroleum industry
- Reviews the pricing opportunities in crude oil and gas
- Describes the market potential of natural gas in relation to Iran's strategic location
- Discusses the improved contractual terms and the improved rate of return on investment Iran's PSC agreements
- Will provide insight to petroleum companies that only those that have operated in Iran have gained
- Includes an exhibit of a typical joint venture petroleum company set of by-laws.

## Executive Summary

After years of isolation caused by revolution and war, Iran continues to make progress in the process of reintegrating itself into the world community. Helped by a booming oil price and a large population, the country is one of the better markets for business in the Middle East. Better relations with neighboring countries are also ensuring a wider choice of trade links. Europe and Asia are now eager trading partners. A rapprochement with Saudi Arabia has been imitated by other conservative Arab states, reducing tensions in the Persian Gulf as well as increasing harmony and unanimity in the oil exporters' group, OPEC. Domestically, four years of government by President Khatami have served to transform international perceptions about the Islamic republic.

The main external obstacle for both business and politics is the continuing difficulties in relations with the US. Hesitant gestures by the previous Clinton Administration aimed at reducing tensions failed to elicit any favorable response from Tehran, where being overly conciliatory towards the US is tantamount to political suicide. Problems look like continuing with the new Bush Administration whose main foreign policy concern on taking power was to seek approval for a national missile defense system, designed to protect the continental US from missile attack by, among others, Iran. But the new party in power in Washington may be more willing to countenance an Iranian role in pipeline routes for oil and gas from the Caspian Sea area.

Internally, the rivalry continues between conservatives and progressives. Although the Iranian people have shown in a variety of polls that they favor greater liberalization, the senior Islamic clergy favor a more cautious approach to change, preferring to retain a strong leadership role. Individual freedoms remain an issue for many and the debate is unlikely to be resolved soon one way or the other. Interpreting trends in Iranian politics is likely to continue to be confusing for outsiders because the political differences are complex, leading to different coalitions of opinion depending on the issue under consideration. The pace of change will almost certainly remain slow, particularly in the reform of the business environment, an issue that appears to have a low priority in the minds of the political leadership.

The collapse of the Middle East peace process between Israel and the Palestinians, predicted by the Iranian government, gives a diplomatic opportunity to Tehran, although most Arab governments are likely to be cautious in accepting Iranian support. Some in Tehran may see this as a time to revitalize the Islamic republic's revolutionary credentials. Following the death of President Hafez Assad of Syria, Iran's links with Damascus and Beirut, crucial to its involvement in the wider Middle East, may be coming under strain. The new leader, Bashar Assad, seems more anxious to develop links with the Iraqi regime in Baghdad, at the cost of ties with Tehran.

The recovery in the price of oil since the lows of 1998 and 1999 has enabled Iran to avoid a crisis in the repayment of foreign debt and boosted the external account for the start of the new millennium. Domestic economic reform has been outlined in a five-year plan starting in 2000 although the scope of the plan is seen as being over-ambitious and hard to put into practice. Much of the population remains protected by subsidies and dependent on the government or quasi-government organizations for employment. There is little sign of the type of liberalization in the economy that would encourage an increase in domestic private investment, never mind a wave of foreign direct investment aimed at sectors other than the oil industry. With poor opportunities for investment, there is a danger that higher oil prices will funnel through directly into increased inflation, which already runs at a high level.

Obtaining foreign assistance for developing the country's oil and gas resources is still hampered by the comparatively poor contract terms offered and the obstacles to participation by US oil companies. Although the major official US sanctions are unlikely to be replaced as they lapse, political uncertainties in Tehran will discourage much financial exposure. Despite this, broad progress is likely to continue because Iran's large oil production and its huge gas reserves, second only to Russia, make the country an important potential component in the business portfolio of any major international oil and gas company.

Five years ago, Iran's economic prospects, hindered by declining oil prices, political ossification and international isolation, appeared to be approaching a dead-end. But changes in political personalities and a more involved approach to diplomacy across a range of issues augur the emergence of a giant, fully able to achieve a more powerful position in the Middle East with business links across the world.

## Iran Oil and Gas - The Emerging Giant

### Table of Contents

#### Executive summary

#### Chapter 1: People

- Persians, not Arabs
- Other ethnic groups
- Religious minorities

#### Chapter 2: History

- Iran and Islam
- Iran under the Shahs
- The Islamic revolution
- The war with Iraq
- Iran post-Khomeini

#### Chapter 3: Politics

- Revolutionary divides
- Conservatives and liberals
- Exiled opposition

#### Chapter 4: Oil and gas Discovery

- Involvement of foreign companies
- Nationalisation and concessions
- Post-revolutionary experience

#### Chapter 5: Economy

- Agriculture
- Banking and finance
- Budget
- Five-year plan
- Industry
- Trade
- Foreign investment

#### Chapter 6: Regional role

- Immediate neighbours
- Conservative Gulf Arab states
- Israel, Lebanon and Palestine

- Central Asia

## **Chapter 7: Military doctrine**

- Armed forces
- Comparisons with neighbours and adversaries

## **Chapter 8: Iran and the world**

- The Islamic world
- Europe
- The US
- Russia
- China
- Others

## **Chapter 9: Scenarios**

- Internal politics
- Oil prices
- Gas utilisation
- Regional antagonisms

## **Chapter 10: The needs of foreign business**

- Existing opportunities
- Past experience
- Wish-list

## **Chapter 11: Conclusions**

### **Appendices**

- Chronology
- Historical who's who
- Political who's who
- Political structure
- Khatami's dialogue of civilisations speech
- Albright speech
- Common Persian words and expressions
- Bibliography



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