TOP OF THE NEWS

Iran Rescinds CNPCI's Contract for South Azadegan

On 29 April Iran announced that the Oil Minister, Mr. Bijan Namdar Zanganeh, had signed a decree revoking the contract concluded with **China National Petroleum Corporation International** (CNPCI) for the development of the **South Azadegan** field. This spectacular decision is not a thunderclap in a blue sky for all that, since the Iranian authorities had voiced their dissatisfaction on numerous occasions, including publicly, with the work carried out by the Chinese company and its repeated inability to meet the targets laid down in the contract. In February Mr. Zanganeh had given CNPCI an ultimatum, calling on it to fulfill its obligations within three months on pain of being forced to stop work on the project. Iran had given the necessary warnings before terminating the contract, said Mr. Zanganeh.

Over and above CNPCI's degree of responsibility, this very important decision has to be put in context. Three elements are crucial in that regard: Iran is hoping to reach an agreement on its nuclear program shortly, which would enable it to free itself of the various **economic sanctions and pressures** currently weighing heavily on its economy in general and on its hydrocarbon industry in particular; furthermore, the country has embarked on a **process of reviewing its oil contract regime** in order to attract the largest western companies once sanctions have been lifted, and the range of options open to it in this respect should increase significantly, whereas in the past **National Iranian Oil Company** (NIOC) could only approach non-western companies; and lastly, South Azadegan is one of the **cross-border oil fields** that Iran shares with a neighboring country, **Iraq** in this case, and Tehran is becoming increasingly irritated at seeing Iraq or other countries (such as **Qatar**) stepping up their production and exports from shared fields thanks to investments by western countries, while NIOC and its subsidiaries can only rely on their own resources or on companies that are not necessarily the most expert in terms of technological knowhow or project management experience. It should not be forgotten that, when Iran falls behind in the exploitation of a field shared with another country, this automatically means that the neighbor is pumping part of the reserves on the Iranian side, and this situation, which has been going on for years, is a major concern to the officials in charge of Iran's oil and gas sector.

A few days before the termination of CNPCI's contract was announced, the Deputy Oil Minister for international affairs and trade, Mr. Ali Majedi, had called on Chinese companies operating in Iran to demonstrate greater "*determination*" and a "*more serious*" attitude. He pointed out that Iran was continuing to cooperate with Chinese companies, but immediately added that **Sinopec** was performing better than **China National Petroleum Corporation** (CNPC). That fresh, and final, warning was clear.

That said, the Iranians are not very pleased with Sinopec either. The Managing Director of **Petroleum Engineering and Development Company** (PEDEC), Mr. Abdolreza Hossein-Nejad, recently criticized the work of a Chinese contractor at another major oil field, **Yadavaran**, according to the official *Shana* news agency. *Shana* suggested that he was referring to CNPCI, whereas the buyback-type contract signed at the end of 2007 for the development of Yadavaran was concluded with Sinopec [Editor's note: The mixed messages do not end there, since *Shana* sometimes describes South Azadegan as a gas field whereas it is in fact an oil field].

CNPC has been in Tehran's sights for some time, since last August it was replaced as the main contractor for **phase 11** of the development of the **South Pars** super-giant natural gas and condensate field by one of Iran's state-owned companies, **Petropars**. The Chinese company also signed a service contract in January 2009 for the development of the **North Azadegan** field. At the time this edition of **Arab Oil & Gas** went to press, the repercussions of the loss of the South Azadegan contract on CNPC's other operations in Iran could not be gauged very accurately. Be that as it may, it does not mean that energy relations between Iran and China are going to be broken off, since China is a major importer of Iranian crude and there is clearly a lot at stake for Tehran.

CNPC has been operating in Iran since 2004 and it has interests not only in oil and gas exploration-production, but also in engineering and construction and in oil services [CNPC picked up drilling contracts in Iran as far back as the early 2000s]. Its first big contract in Iran was for the redevelopment of the **Masjid-e-Suleiman** (MIS) field, Iran's oldest producing oil field, and it was also granted exploration rights to Block 3 (the **Khudasht** acreage). But it was in 2009 that its Iranian activities took a major leap forward with the winning of the contracts for North Azadegan and South Pars phase 11. Like other Asian companies, CNPC took advantage of western sanctions to pick up major projects in Iran, since there was obviously far less competition due to the high political risk.

Among the messages that Iran is sending to the international oil industry through its decision concerning CNPC, two are particularly important: Tehran is telling the world that it will be far more demanding in future in selecting its partners and in controlling the quality of their work; and Iran intends to persuade the largest international oil companies to return to or come to the country on the strength of its huge oil and gas potential. A word to the wise is enough …

Francis Perrin

CONFERENCE

❑ 11th Maghreb-Mediterranean-MidEast Upstream (Nicosia, Cyprus, 19-21 May 2014)

Global Pacific & Partners is organizing the 11th *Maghreb-Mediterranean-MidEast Upstream* conference in Cyprus from 19 to 21 May (see the posting on our website, www.stratener.com, which refers back to the organizers' website). The purpose of this conference is to bring together representatives from the governments of the countries concerned, from their national oil companies and from private players interested in these regions.

Numerous companies engaged in upstream oil and gas sector will give papers at this conference, including **Shell International E&P, Noble Energy, RWE Dea, Petroceltic International, Delek, the Office National des Hydrocarbures et des Mines** of Morocco (Onhym), **Petroleb, Sea Dragon Energy, Polish Oil and Gas Company, San Leon Energy** and **PGS**. Contact: Amanda Wellbeloved; tel.: +27 11 880 7052; email: amanda@glopac-partners.com; to register: Brigitt Rellli; tel.: +31 70 324 6154; email: brigitt@glopac-partners.com

Iran Intends to Step Up its Oil Production Capacity to 5.7 Million B/D Around 2017-2019

According to the latest *Oil Market Report* of the **International Energy Agency** (IEA), **Iran** currently has sustainable crude oil production capacity of around **2.9 million barrels/day** [sustainable capacity is defined as the level of production a country can attain within 30 days and maintain for a period of at least 90 days]. That is a comparatively low level in relation to the country's oil potential, which is largely a consequence of the sanctions imposed against Iran by western countries, which prohibit their oil companies from investing in Iran, their engineering and construction companies from participating in projects in the country, and their oil services companies from giving **National Iranian Oil Company** (NIOC) and its subsidiaries the benefit of their expertise and equipment. If a satisfactory agreement on Iran's nuclear program were concluded in 2014 and Tehran secured the lifting of sanctions, the situation would clearly be profoundly altered and, as has been pointed out more than once in these columns, NIOC and the **Ministry of Petroleum** are already acting on this assumption.

On several occasions the Oil Minister, Mr. Bijan Namdar Zanganeh, and other Iranian officials have advanced figures for the country's future oil and gas production capacity, and not surprisingly they are ambitious. Most recently, Mr. Zanganeh referred to oil production capacity of **5.7 million barrels/day** by **2017**, consisting of **4.7 million b/d** of crude oil and **1 million b/d** of condensate. By 2017 is meant Iran's 2017-2018 fiscal year, which is to say the 12 months from March 2017 to March 2018. In the case of natural gas, the Minister expects production capacity to be up to **1 billion cubic meters/day** at that point. Mr. Zanganeh explained that Iran needed to increase production capacity, expand the utilization of enhanced recovery methods and step up exploration activity, especially along the country's borders.

The timetable is not totally clear since, according to a report by the official *Shana* news agency, the oil production capacity target of 5.7 million b/d will be attained in 2018-2019, which is to say by March 2019. In both cases, however, production capacity will begin to rise during the current fiscal year (running to March 2015). Natural gas production capacity is due to be raised by 100 million cubic meters/year in 2014-15, while the target for the increase in oil production capacity is 200,000 b/d. Oil exports could reach 1.5 million b/d during the current fiscal year.

As regards natural gas and condensate, the expected increase in capacity is very closely associated with the phases (sectors) of development of the **South Pars** field that are still to enter production. When it comes to oil, Iran is banking on the development of four large fields, **North Azadegan, South Azadegan, Yadavaran** and **Yaran** [in that regard, see Top of the News on page 3 for a report on the problems between Iran and **China National Petroleum Corporation** – CNPC]. They could have combined production capacity of **700,000 b/d**, according to Mr. Zanganeh, as quoted by *Shana*.

Given Iran's determination to bring about a substantial increase in its oil and gas production, some key factors need to be stressed:

- There is a lack of clarity about the starting point. According to *Shana*, Mr. Zanganeh has indicated that Iran's crude oil production was currently running at **3.8 million b/d**, whereas the IEA puts it at **2.8 million b/d**, and the gap between the two is far from negligible. The **United States' Energy Information Administration** (EIA) gives the same figure as the IEA.

- It is obviously by no means certain that sanctions will be lifted in 2014, even though a degree of optimism hangs over the negotiations underway.

- If sanctions are lifted, this does not mean that the big international oil companies will flock back into Iran the following day. In the past, the oil contracts offered by Iran were not regarded as very attractive, and while Iran has unveiled a new type of contract to replace buyback agreements, the **Iran Petroleum Contract** (IPC), it remains to be seen what potential foreign investors will make of it. After some uncertainty about the timetable, the Oil Ministry has suggested that it could organize a conference in November this year to present the new model contract. If it is deemed attractive, a certain time would then be needed for negotiations to take place, and it is known that major oil and gas contracts are not concluded in a few weeks.

- Due to Iran's isolation on the world oil stage for many years, no independent information is available about the state of some of its oil fields, due in particular but not solely to the existence of sanctions, which greatly complicates the job of forecasting future capacity and especially the time needed to achieve the planned increases. No one questions the fact that Iran has exceptional potential and that its capacities could be stepped up very considerably over the long term, but in the short and medium term the outlook is less clear, and this makes one cautious.

The increase in hydrocarbon production will enable Iran to meet its **domestic needs** (the country often suffers from natural gas shortages) and to increase its **exports** very substantially so as to secure a place on the world markets that is more in line with its potential and its ambitions and to boost its hard currency revenues. In the case of gas, Iran has succeeded in attracting the attention of European leaders and persuading them that it would probably be useful for them to be able to count on supplies from countries other than **Russia** (see Top of the News in our 16 April edition). While officials have previously been less loquacious on the subject of gas exports, Mr. Zanganeh has tossed a figure into the ring by suggesting that Iran could be exporting **90 billion cubic meters** of gas by 2021, its principal targets being **Turkey, Europe, Iraq** and other **Middle Eastern** countries, as well as **Pakistan** [the *Shana* report containing these statements does not make it clear whether these are the annual volumes that Iran could be exporting from 2021 onwards].

In addition to the uncertainties referred to above, there is another that must not be forgotten when it comes to the subject of exports: the development of Iran's **domestic oil and gas consumption**. This is rising rapidly, which could eventually be a threat to the volumes available for world markets. In this regard, one positive point is that the authorities are convinced that they have to make significant efforts to contain consumption and have just embarked on a second phase of **reform of energy subsidies**. In effect, a modern energy policy cannot be confined to supply alone. Managing demand is just as important.

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