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Rise in Iraq's Oil Reserves and Ambiguities



The Iraqi oil minister proclaimed recently that the volume of recoverable crude oil of his country has risen by 30% to a total of 143.1 trillion barrels.

Besides, fresh studies show that the volume of oil-in-place of Iraq has reached an estimated 505.4 trillion barrels.

Although a substantial increase in Iraq's oil reserves was quite likely after many years of inaction in exploration and hence did not come as a surprise to experts, still the timing and the way it was announced was perceived as rather politically motivated.

Iraq's oil minister Hussein Shahrestani stressed that the said figures accounted for the rise in the volume of reserves

of the existing 66 oilfields in Iraq and any fresh oilfield discoveries would further increase that volume.

He elaborated that the recoverable crude oil reserves of Iraq were estimated at 115 billion barrels in 2001 (since then some 5 billion barrels have been produced) and fresh studies have added some 33 billion barrels to those recoverable volumes.

Shahrestani explained that the new figures were sum of the volumes discovered by international oil companies which had participated in tenders issued last year and most discoveries came from West Qorna and Zobair oilfields.

He also said no fresh natural gas was discovered in the recent surveys.

Fresh estimates of crude oil reserves of Iraq

During 2003-2009, international oil companies carried out fresh surveys of Iraq's oilfields and have surely come up with comparatively more precise estimates of their reserves. These studies have also helped brush aside some misgivings of oil experts about the production profile of some of Iraqi fields (relevant to their reserves) as presented by foreign oil companies.

Iraq has presented the new statistics of the country's crude reserves to OPEC and Shahrestani has called for devising new formula that would consider the volumes of reserves of members of the Organization as a factor in calculating their production quotas.

Iraq is currently producing some 2.35 to 2.60 Mln bpd of crude oil but has not been given any binding production quota by OPEC. Besides, given that Iraq needs to earn very high revenues to pay for the reconstruction of its infrastructures, its authorities have said they would not accept any quota before the country's oil production hits 4 Mln bpd.

Iraq's oil minister has also presented the change in the volumes of recoverable oil in his country's oilfields. As can be seen in the following table, the West Qorna oilfield has shown the biggest gain in the volume of its reserves. The recoverable oil in West Qorna has now increased from earlier estimate of 21.4 to 43.3 Bln barrels, a rise of around 22 Bln barrels. That means, West Qorna, which consists of 2 phases, is Iraq's largest oilfield, and probably world's second largest after Saudi Arabia's Qowar oilfield.

As a result of first round of tenders issued last year, development of phase 1 of West Qorna was awarded to the JV of Exxon-Mobile and Royal/Dutch Shell on Jan 30, 2009.

Besides, a \$ 1.9 per barrel reward will be paid by Iraq's oil ministry for every barrel of oil produced in excess of the base production level of this field. The said JV has proposed to raise the output of phase 1 of West Qorna up to 2.3 Mln bpd.

In the second round of tenders held in December 2009,

the JV of the Norwegian Statoil and Russia's Lukoil were awarded the deal to develop phase 2 of West Qorna.

Besides, a \$ 1.5 per barrel reward will be paid by Iraq's oil ministry for every barrel of oil produced in excess of the base production level of this field. The said JV has proposed to raise the output of phase 2 of West Qorna up to 1.8 Mln bpd.

That means the two phases of West Qorna will be producing a total of 4.1 Mln bpd of crude oil for Iraq.

Earlier, some oil experts had anticipated that the proposed production for phase 1 of West Qorna would exhaust its reservoir by 2022 and had warned that the cumulative production plan of the field by 2030 was too high for the volume of its reserves.

While fresh surveys showed that the volumes of reserves of 14 oilfields of Iraq had increased, reserves in 5 other fields of the country had dropped. Romailah is one example, the reserves of which dropped from 17.7 to 17.3 Bln barrels.

Table: Change in the volumes of reserves of Iraq's oilfields. Unit: Bln Bbl

Oilfield	Previous Estimate	New Estimate	Change
West Qorna	41.4	43.303	21.9
Romailah	17.7	17.303	-0.4
Majnoun	12	11.953	-0.4
Kerkouk	10	8.908	-1.1
Zobair	4	7.813	3.8
East Baghdad	8	8.084	0.1
Nahre Omar	6.2	6.338	0.1
Halfaya	4.1	4.936	0.8
Nasseriah	4.35	4.355	0.005
Ratavy	1.8	2.471	0.7
Bayhassan	2.2	2.078	-0.1
Ghoraf	0.86	1.554	0.7
Gheyyareh	0.807	1.525	0.7
Najmeh	0.59	1.115	0.5
Touba	0.35	1.518	0.2
Ahdab	N/A	1.055	N/A
Badra	0.11	0.756	0.11
Maysaan Fields	2.55	2.379	-0.2

Romailah (North & South) currently produces 1 Mln bpd of oil, which is roughly 40% of the total crude output of Iraq.

Kerkouk, Majnoun, Bayhassan and Maysaan are the other four oilfields that have shown decreased reserves (see Table).

According to the statistics provided by Iraqi oil ministry, some 71% of the country's oil reservoirs are located in the south, especially in Basra Province, 20% are located in the north, especially in Kerkouk Province and the remaining 9% are in the center.

Ambiguities about rise in Iraq's oil reserves

The volume of Iraq's recoverable hydrocarbon reserves had remained unchanged at 115 Bln barrels during 1987 to 2009 period. Iraq was the holder of OPEC's 3rd largest oil reserves after Saudi Arabia and Iran.

Iraq's crude oil reserves were reported to be about 100 Bln barrels in 1987-1995 period, which rose to around 112.5 Bln in 1996-2000 period and 115 Bln during 2001-

October 2010. In the interim the reserves in Qatar, Yemen, Saudi Arabia and Iran rose by 8.4%, 4.3%, 2% and 1.8% respectively.

Given that a significant part of Iraq had never been explored for hydrocarbon reserves, geology experts did expect that fresh exploratory activities plus new technologies to lead to considerable rise in the country's oil reserves.

In 2007, IHS, a renowned international institute, had put the potential of crude oil reserves in the unexplored western part of Iraq at over 100 Bln barrels. That means, even though experts did not find the huge rise in Iraq's oil reserves hard to believe, yet the timing and manner it was announced seemed to suggest that it was politically motivated.

When Iraq's oil minister said fresh surveys proved that a phase of West Qorna showed over 100% rise in its oil reserves, some specialists asked as to when the 3D seismic shoot, data processing and interpretation of that phase were done?

The question was raised because the contracting JV of phase 2 of West Qorna only had between 1st to 26th of September 2010 to prepare for taking part in the field's 3D



seismic tender while such a preparation would normally require months!

Besides, the contracting JV of phase 1 of West Qorna proposed no plan for its seismic operations either!

From 2004 to 2008, Iraq's oil ministry signed about 40 oil and gas cooperative contracts with international oil companies. Some of the said deals were for joint scientific studies, training and technical consultations. So if the newly found reserves were the outcome of those studies, then why were they not revealed in the two rounds of tenders Iraq run in 2009 or in the three workshops held in London and Istanbul to specify particulars of Iraq's oilfields planned to be put out to tender?

Iraq's oil ministry has rejected that the production profile of the said tenders are relatively high in proportion to the volumes of the newly found reserves. But the question is how could the winners of last year's tenders propose production plans for the kinds of reserves that Iraqi government has only recently announced?

Moreover, in line with the signed contracts, the technical issues of the oilfields were supposed to be discussed in the joint management committees of each field. These committees were supposed to start working by late 2010. Nothing has come out of these committees about the rise in the volumes of reserves of the said oilfields!

Impact of rise in Iraq's oil reserves on OPEC members

By mid 1980s, the price of crude oil started to drop and OPEC adopted the quota system for the crude production of its members. One factor for setting the production quota was the proven oil reserves of members. That is the time when most OPEC members presented the oil reserves of their country to be higher than the reality. So much so that the total oil reserves of all OPEC members, which was some 425 Bln barrels in early 80s, rose by 79.5% to 763 Bln barrels in 1989!

Saudi Arabia, Iran, Iraq, UAE, Kuwait and Venezuela were the six OPEC members that showed most increases in their reserves.

In 1980, the said six countries had a total of 374 Bln barrels of oil reserves, which were shown to have risen by 87% to 707 Bln barrels by the end of 1989. This represented 93% of the total crude oil reserves of all OPEC members.

At present, however, the volume of proven oil reserves of a member has no role in the production quota of that country and its high reserves only boosts its political standing and its status in oil markets.

Iraq's probable motivation in announcing high reserves

Following motives could be behind claim of the new high oil reserves by Iraq's government:

- To gain supremacy over its old rival (Iran) and become the holder of the second largest oil reserves within OPEC.

- To enhance Iraq's status in OPEC so as to attain higher production quota in the future.

- To strengthen the position of Iraq's oil minister so that he retains his job when the power is handed over to a new government, by showing that tenders held during his office were risk free.

- To overcome various questions posed by Iraqi experts about feasibility of attaining production targets proposed by international companies that took part in the said tenders.

Seemingly, technical ambiguities about how the oil reserves in Iraq jumped so suddenly will lead to further questions. It is also anticipated that technical viability of production projections (statistics) presented in Iraq's oil contracts will once again be discussed in world scientific corners and as well as by energy experts.

In addition, from now on the volume of recoverable oil reserves of Iraq will be taken to be 143.1 Bln barrels and its further increase in the near future is not far fetched.

Given the peculiar conditions of Iraq, such oil reserve figures are mainly for domestic consumption and should not be an excuse for any serious competition and rivalry amongst OPEC members, to overstate their reserves, because such challenges may not be in favor of oil producing countries. 💧

Estimating Demand for 2010 Uncertainties

The most recent survey conducted by the Organization of Petroleum Exporting Countries OPEC and released in September 2010, reveals that the global demand for oil in 2010 is expected not to exceed 85.5 million barrels per day. An earlier estimate of the same nature conducted in July 2009 had foreseen this figure at 84.3 million barrels per day i.e. a daily difference of 1.2 million barrels within a period of only fourteen months. In this manner an earlier likely growth of 0.6% foreseen for global oil demand is currently up to 1.2%.

OPEC's good news of expected economic growth during the same period of time may have been influential in short term market estimates.

In its initial forecast in July 2009, the OPEC had forecast a 2.3% global economic growth for 2010, however, with the passage of time, the forecast was revised by the OPEC and the Organization proposed the figure of 3.9% in its latest estimate. The upward estimate is not confined to OPEC only. The International Monetary Fund which had forecast the world's economic growth in 2010 at 1.9% has now increased this figure to 4.8%.

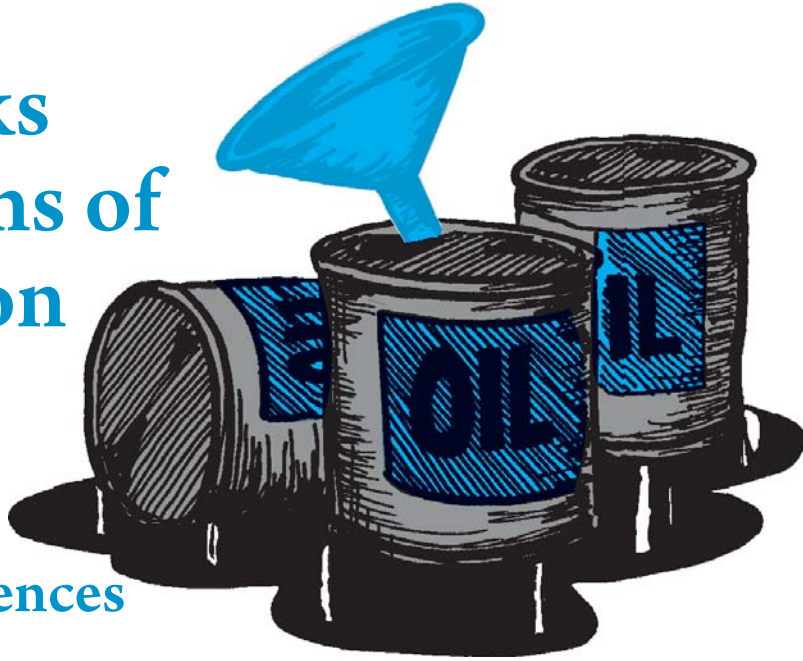
Fiscal and financial policies adopted by many countries impeded global economic downturn and introduced a positive change to 2009's negative global growth rate. Huge economic incentives were employed for this same purpose. The share of countries to counter the global economic crisis was as follows: The US contributed by allocating US\$787 billion, Japan US\$820 billion, China US\$585 billion and the EU US\$200 billion. The central banks meantime, joined the effort and managed to reduce interest rates. Economic experts believe that in order to guarantee continued growth and improvement of the residing critical situation, more economic incentives should be available amidst continued debt crisis in Europe. At any rate, measures that triggered

growth of global economy left little impact on demand for oil. The difference of economic growth in the aforesaid two forecasts reached 1.6%, however, this difference for the growth of global demand for oil did not exceed 0.6%. Reference can be made to the following factors as likely reasons underlying the mentioned difference:

- 1- Revival of the world economy is indebted to such sectors as services rather than energy-intensive industry, and for that reason, upward revisions concerning growth of demand have proved to be remarkably lower than upward revisions of the rate of global economic growth.
- 2- Estimates concerning economic growth are not accurate and the impacts of economic incentives have been exaggerated. Therefore, it is no surprise if demand for oil has not increased accordingly, although demand is expected to jump as high as 85.5 million barrels per day in 2010, that figure is still 900 thousand barrels less than demand in 2007 and 400 thousand barrels in 2008. The volume of oil stocks at the end of the second quarter reached 4.3 billion barrels which is 75 million barrels higher than that of the final days of 2009 and that is synonymous with the fact that storage constitutes one factor underlying higher demand for oil.

There is no doubt that passage of time will assist with the revealing the accuracy of each one of the above factors. To conclude, however, one can say that in case any change is introduced to the structure of the economy, producers of oil should prepare to experience long term drop in the rate of demand for oil, in which case, they have to revise plans for the development of their production capacities, otherwise, should unrealistic economic growth estimates be responsible for slow pace of growth of demand for oil, producers of crude should wait until economic incentives leave their impact on economy and demand. ♦

China Ranks First in Terms of Consumption of Energy and its Geo-Political Consequences



On July 20th 2010, Fatih Birol, the IEA's chief economist told Wall Street Journal that China has surpassed the US in terms of energy consumption and is currently ranked as the world's number one consumer of energy.

The world, US in particular is experiencing an economic downturn. China's growing thirst for passenger cars is on the increasing. In 2010, China became the world's number one producer and consumer of passenger cars and the latter's auto market left the American auto market behind. China's GNP stood higher than that of Japan's becoming the world's second largest economy. And as regards exports, Germany stood second to China for the first time.

Under circumstances when the economies of the western countries are gripped with recession and downturn, China's economy in the recent years has experienced an annual growth of 10%, a growth rate which still continues and is synonymous with the fact that China's thirst for consumption of energy is not expected to be saturated.

There is still much room in China for development. Majority of the Chinese people are still living in rural areas and their economic needs are on the increasing. Providing industrial jobs and welfare for a billion plus population leaves

China with no option but to preserve its economic growth. Such an option would entail increasing need in energy and that serves to be the most important challenge before the world in the years to come.

Whereas, energy is closely linked with various aspects of economy and there is no clear picture about availability of oil resources and oil products in future, China's decisions concerning future of energy resources and as to how these resources should be consumed will have determining effects on global trends. China is expected to act not only as the world energy market's most influential factor in the future but as a nation that would have a say in determining prices.

Additionally, China's preferring a specific type of energy, shall determine whether or not the US and China will enter a confrontation. Import of oil will be one such problem. Energies imported by China will soon become key factors shaping the future geopolitical situation of the world. China's daily increasing demand for oil will give rise to the likelihood of US-China confrontation. However, China's daily increasing reliance on coal or nuclear energy shall water down such a likelihood, although it may trigger other challenging grounds as well. Meantime, China's preferred

type of energy product will certainly impact the issue of global climate change.

In order to become the world's dominant power, the US once had to become the world's energy master. Northeastern states sat on rich sources of hydroelectric energy as well as coal mines, all vital to the United States' industrial development. These same energy resources were utilized to serve development of the northern states and as history testifies, the Northerners were triumphant in the war against the Southerners.



Oil was discovered in western Pennsylvania in 1859. It was since then that the United States became one of the world's leading players of oil industry. During the early years of the 20th century, exploration and export of oil from the US gifted the nation with economic welfare and development turning it into one of the world's leading economies.

Standard Oil was the world's first multinational oil company founded by John D Rockefeller. The heirs of Standard Oil Company currently serve to be the United States' largest and richest oil companies. The US served as the major supplier of oil to the Allies in the First and Second World Wars. Of the countries involved in the war, only the US was independent in terms of energy and that allowed the Americans to dispatch large military convoys to various spots of the world and defeat the then well equipped and large military powers such as Japan and Germany which had no access to oil resources. Access to huge oil resources should be considered a determining parameter of the US victory in the Second World War.

At that period of time, the United States had set up some kind of oil dependent economic and military structure while the US leaders realized that they had to secure reliable and guaranteed energy resources should they intend to preserve such a huge economic structure and military power. For that matter, following termination of war, the then US presidents who were skeptical about sustainability of American oil resources, came to realize that they had to maintain control over the world's oil resources.

Within the framework of this policy, the United States' first target countries were specified i.e. Saudi Arabia and other littoral states of the Persian Gulf. These states are scheduled to serve as the United States' overseas gas stations and therefore American oil companies such as inheritors of Standard Oil Company have always enjoyed the US government and statesmen's support for their policies in these countries.

The certain point is that Truman, Eisenhower, Nixon and Carter's doctrines centered on the preservation of such sources of energy in favor of Americans.

Evidently, supply of oil remains a crucial and determining parameter in the US's global planning. For that same reason, the United States has stationed a mighty army in the Persian Gulf region in order to guarantee security of energy resources and supplies and at the same time maintains her control over water ways through which energy products are shipped to overseas destinations. The US has meantime expanded its military presence to regions beyond the Caspian Sea and West Africa. Preserving friendly ties with the key producers of oil such as Kuwait, Nigeria and Saudi Arabia constitutes the US foreign policy's top priority. Concurrent with the warming of the globe, the US is now concentrating its attention on the Northern hemisphere which contains huge hydrocarbon resources.

The fact that China has become the world's number one consumer of energy will inevitably introduce radical changes to world policies in the same manner that the US changed its policy insofar as global hegemony was concerned. This is a

matter that will impact US-China relations, thus, the question which is raised by the beneficiaries is what kind of relations will the world experience in the future compared with what the world experienced in the case of the United States.

Oil observers believe that the Chinese leaders address the question of energy as the main concern of their country and therefore, have so far employed huge resources in order to guarantee supply of energy which is a prerequisite to the economic development of China in the future. The Chinese leaders will have two major challenges ahead of them in the future. In the first place, they should be able to provide sufficient amounts of energy necessary for the growth and development of their economy. They should meantime, specify the type of their priority energy products. As to how the Chinese leaders will approach these challenges shall have significant impacts on global equations.

The US Department of Energy foresees that the rate of China's energy consumption is expected to grow 133% in the 2007-2035 period. And that means, China's energy consumption will jump from 78 quadrillion BTU to 182 quadrillion BTU and that would require an additional 104 quadrillion BTU in the next 25 years. Such an additional volume of energy approximates total amount of energy consumed by Europe and the Middle East in 2010. Discovery and shipment of this huge amount of oil, natural gas and other energy products will certainly form China's number one economic and industrial challenge in which case emergence of international challenges is not ruled out.

China has invested mostly in its local resources, however, the cost this country is expected to bear insofar as import

of energy products is concerned as well as setting up of refineries, nuclear power plants and other energy related installations across the world will impact international market prices. This is a role that the US has been playing to this date, however, in the very near future, China's policies will serve to impact prices more than any other nation worldwide. The prime question that remains unanswered is which energy product will be China's top priority.

One assumption is that the Chinese leaders by tradition prefer not to import energy products. Import of energy is the prime challenge of the Chinese leaders. Provision of energy and protection of energy transfer routes are both headaches for the Chinese. To Chinese leaders, naval seizure of the Southern Sea is a serious menace. A senior Chinese energy official, Lee Jun Feng has recently stated that energy should be procured from where the ground under your feet is solid enough.

China sits on abundant coal resources and should the Chinese wish to be independent from outside sources of energy, they are left with no option but to consume coal. According to a recent forecast by the US department of energy, in 2035, coal is expected to meet 65% of China's energy requirements, however, over-dependence on coal will certainly entail environmental problems and climate change in China giving rise to ailments and huge medication costs that would pressurize the Chinese economy in future. China has proved to be the world's biggest producer of carbon dioxide. According to the US department of energy, in 2005, China alone produced 19.6% of the world's total carbon dioxide emissions standing second after the United States in terms of polluting the environment. In 2010 however, China ranks first and is expected to produce 31.4% of the world's total carbon dioxide emissions by 2035 which is a matter of serious concern.

It is evident that Chinese officials' reiterations concerning preservation of environment will prove to be unfounded as long as that country relies on coal to meet its energy requirements. This is a trend that will trigger protest of the world community, thus overshadowing China's foreign relations, a matter to which the Chinese officials are sensitive



and for that matter they reiterate application and development of renewable energies such as solar and wind energies. China is currently the world's leading producer of solar and wind turbines and even supplies relevant products to the US market.

Daily increasing emphasis on renewable resources of energy shall be effective only in case China's reliance on coal is reduced significantly. Meantime, China's emphasis on optimizing renewable energy technologies may prepare the bedrock for the leadership of China within this sphere in the same manner that Americans have the ultimate say in the oil industry. In an attempt not to lag behind the Chinese, the Americans are now opting to invest in such technologies as well.

China's intense need in energy may immediately end up in tensions with the United States and could turn even more critical where oil is concerned. China's need in oil is on the increasing and that will force the Chinese to consider political, economic and even military options in the oil rich regions of the world. Such regions have, by tradition served to be the backyard of Americans during the 20th century.

China consumed 3.4 million barrels of oil per day in 1995, a figure which was one fifth of the total oil consumed by the Americans i.e. the world's number one consumer of oil and two thirds of Japan's total oil consumption i.e. the world's second largest consumer of oil. Whereas, in 1995, China produced a daily 2.9 million barrels of oil, her imports were confined to 500 thousand barrels a day in order to compensate for her oil production deficit. At that same period of time, Americans imported a daily 9.4 million barrels of oil. In 2009 however, China had to consume 8.6 million barrels of oil daily promoting its global ranking to second. In that same year, the US oil consumption registered the record high of 18.7 million barrels per day. China's local oil production in 2009 exceeded 3.8 million barrels per day and the country imported 4.8 million barrels of crude per day, a figure which well exceeds that of Japan's. These figures are expected to rise in the decades to come.

According to the US department of energy, in 2030, China will become the world's leading importer of oil i.e. 10.6 million barrels per day, a development which many believe will take place even before 2030. Political observers fear that

China may have to involve itself in the oil rich regions of the world economically, politically and even militarily in order to guarantee oil supplies.

Majority of oil producing and exporting countries lack stable political systems and rivalry between China and the US over restricted oil resources may intensify and even worsen instability in those regions of the world.

Saudi Arabia, Iran, Angola, Oman, Sudan, Kuwait, Russia, Kazakhstan, Libya and Venezuela are major suppliers of oil to China and the Chinese would like to make sure that they can rely on these states for oil supplies. Accordingly, China has established close ties with these states and occasionally granted economic and military aid to them and their leaders. These measures resemble exactly what the Americans once did in those regions in order to consolidate their foothold.

On many occasions, China's state oil companies have entered into strategic alliances with the oil companies of the oil rich states. The Chinese have even been awarded licenses for oil discovery and production in those states. China has attempted to water down the US influence in the oil rich states of the Persian Gulf and even Saudi Arabia.

China's oil imports from Saudi Arabia in 2009 for the first time exceeded US oil imports from that country.

Further reliance of China on overseas oil resources will ultimately give way to more tense international relations. Tense US-China relations over Iran is just an example. Similarly, China's recent grant of a US\$20 billion loan to the Venezuelan oil industry consolidated the position of the Venezuelan president Hugo Chavez, a move the Americans don't favor at all. Another example of such tensions is China's close ties with president Omar Al Bashir of Sudan.

According to the US department of energy, in 2035, the world's total daily production of oil shall exceed 110.6 million barrels, however, many oil experts hold that global oil producers will fail to produce this huge volume of oil by 2035. On the contrary, these same experts believe that global production of oil will experience a downtrend in the years following 2015. A likely conflict between the United States and China is probable since most of the world's available oil resources are located in the crisis torn regions of the world. 💧

Iran's Sarkan & Male Kouh plan at over 64% headway

The project to develop Sarkan and Male Kouh oilfields in Ilam province has made over 64% progress.

This project, which aims to raise the crude oil production capacity of these two fields to touch a ceiling of 22,000 bpd, was brought up about 10 years ago. National Iranian Drilling Co. (NIDC) has already accomplished

drilling of its wells; however, the construction of its production unit with an output capacity of 22,000 bpd is still underway and is foreseen to come on stream by the end of 2011. Due to various reasons, the 3D seismic shooting project of Sarkan and Male Kouh oilfields is also at preliminary stage.

Khesht oilfield development plan on stream early 2012



Khesht oilfield development project in Fars province will be operational late next Iranian year (ending Mar. 2012).

Managing director of Iranian Central Oil Fields Co. (ICOFC) Javad Fakour stated the above and said: "The project to develop Khesht oilfield has made over 58% physical progress so far. This project - with a 30,000 bpd capacity- is expected to get on stream late next year."

National Iranian Drilling Co. (NIDC) completed drilling the wells of this field in late 2007. In the same year, SADRA Co. was selected as the contractor for the surface facilities

of the project which was expected to accomplish the project in 26 months- until June 2009.

Problems such as late allocation of financial resources, managerial shifts at SADRA and overdue payments of the contractors' charges, made the project move slowly or even go on hold at some points.

Khesht oilfield is located between Kazeroun and Borazjan cities in Fars province. Its development project, with the target production of 30,000 bpd of crude oil, started in 2001 and was supposed to be completed in early 2009.

Rials 10,000 Bln to found Iran 'Petroleum Bank'

Founding committee of 'Petroleum Bank' approved Rials 10,000 Bln capital fund in order to set up the bank.

The first official meeting of founding members of 'Petroleum Bank' was held last week, where they approved a Rials 6,000 Bln rise in capital fund to bring it to Rials 10,000 Bln.

Accordingly, due to the fact that still over 40 companies request to be the bank stake holders, the meeting decided to prepare a final list of the

founding members later.

Central Bank of Iran (CBI) announced its regulatory approval of the project. The issue also seems to be approved by Iran's 'Money & Credit Council'.

Since CBI earnestly desires the bank to be run privately, it announced that not even any managers in the public sector should be selected for this bank, nor any shares of this bank should be owned by state-run banks or companies.

Iran ready to start offshore exploration in Lebanon



Iranian Ambassador to Lebanon Ghazanfar Roknabadi declared that Iran is ready to begin offshore explorations to find oil and gas reserves in an area controlled by Lebanon and Israel, reported Iran's Labor News Agency (ILNA) on Monday.

According to the report he added: "Lebanon has an oil field shared with Israel. Three-quarters of this field belongs to Lebanon and a quarter of

the field belongs to the occupying regime [Israel]. This country is about to exploit oil soon, but the Lebanese have not done anything in the field yet."

As the first step, Roknabadi said: "Iran would conduct 3D seismic survey to find possible oil and natural gas- reserves."

In early October, Iran and Lebanon had signed a general agreement for mutual cooperation in energy sector.

Petropars may take part in Indian oil, gas block auctions

Iran's state-owned oil company Petropars Ltd may participate in the next round of auctions for oil and gas blocks in India, chief executive officer Gholamreza Manouchehri said.

India is offering 34 blocks from 10 sedimentary basins in a forthcoming auction. These include eight deepwater blocks, seven shallow water blocks, and 19 inland blocks. The total acreage of these 34 blocks is around 88,807 sq. m.

"We are investigating various

opportunities and will then decide," Manouchehri said. To reduce India's dependence on hydrocarbon imports, the government started auctions under a new exploration and licensing policy (Nelp) in January 1999, allocating rights to explore blocks of oil and gas.

On 15 October, the ministry of petroleum and natural gas launched the ninth round of Nelp in New Delhi. The last date for bidding in this round is 18 March 2011.

Qatar to celebrate mega gas projects completion



Qatar has completed mega gas projects it launched nearly 15 years ago to become the world's top liquefied natural gas exporter by pumping a staggering 77 million tons per year, a Qatari official said on Monday.

The country has invited hundreds of hydrocarbon executives and other guests for a grand ceremony in December to announce the completion of the projects that are believed to have involved investment of more than \$100 billion, a spokesman for the

government-controlled Qatar Petroleum (QP) told Emirates 24|7 at an international oil show in the capital.

The spokesman, who asked not to be named, said Qatar's Emir Sheikh Hamad bin Khalifa al Thani would inaugurate the sixth and seventh production trains, the latest in a series of production lines in the country's LNG industry.

"With the inauguration of these two production trains, Qatar will be producing close to 77m tons of LNG per year," he said.

Iran's Aghajari POSFR tender lying lifeless

Tender for 'Production Optimization & Surface Facilities Renovation' (POSFR) project of Aghajari oilfield has been dragged similar to the field's life history.

This project has been at the tender stage for years, each time it has been said the tender will be done soon, the winner will be announced and the project will get operational. But, the time has not arrived yet.

The project is presently at a pre-qualification stage to select contractors for its 1st phase.

The project entails four phases and the work scope of the first phase of

includes the construction of:

- Oil flow pipelines from Aghajari wells to the production units,

- Two production units of 100,000 bpd capacity each, to replace the five existing and worn out units,

- Two desalting units of 55,000 bpd capacity each.

For phases 2-4 of the project, which includes gas gathering and boosting stations, NGL 1800 and Mahshahr CFU 100, no tender has yet been issued.

National Iranian South Oil Co. (NISOC), the client, had issued the first pre-qualification tender for POSFR Project in October 2003.

No dead line for Iran SP phase 12 deal: OVL



India's ONGC Videsh Limited (OVL) has not been given any time limit by Iran's PetroPars to decide on South Pars phase 12, OVL Managing Director R.S. Butola said Monday, reported the platts.

He was replying to questions on media reports that Iranian PetroPars had given the ONGC-Hinduja consortium two months to decide on a stake in South Pars phase 12.

Gholamreza Manouchehri, managing director of the Petropars was quoted as saying by news agencies:

"The technical due diligence has been completed by ONGC. Financial and project model have been gone through. We have given ONGC a three-month deadline to respond on participating in SP phase 12. One month has already passed. We are hopeful that they will join the project. We are waiting for ONGC decision."

In December last year the consortium of ONGC and Hinduja Group had inked a deal to buy a 40% stake in phase 12 of South Pars gas field.

Iran exported over 1.18 Bln liters of oil products from Bandar Abbas

Iran exported over 1.18 Bln liters of fuel oil and naphtha from Bandar Abbas during the first half of current Iranian year (started Mar. 2010). According to the news agency of Iran oil ministry, the

export of fuel oil hit 703,697 Mln liters which enjoyed a 76% growth year on year. In the same period, 480,550 Mln liters of naphtha were exported, which showed a 25% rise accordingly.

IOEC, NIDC go 22 each in SP phase 14

Based on the contract to develop South Pars phase 14, there are 44 wells to be drilled, 22 of which are to be carried out by National Iranian drilling Co. (NIDC), while a subsidiary of Iranian Offshore Engineering & Construction Co. (IOEC) (Global Petrotech Kish Co.) is responsible for drilling the other 22 wells.

NIDC is in the market to rent two offshore Jack-up drilling rigs with purchase option for this purpose and is supposed to start drilling of its 22 wells in early spring 2011.

According to IOEC's PR office, Soheil Dulfanian-project manager for developing SP phase 14- stated the above and said: "Engineering activities

on the project's pipeline is presently underway and a foreign company will start its geotechnical and geophysical survey soon."

Dulfanian added: "The procurement of the required facilities and equipment for the project has been already started."

A consortium of 8 companies led by IDRO, which include MAPNA Group, Iranian Offshore Engineering & Construction Co. (IOEC), National Iranian Drilling Co. (NIDC), Payandan Co., Industrial Projects Management of Iran Co. (IPMI), Iran Shipbuilding & Offshore Industries Complex (ISOICO), and Machin Sazi Arak Co. (MSA), is in charge of developing South Pars phase 14.

'Iran LNG' in dire need of fund



Public bonds for 'Iran LNG plan' would be issued soon.

Stating the above, managing director of Iran LNG Co. (ILC) Ali Kheir Andish referred to the ultimate required investment of \$ 5 Bln in 'Iran LNG project' and said: "So far over \$ 1.3 Bln has been spent and in order to secure the remaining amount, public bonds will be soon issued for this project," reported the Pana news agency.

Tehran Stock Exchange (TSE) gave the green light to ILC to issue public bonds for 'Iran LNG plan' last August. It was said that if the capital of ILC rose to Rials 10,000 Bln, it would be possible to issue Rials 8,000 Bln public bonds in 2 phases.

Kheir Andish added: "Provided that some financial resources are determined, progress rate of this project may rise over 50% by March '11." He did not talk of the present progress of the project.

Early this year, Kheir Andish had said that \$ 900 Mln from the country's Foreign Exchange Reserve Fund (FERF) was supposed to be gradually injected into the project within 45 days. This amount has not yet been allocated to the project.

In January 2010, Kheir Andish had announced that \$1.1 Bln had been spent in 'Iran LNG project'. Hence, during the past 10 months, only about \$ 200 Mln was seemingly used up in the project.

Iran Crude Output Faces Decline on Gas Injection

Iranian petroleum engineers say that to boost crude output Iran needs to re-inject 20bn cfd of gas – up from its current 3bn cfd – but Iran will fall a long way short of the target, MEES learns.

In addition to a growing gas shortage, the Iranian oil industry faces sanctions and other problems that will force a drop in output, if action is not taken. Iran produces 3.6-3.8mn b/d of oil and has a target to raise production capacity by 35% to 5.3mn b/d by 2015. “Iran has 10 different oil fields that need gas for injection,” Mehdi Varzi, president of consultancy Varzi Energy, tells MEES. “Even if Iran had the 20bn cfd gas, it would still need a large gas infrastructure for gas re-injection, including re-injection wells, gas pipelines and compressor stations.

It is unlikely to be able to produce more than 8bn cfd for reinjection by 2020. Siamak Adibi, Senior Consultant for FACTS Global Energy, tells MEES: “Despite the large amounts of gas re-injection at 8bn cfd, the crude oil production is expected to decline in the coming years. Indeed, the gas re-injection would only offset a part of natural decline.”

Sanctions targeting the energy sector are hurting oil production capacity too. In addition to facing the problems of a lack of hard currency, equipment imports and international cash transfers, Iran is also seeing foreign oil firms pulling out. Nomura, a Japanese stockbroker, said in the next five years Iran’s oil output is likely to drop by 15% to 3.34mn b/d and exports will dive 25% to 1.5mn b/d, assuming steps are not taken to reverse it. Furthermore, increased domestic demand will mean exports fall further than output. Manouchehr Takin, Senior Petroleum Upstream Analyst with the Centre for Global Energy Studies (CGES), tells MEES: “There have



been technical debates among Iranian experts on the details of injecting gas into Iranian oil fields.” Some believe gas should be injected in all the oil reservoirs and that the reservoirs should be re-pressurized to nearly their original pressures. Others believe gas injection should be studied and evaluated for each reservoir separately and that gas injection should be for maintaining reservoir pressure, and possibly a moderate increase in pressure. Otherwise there will be a risk for the injected gas bypassing the oil and finding its way to the oil production wells. In that case the gas injection has to cease and the heavy investments would be wasted, he says. Almost all injection gas will be recoverable when the oil fields run out in a few decades, industry sources tell MEES, so some see injection as a form of gas storage. Others want to export it. But whatever decision is taken on where it goes to, Iran needs to boost gas output massively. Iran aims to find more fields and NIOC’s Five-Year Development Plan gives priority to the development of oil and gas fields located on the border and shared with the neighboring countries. Dr Takin says: “Iran has done very well in discovering more oil and gas. There has also been the discovery of giant oil fields such as Azadegan and Yadavaran and many other oil and gas fields. But finding oil and gas is one thing, developing them and bringing them on stream is another major challenge.”

The ban on production sharing agreements, and equity sharing mean that there will be little or no foreign investment in gas production. The only option is Iran’s buyback schemes – where firms develop fields for a short term guaranteed return – but gas production is always long term, making them unattractive. 💧



Iran Oil Industry's Rising Accidents

Having a look at the recent incidents in Iran oil industry which have led to rising death tolls and financial losses is enough to show their noticeable increase.

During only the past 6 months, Iran oil industry withstood accidents such as Naftshahr # 24 oil well blast, explosion at Kharg petrochemical Complex (KHPC), Pardis petrochemical plant (Phase I) blow-up, explosion of Sarakhs-Mashhad gas transmission pipeline, and the latest of its kind which was a blast in HDPE unit of Bandar Imam Petrochemical Complex (BIPC) that happened on Monday night.

At first glance it may seem as though ignoring safety rules has been the real cause of the accidents. However, one must see what factors are involved which cause these rules not been properly observed.

These factors can be linked to human resource (HR), design, and equipment. Regarding human resource and design, to some extent the followings can be regarded as the origin of such incidents:

- Noticeable downward trend in involved professional workforce in the industry both at client and contractor levels,
- Lack of infrastructures to pass on duties or responsibilities to an adept private sector,
- Hiring local workforce in oil industry in some provinces and ignoring competence or proficiency,
- Ignoring oil industry regulations to place the right persons in the right posts,
- Inappropriate replacement for oil industry retired workforce by confident and competent workforce,
- Clients and contractors' staff members' lack of knowledge of safety regulations and lack of their training,
- Substandard supervisions, especially supervision over safety and technical inspections on the part of the client,
- Client and contractor's failure to follow international safety and environmental (HSE) standards
- Inappropriate working conditions,
- Failure to create motivation in professional workforce of oil industry,
- Design deficiencies,

As to equipment, the followings can be named as the main reasons of the incidents:

- Using inefficient equipment and goods of no high international standards,
- Worn out equipment and facilities and negligence in their maintenance and repair in different sectors of oil industry,
- Western-imposed sanctions enforcing Iran to procure goods from countries which do not conform to the required standards in oil industry,
- And, enforcement of the sanctions which obstructs timely delivery of the needed parts and items of oil industry equipment. 💧