



Sept. 2009 / No.118

Published by:

**IRANIAN ASSOCIATION FOR ENERGY
ECONOMICS (IRAEE)
ISSN 1563-1133**

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in cooperation with IranOilGas.com

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Gasoline Sanctions

*F*inally a bill banning gasoline sales to Iran was ratified in the US Congress.

Apparently this Ratification (possibly after approval in the U.S Senate) enables the US president to impose a series of sanctions against companies which sell gasoline to Iran or cooperate with them in increasing local gasoline production.

Banning sales of gasoline to Iran is not a new idea and has been on the US Congress agenda since Bush presidency.

But the bill was not ratified during the time. In that period, Iran was practicing its national fuel card distribution, to control the consumption by

rationing the gasoline, and there was a discussion among American politicians and decision makers to see if imposing such sanctions is in practice in favor of Iran's government or exerts pressure on it. Some believed that Iran may welcome it and because of which not only enforces the rationing more comfortably and justifiably but also declares its execution unavoidable.

Moreover, by stating that the Americans are the cause of such sanctions and limitations they can lead the public opinion more against the U.S. Some others believed that such measures will incite public opinion against the Iranian government and people hold them responsible for

foreign countries' pressures due to their adopted foreign policy and this in turn leads to strong divergences between the Iranian government and the nation. In any case there was not a consensus among decision makers on this issue then and probably this was the main reason why this sanctions draft was not finally ratified.

Since then, there have been many changes in Iran. Fuel card system and rationing has been enforced to the full and the consequences of which are known. In spite of all these efforts still about 40% of gasoline consumption is imported. Although, in practice, this figure will be more than %40 since the local gasoline production quality is low and needs to be blended with imported gasoline with higher octane to be merchandisable.

Furthermore, in spite of budget laws limitations, regarding the quantity of imported gasoline, the government has imported gasoline in quantities more than the allowed quota limit in the ratified budget in the past two years and more than the quantity that the Iranian parliament member find permissible. This, in practice, indicates the government sensitivity to gasoline issue in Iran and the role it plays in its social acceptability. Also, after the tenth presidential election and the following events and developments, the prevailing political conditions have changed and the sensitivities have increased and possibly these have been the driving forces that paved the way for the recent ratification of gasoline sanctions against Iran by the US Congress.

Gasoline and many other goods are imported into Iran. Gas oil shortage is seasonal and temporary and occurs only in peak consumption

periods and also depends on climate conditions. But gasoline is a product which all people directly and permanently need it, its shortage is continuous and the potentials for gasoline import and storing are limited.

Absence of proper public transportation and worsening limitations like old air fleet increases the community dependence on gasoline and its shortage will quickly have adverse consequences.

In fact there is a relationship between passing gasoline sanctions plan and the new US policy towards Iran. When somebody wants to enter into a negotiation and to have an upper hand in the dialogues, naturally they take the best preparatory measures to make

the most of it.

Some Western authorities believe that oil and gas earnings, especially with their relative high global prices, financially help the undesired countries and in fact strengthen them.

Iran's oil industry as the main source of income for the country is now facing many problems. Internal conditions and international problems make the advancement of the big projects impossible. Due to the vast numbers of people involved in the country's oil industry, normally on time procurement of sufficient quantity of gasoline, which is of importance to the whole society, will cost oil industry's management a lot of time and energy. This is due to the fact that only a very capable management network under circumstances can tackle day to day problems of such a sensitive product and at the same time follow up and lead the major infrastructural upstream projects and also maintain and increase the crude

oil production level. Therefore, tackling gasoline supply problems in line with the above mentioned problems will slow down the development of major production projects and in the mid-term will endanger the country's oil income. For example it has been stated that an emergency plan was adopted in petrochemical industry which enables the change in the production lines of some petrochemical complexes, turning them into gasoline production units in case of emergency. Probably there are some more strategic plans in place or under consideration. Such efforts will rob away a part of time and energy of the industry and its management.

This issue, however, could be looked at from another angle. In view of current prevailing global economic recession there is an oversupply of gasoline in global oil markets and will be more by the end of summer.

Summer is the driving season and road trips, especially in the U.S. as the biggest gasoline consumer in the world. At the same time when monsoon season starts it may interrupt the operation of oil installations which in turn results in more demand for storing crude oil and petroleum products. Therefore, by the end of summer the demand for gasoline will diminish and as pointed out above the market will face oversupply of gasoline.

Such conditions may discourage some gasoline suppliers from losing a big and key market such as Iran and hence to maintain their profits, they may not completely follow U.S. sanctions requirements and instead sell gasoline to Iran through brokers. The chances are that

Iran will be able to import the needed gasoline but naturally under such sanctions and limitations and also buying through third parties will incur Iran extra costs which will be %30 to %40 more according to some experts' forecasts. The increase in Iran's currency costs for gasoline import may be one of the convincing reasons for the U.S congress to ratify such a sanctions plan. Today especially with regard to gasoline, we are witnessing the fact that carelessness in energy consumption in times can turn into a threat to our national security. Therefore, management and controlling the energy consumption issue not only has economic and environmental dimensions but also political and security consequences. Gasoline rationing experience along with increasing selling price and dual pricing mechanism has taught us a good lesson and made it clear that using pricing tool alone is not sufficient to settle the issue and the final solution will be in correcting transportation and gasoline consumption models and meeting international standards in fuel consumption efficiency in vehicles and also adopting other major measures. In fact, correcting the consumption model in the country should not be limited to gasoline only. Today gasoline has the potential to turn into a threat and if this trend continues, in addition to gasoline, other sources of energy or petroleum products may turn into potential threats as well.

This is a subject which will definitely not be overlooked by Iran's decision maker in the field of energy. ■

Director

Regulating Oil Prices: Promoting Investments and Addressing Global Economy's Limit of Tolerance

Behrouz Beik Alizadeh
Oil Market Senior Analyst – Ministry of Petroleum

Crude oil prices experienced their sharpest decline in the closing days of 2008. North Sea's Brent was sold at USD40.35 a barrel in December 2008, USD 92.84 lower than the historic oil price peak in July of the same year. This scenario fell true in the case of other brands of crude oil.

The financial downturn, which began since the middle of 2008 and soon after swept across the world, was the main reason underlying crude oil price falls. Global economic growth rate of 5% in 2007 dropped to as low as 3.1% in 2008. In 2009, however, the figure registered the record low of -1.4%. In this manner recession dominated economic and business arenas and demand for oil dropped drastically. According to Organization of Petroleum Exporting Countries' (OPEC) report, compared with 2008, demand for crude oil in 2009 dropped by 1.7 million barrels per day and according to International Energy Agency's report by 2.4 million barrels a day. Other factors of less significance were also effective in crude price cuts. Ceasing of geopolitical concerns in various spots of the world, increase of OPEC's excess capacity, boost of crude stocks and stock exchange brokers' inclination to sell stocks constituted other factors responsible for the speedy downtrend of crude prices introducing an end to the bubble-like hike of prices.



Slipping prices caused concern among producers and consumers of oil alike. Oil producers complained that reduced incomes would undermine their ability to invest in the oil and gas industries. OPEC Secretary General Abdellah el Badri, on March 15th, 2009 and following OPEC's 152nd meeting announced that execution of 35 projects out of 150 upstream projects of OPEC member states has been postponed to 2013. Some projects that were scheduled to be commissioned by 2008 have been delayed for at least one or two years. Such delays come as a result of high project costs. Certain countries are now renegotiating the

costs of extension and development of their projects. El Badri was of the belief that current prices are not sufficient to cover future investments and in case this trend continues, the market will certainly experience a sharp decline of investments. He also held that the developed states which are the root cause of the economic crisis should accept the responsibility for this crisis more than OPEC member states and underdeveloped nations, for the price of equipment, spare parts and foodstuffs fall at a very low pace. Therefore, under conditions when the cost of investment continues to remain high for producers, oil prices have dropped dramatically.

Meantime, consumers are not satisfied with the status quo and express concern over dwindling

investments in the oil industry and are worried about shortage of crude supply in the future and that would be synonymous with out-of-control upward oil prices.

In the meeting of energy ministers of eight industrialized states known as G8 in Rome, Italy on 24th of May 2009, the participants discussed the price levels that would guarantee consistent investment in oil and gas industries without posing any threat to the trend of improvement of world economy. The International Energy Agency (IEA) reported that investment in gas and oil industries has reduced 20% in 2009 compared to that of 2008. The IEA report further reads that in the October 2008-April 2009 period, over 20 large projects worth more than USD170 billion have

been cancelled or postponed to an unclear date in the future. These projects foresee production of an additional 2 million barrels of oil and one billion cubic feet of natural gas per day. In addition to that, 35 projects have been postponed for at least 18 months. The report further states that, non-OPEC states are expected to experience highest rates of decline in investment while reduced investments in the existing fields has doubled the risk of production cut and oil prices are expected to jack up tremendously as soon as global economic situation experiences a new era of bloom. Although the concerns of producers and consumers differ in nature, however, there is one concern they share. Both producers and consumers are in favor of prices higher than what they are today. But what price ceiling is preferable?

Twenty three energy and oil



**Table 1- Estimate of global demand for oil
(million barrels per day)**

| Institution | 2009 | 2010 |
|------------------|------|------|
| IEA | 83.8 | 85.2 |
| EIA | 83.9 | 84.8 |
| OPEC | 83.9 | 84.8 |
| Barclays Capital | 84.3 | 84.8 |
| JP Morgan | 84.1 | 85.4 |
| Deutsche Bank | 84.0 | 84.4 |
| ESAI | 83.4 | 84.5 |
| Merrill Lynch | 84.3 | 85.7 |
| Societe Generale | 83.9 | 84.7 |
| AVERAGE | 84.0 | 84.9 |

Source: Reuters, 27 July 2009

ministers as well as 18 managers from global oil and gas companies had attended the G8 meeting in Rome. The Saudi oil minister, head of the Libyan national oil company who is in charge of the Libyan oil ministry and has served for years as manager of the research department at OPEC's secretariat, the minister of energy of Algeria and Nigerian oil minister had been invited from OPEC to attend the G8 meet which was arranged only four days prior to OPEC's 153rd meeting. Two days prior to the Rome meeting, the US secretary of energy, in a press conference elaborated on the objectives of Rome meeting and urged OPEC member states to adopt such a production policy that would assist with stabilizing oil and gasoline prices, for sudden price jumps and cuts would damage all alike. One day prior to the opening of the meeting, the Saudi oil minister stressed that oil prices would eventually reach the margin of USD75. The significant point however, is what mechanism should be used to stabilize oil prices at USD 70-80 a barrel. Care taker of the Libyan oil ministry too stated that oil prices would ultimately be registered at USD75. Head of Italy's Eni Oil and Gas Com-

pany believed that USD60-70 a barrel oil prices would serve to encourage investment and keep global economy immune from any likely damage stating that: "in order to guarantee bloom of global economy, prices should not go beyond USD75 a barrel.

These statements indicate that an unrevealed agreement is likely to have been reached on the fixed price ceiling of perhaps USD75 per barrel.

In later months, however, oil prices rose and Brent's average in August 2009 approximated the figure of USD72.84 per barrel.

And one may ask as to how oil prices escalated to as high as USD72.84 per barrel from the earlier USD40.35 (Brent crude) registering a hike of USD32.49 per barrel?

It appears that at this stage, both producers and consumers have somehow cooperated to increase oil prices.

The resolve shared by the industrialized states aimed at containing global downturn and improving their economic situation particularly the decision adopted by consumers in the course of the G20 meeting in April 2009, indirectly impacted oil prices. In that meeting where Saudi Arabia was also present, representatives of the industrialized states decided to spend USD1.1 trillion for the reinforcement of global economy and impose still more strict regulations and restrictions on banks and financial institutions. The decision gave hope to the market, heralding the good news that the global economic crisis would come to an end sooner than what was earlier expected, demand for oil would grow and prices would be back to normal. The average global crude oil demand estimates released by oil and research institutes revealed that the global demand for oil in 2009 would increase by 900 thousand barrels per day. That means, the downward trend of demand which had started in 2008,

would come to a halt (table 1).

OPEC member states adhered to their responsibility as well. In its 151st meeting in December 2008, OPEC had decided to cut production by 4.2 million barrels a day as of beginning of 2009 and fix it at 24.8 million barrels per day. OPEC's production rate that stood at 29.045 million barrels a day in September 2008, became the basis for specifying the rate of production cuts. In OPEC's 152nd meeting on March 15th, 2009 and the Organization's 153rd meeting on May 28th, 2009, OPEC once again expressed its adherence to that decision. Statistics released by secondary sources indicate that OPEC member states have adhered to their obligation to a large extent and cut production by 3.064 million barrels per day in the first half of 2009 and in case they keep on adhering to their July 2009 production levels, in the second half of this year too, 2.8 million barrels in surplus crude oil shall be out of market per day (table 2).

Undoubtedly OPEC's measure assisted with reinforcing stabilized prices. Of course, some additional factors were involved in this upward trend since the beginning of 2009. Emergence of refining problems, implementation of the plan for increasing strategic oil stocks by China, conflicts in Gaza, a weaker dollar, halt in the supply of natural gas from Russia, increase in refining benefits, colder climatic conditions in the northern Hemisphere and climate change in the Persian Gulf which led to oil production and export cuts, political unrests in Nigeria, halt of construction of one hundred and thirty thousand barrel pipeline in Ecuador due to an oil spill, unrests in Saudi Arabia, reduced crude and gas stocks in the US, higher demand for gasoline in the US, promising performance of the stock exchange markets, raising of Iran's peaceful nuclear activities and Al Qaeda's terrorist operations in Kuwait are all included in

Table 2- Adherence of OPEC member states to Production Cut Pledge in 2009 Based on a Report by Secondary Sources

| | Q1:2009 | Q2:2009 |
|--------------------------------|-------------|-------------|
| Production cut (1000bd) | 3064 | 2847 |
| Commitment Percent | 73 | 68 |

Source: Oil Market Report, August 2009 OPEC Monthly

this list.

So it appears that both producers and consumers of oil have cooperated directly and indirectly in order to increase oil prices to some extent, throwing lifeline to the costly procedure for the production of oil. It is evident that under the present circumstances, one cannot expect that oil prices will touch the margin of USD100 a barrel or even higher, for it is generally believed that such prices would delay the trend of improvement and bloom of global economy. In the course of OPEC's 153rd meeting on May 28th, 2009, Saudi Arabia objected further cuts by OPEC this time with more clarity and reiterated that OPEC has adopted a responsible approach and does not plan to create crisis. On the other hand, OPEC's recent production cut left useless, a portion of the Organization's production capacity and thus, OPEC's surplus production capacity has gone up to the margin of 6.63 million barrels a day. Such a production surplus will not allow prices to jump significantly, therefore, it appears that consumers and producers of oil have reached consensus to specify oil prices on the basis of the final production cost from unconventional resources known as high cost crude oils and the price ceiling on the basis of the limit of tolerance of global economy and such a trend will continue for as long as global economy has not been revived. The forecast of price of West Texas Intermediate and Brent oil conducted by various institutions and published by Reuters on 25th of August 2009, testifies to this view. ■

Table 3- Forecast of price of West Texas Intermediate and Brent Crude conducted by various institutions (\$ per barrel) West Texas Intermediate Crude Brent

| | Brent | | | | | WTI | | | | |
|----------------|-------|-------|-------|-------|--------|-------|-------|-------|-------|--------|
| | Q309 | Q409 | 2009 | 2010 | 2011 | Q309 | Q409 | 2009 | 2010 | 2011 |
| BAS-ML | 66.00 | 64.00 | 59.00 | 75.00 | 75.00 | 67.00 | 64.00 | 58.50 | 75.00 | 75.00 |
| Barclays | 69.00 | 76.00 | 63.00 | 84.00 | 85.00 | 71.00 | 76.00 | 63.00 | 85.00 | 87.00 |
| Bernstein Rsch | - | - | 60.00 | 80.00 | 102.60 | - | - | 60.00 | 80.00 | 102.60 |
| BCS | 60.70 | 63.30 | 56.87 | 70.93 | 72.00 | 61.30 | 63.60 | 56.83 | 72.23 | 73.30 |
| Calyon | 58.50 | 66.50 | 57.10 | 67.40 | - | 60.00 | 68.00 | 57.70 | 68.80 | - |
| Chevreurx | - | - | 55.00 | 65.00 | 70.00 | - | - | - | - | - |
| CGES | 66.20 | 68.80 | 59.70 | 65.80 | - | - | - | - | - | - |
| Commerzbank | 68.00 | 56.00 | 58.00 | 56.00 | - | 67.00 | 55.00 | 57.00 | 55.00 | - |
| Credit Suisse | 58.00 | 58.00 | 54.73 | 58.00 | 68.00 | 60.00 | 60.00 | 55.72 | 60.00 | 70.00 |
| Daiwa | 67.50 | 66.00 | 59.00 | 67.00 | 84.00 | 69.00 | 68.30 | 60.00 | 68.00 | 85.00 |
| Danske Bank | 69.00 | 76.00 | 63.00 | 78.00 | 85.00 | 67.00 | 77.00 | 62.00 | 79.00 | 86.00 |
| Deutsche Bank | 75.00 | 75.00 | 63.90 | 55.00 | 80.00 | 75.00 | 75.00 | 63.28 | 55.00 | 80.00 |
| DnB NOR Mkts | 68.00 | 63.00 | 59.00 | 70.00 | 85.00 | - | - | - | - | - |
| EIA | - | - | - | - | - | 67.38 | 70.00 | 59.94 | 72.42 | - |
| EIU | 69.00 | 75.00 | 62.00 | 74.00 | 67.00 | 67.00 | 73.00 | 62.00 | 75.00 | 68.00 |
| FirstEnergy | 61.33 | 65.58 | 58.13 | 74.50 | 86.00 | 62.33 | 66.58 | 58.00 | 75.00 | 85.00 |
| Goldman Sachs | 68.83 | 81.00 | - | 88.70 | - | 70.30 | 82.50 | - | 90.20 | - |
| HSH Nordbank | 60.00 | 65.00 | 60.00 | 75.00 | - | 60.00 | 65.00 | 60.00 | 75.00 | - |
| ING | 66.00 | 64.00 | 58.33 | 65.00 | 70.00 | 65.00 | 64.00 | 57.89 | 65.00 | 70.00 |
| JP Morgan | 70.00 | 67.00 | 60.66 | 68.75 | - | 68.00 | 65.00 | 59.03 | 67.50 | - |
| Landesbank | 65.00 | 70.00 | 59.00 | 80.00 | 85.00 | 64.00 | 70.00 | 58.00 | 82.00 | 87.00 |
| MF Global | 67.50 | 68.50 | 62.00 | 70.00 | - | 67.00 | 69.00 | 63.00 | 71.00 | - |
| Morgan Stanley | - | - | 55.00 | 85.00 | 94.00 | - | - | 55.00 | 85.00 | 95.00 |
| Nomisma Energi | 67.66 | 62.67 | 58.38 | 55.63 | 60.83 | 68.46 | 63.87 | 59.58 | 57.13 | 62.83 |
| Petromatrix | 70.00 | 65.00 | 59.20 | 80.00 | 100.00 | 68.40 | 65.00 | 60.33 | 80.00 | 100.00 |
| Raymond James | - | - | - | - | - | 70.00 | 65.00 | 56.20 | 80.00 | - |
| Royal Bank of | 64.00 | 64.00 | 58.70 | 73.30 | 77.00 | 64.00 | 64.00 | 57.60 | 73.50 | 77.00 |
| Raiffeisen Zen | 66.00 | 70.00 | 60.00 | 75.00 | 92.00 | 65.00 | 70.00 | 60.00 | 74.00 | 92.00 |
| Scotia Capital | 66.00 | 68.40 | 59.79 | 71.75 | 73.50 | 67.00 | 69.71 | 60.00 | 73.00 | 75.00 |
| Societe Gen | 64.17 | 71.83 | 60.21 | 81.75 | 100.30 | 65.00 | 72.50 | 59.90 | 82.50 | 101.00 |
| Standard Chart | 70.00 | 74.00 | 62.00 | 81.00 | - | 68.00 | 75.00 | 61.00 | 82.00 | 85.00 |
| UBS | 64.00 | 64.00 | 58.40 | 69.00 | 70.00 | 65.00 | 65.00 | 58.25 | 70.00 | 71.00 |
| median | 66.20 | 66.50 | 59.00 | 72.53 | 82.00 | 67.00 | 68.00 | 59.74 | 74.00 | 85.00 |
| average | 66.13 | 67.73 | 59.31 | 72.02 | 81.01 | 66.27 | 68.22 | 59.28 | 73.39 | 82.27 |
| maximum | 75.00 | 81.00 | 63.90 | 88.70 | 102.60 | 75.00 | 82.50 | 63.28 | 90.20 | 102.60 |
| minimum | 58.00 | 56.00 | 54.73 | 55.00 | 60.83 | 60.00 | 55.00 | 55.00 | 55.00 | 62.83 |
| No. | 27 | 27 | 29 | 30 | 22 | 27 | 27 | 28 | 29 | 21 |

Iran's lube oil export has taken a nosedive: Exporters' Union

A total of \$ 5,793,218 worth of lube oil was exported by Iran during the first 5 months of this Iranian year (starting 21st Mar 09), which indicates a nosedive from \$ 89,673,273 worth of export of the same product in the corresponding period a year ago, says Hossein Moniri, a board member of Iran's union of exporters of petroleum

products.

According to ILNA, Moniri has explained that: "We have lost some of our export markets because of certain obstacles. Export of Iran's Lube oil has fallen by 94% this year and the UAE has taken advantage of the situation to take away our export markets in Africa. The UEA exporters import the base oil from Iran and use neat packaging to export lube oil made from that base oil to our markets".

Moniri puts Iraq as a very important market for Iranian lube oil and said: "Iran has lost this market because of mismanagement of affairs in Iran and smuggling of poor quality product from Iran to this country".

He has also complained that: "Turkey, which is itself an importer of lube oil, has established a strong foothold in the lube oil market of Iraq instead of Iran. Besides, Russia has replaced Iran in those markets of the CIS countries".

Phase 1 of Serajeh will be ready in coming winter

When the gas injection facilities of phase 1 of Serajeh underground gas storage scheme is put in place by autumn this year, injection of gas into it will begin in the following winter, says managing director of the Iranian Gas Storing Company (IGSC) Masoud Samivand.

According to the news agency of Iran's oil ministry, Samivand has

explained that: "The compressors and turbines needed for the storage project are planned to arrive at the site next month. Once the surface facilities of the project are installed, the storage will be ready for receiving the gas injection in autumn this year".

Serajeh will definitely be ready for injection of 7.3 mcm/d and reproduction of 4.5 mcm/d of gas this year, has stressed Samivand.

Samivand has also said Serajeh would be in a position by next year to receive 7.3 mcm/d of gas and reproduce over 10 mcm/d of it.

As for the future plan of Serajeh gas storing scheme, the IGSC MD has elaborated that: "In phase 2, the plan is to inject 10 mcm/d of gas and reproduce 20 mcm/d. In phase 3, the volume of gas injection will be raised to 20 mcm/d and its reproduction to 20 mcm/d".

Iran gas pipeline deal is not off: Deora

Petroleum and Natural Gas Minister Murli Deora has denied reports that India has quit plans to build a gas pipeline with Iran and Pakistan.

No, it's not off, Deora told journalists here Thursday.

With Iran the question is still open, but because of the political

situation in Pakistan, just now there is a little bit of a stop on that.

Deora said he had met the relevant Pakistani ministers but they have not written to us they met us.

Murli Deora's statement comes after the Pakistani Ambassador to Iran, Muhammad Bux Abbasi, was quoted in the Tehran Times as saying Sunday that India is out of the troubled pipeline deal.

The 2,775-km pipeline is expected to deliver 30 million cubic metres of natural gas per day to Pakistan - a quantity that is later expected to double.

Deora was in London leading a road show to seek bids for oil and gas exploration in India. He said he had received a gratifying and very good response from British and other companies.

Syndicate of local banks to secure fund for Iran LNG

A syndicate of few Iranian banks will be formed in the next two months to use the country's Foreign Exchange Reserve Fund (FERF) for the provision of \$ 900 Mln fund for 'Iran LNG Project',

says managing director of Iran LNG Company Ali Khairandish.

According to the news agency of Iran's oil ministry, Khairandish has added that Bank Mellat would be the 'Agent Bank' and Melli and Tejarat Banks have announced their readiness to join the syndicate.

The Central Bank of Iran had given the green light for the said \$ 900 Mln fund in early 2009.

'Iran LNG Project' is 100% owned by NIOC & its Pension fund but 80% of it has to be privatized in line with the policies outlined in Article 44 of Iran's Constitution.

Recovery rate of Iran's oilfields has been enhanced: NIOC MD

Managing director of National Iranian Oil Company (NIOC) Seifollah Jashnsaz has said that the rate of recovery of Iran's oilfields has been enhanced compared to the early years of the country's 4th Development Plan (20/03/2005-

20/03/2010).

According to ILNA, Jashnsaz has explained that: "In the beginning of the 4th Plan, the rate of recovery of Iran's oilfields stood at about 26.4%, but reservoir engineering efforts of the past four years in 70 oil reservoirs have managed to raise that rate to 27.29%".

Some experts believe the rate of recovery of Iran's oilfields stands at about 20%.

Jashnsaz has also said that from now no time would be spent on exploration of onshore oilfields and instead focus would be shifted to enhance the recovery rate of oilfields of the sedimentary basins of South Zagros region.

PetroPars has 20% stake in Dobokubi oilfield of Venezuela

The technical and commercial feasibility studies of development of Dobokubi oilfield of Venezuela will

be completed in coming October, says managing director of PetroPars Gholamreza Manouchehri.

According to the news agency of Iran's oil ministry, Manouchehri

has explained that: "PetroPars has been given 20% share in investment of Dobokubi and in its redevelopment plus its production. Dobokubi contains 380 Mln barrels of recoverable crude oil".

He said the contract for developing Dobokubi was in 'Production Sharing' mode, the long term revenues of which could pave the way for the participation of PetroPars in other oil projects of Venezuela.

Manouchehri has added that: "Dobokubi, which was brought on stream in 2004, is currently producing some 12,000 bpd of oil and is foreseen to be capable of producing 25-30,000 bpd of crude".



Tehran refinery to go private by March 2010

Managing director of Tehran Oil Refining Company (TORC) Shahrokh Khosravani has said that Tehran refinery would be privatized in the second half of this Iranian year (ending 20th Mar 10).

According to the news agency of

Iran's oil ministry, Khosravani has said building the light Naphtha and Isomax units of the refinery, for upgrading the plant's gasoline quality, has progressed 60% and anticipated that it would be completed by the middle of next Iranian year.

The contract for construction of

the said units with 18,000 bpd of capacity was signed between TORC and a consortium led by the local Chagalesh Consulting Engineers Firm in November 2006. The contract became affected in April 2007 and was supposed to complete in 30 months time (IE November 2009).

Over 430 Mln barrels of condensate produced by 8 phases of S.P



More than 40 Mln barrels of condensate have so far been produced by the first 8 phases of Iran's South Pars gas field in this Iranian year (starting 21st Mar 09).

According to the PR office of Pars Oil & Gas Company (POGC), over 430 Mln barrels of condensate have been produced by the said 8 phases since they were brought on stream.

Refinery of phase 1 has so far produced 75 Mln barrels of condensate, refineries of phases 2&3 have produced 205 Mln, those of phases 4&5 have produced 133 Mln and refineries of phases 6,7&8 have until now produced 17 Mln barrels of condensate.

Besides, the first 10 phases of South Pars field have to date produced over 251 Bln cubic meters of natural gas.

Venezuela to sell gasoline to Iran

Venezuela is to supply Iran with 20,000 bpd of gasoline from October 2009, Hugo Chavez said on Sunday at the end of a two-day visit to Iran.

"Based on a strategic decision, it has been decided to export 20,000 barrels a day of gasoline from Venezuela to Iran," Iran's news agency IRNA quoted Venezuelan President Hugo Chavez as saying at the end of a visit to Iran.

"The amount to be paid for that gasoline will be deposited in a fund in Iran and will be used to finance purchase of machinery and technology from Iran," Chavez added.

He gave no indication of the duration of the agreement.

"It was also agreed that both sides will within the next 30 days inject 100 million dollars in the joint Iran-Venezuela bank," he said.

US lawmakers have been pushing President Barack Obama to squeeze Iran by targeting its heavy reliance

on gasoline imports and other refined oil products.

US Congress soon may take action on legislation that would allow economic sanctions against non-U.S. insurers, re-insurers and brokers helping Iran import refined petroleum, BusinessInsurance.com reported.

Iran gets most of its gasoline imports from the Swiss firms Vitol and Glencore, the Swiss/Dutch company Trafigura, France's Total, and bp, as well as India's Reliance.

Managing Director of Bid Boland 2 Natural Gas Refining Company Largest Natural Gas Refining Project is under Construction

The Iranian oil minister and senior officials in charge of National Iranian Gas Company have frequently reported of the construction of largest Iranian gas refining project i.e. Bid Boland 2. The Project is of such a significance that in 2007 alone, Euro300 million was allocated to its construction from the Iranian Oil Stabilization Fund. When completed, this natural gas refinery will allow Iran to have a bigger share of the joint South Pars gas field. A period of 22 months has been foreseen for the return of capital.

The following is a brief account of the comments recently made by Manouchehr Taheri, the managing director and executor of Bid Boland 2 gas refining project on the significance, investment procedure, economic feasibility and other issues relevant to this project.

What makes Bid Boland 2 project exceptionally significant?

Geographical dimensions, economic feasibility and the interrelationship between this and other upstream and downstream projects constitute some of the peculiarities of this project. Bid Boland 2 project is scheduled to receive and refine products of 900, 1000, 1200 and 1300 gas and NGL complexes and feed the nationwide natural gas network. With the transfer and refining of 57 million cubic meters of natural gas, we shall be able to inject 47 million cubic meters of methane gas into the nationwide gas network which is a very significant amount of gas to be produced by this refinery. Currently, the high quality gas produced by NGL complexes is injected into the oil fields. Should this gas be refined in Bid Boland 2 refinery, a portion of the natural gas produced in phases 6, 7 and 8 of South Pars projects shall be injected into the gas fields via the fifth line which is already operational. Iran will be able to have a bigger share of the joint South Pars gas field as soon as Bid Boland 2 project



becomes operational. On the other hand, sweet gas containing high volumes of ethane constitutes part of the products coming from NGL complexes and should preferably be processed in petrochemical complexes instead of being re-injected. Therefore, Gachsaran petrochemical complex has been foreseen as downstream of this project. There, the ethane extracted from this refinery shall be converted into olefin. Meantime, National Iranian Oil Company is planning to transfer C5+ gas liquids produced in this refinery to Booli petrochemical complex. The type of gas which is scheduled to be delivered to the refinery contains 1.5 million tons of LPG currently being injected into wells. This is a very valuable material which can be supplied to overseas markets instead.

Is the project economically feasible?

The feasibility study of the Project was conducted in the 2000-2001 period. At that period of time, the price of each barrel of oil was estimated at US\$30. The project is expected to generate an annual income of US\$700 million even if a barrel of oil is sold at US\$30. The feasibility study of the plan foresees production of 47 million cubic meters of methane gas which sells for US\$0.25 per cubic meter. Even at this rate which is one tenth of real global prices, the project will generate an income of US\$300 million which brings the total income of this refinery to US\$1 billion a year. An investment of US\$2 billion had been initially estimated to be made in the project, thus, it would take the project a maximum of two years to compensate for the investment made, however, if we assume that gas sells for US\$0.24 per cubic meter, the Refinery's annual sales is estimated at US\$3 billion.

Are there any plans underway to supply your products to overseas markets?

As you may already be aware, Iran's exported gas comes from a variety of resources. Bid Boland 2 refinery is scheduled to supply gas to Karanj and Parsi gas injection stations. We are scheduled to produce 15 billion cubic meters of gas annually of which 40 percent shall be injected.

How extensive are the dimensions of the project?

In order to have access to feed gas, we need to construct 300 kilometers of pipeline inclusive of 16, 20, 24, 36 and 42 inch diameter pipelines. One pipeline i.e. NGL 1300 is located in Kohkiluyeh and Bouyer Ahmad province and the other one i.e. NGL 1200 is located in Bushehr province. These two pipelines should be connected to the Refinery in Khuzistan province. The Refinery is located 15 kilometers west of Behbahan and its products should be transferred to Mahshahr port for export purposes. Thus, we need to construct 300 kilometers of 8 and 10 inch diameter pipelines for the transfer of products. We also need to set up special installations for storage purposes in Mahshahr.

How is the Project financed?

The Project bids were finalized in 2005. In 2006, however, the Economic Council approved of a law that foresaw a credit of approximately US\$2.2 billion for the Project.

Have local experts contributed to the construction of this Project?

Local and foreign companies had primarily formed a consortium for the implementation of the various units of the refinery and pipelines, however, foreign contractors withdrew from the consortium and the local contractors took control over construction of the Project. Concurrent with the withdrawal of foreign companies, an addendum was made to the contract and in 2007 a special budget was allocated to the National Iranian Gas Company from the Oil Stabilization Fund of which Euro 300 million was invested in Bid Boland 2 Project. On that same year, two L/Cs worth Euro 300 million were opened of which one third was intended for the construction of the feed pipeline and Mahshahr installations (portion B) and two thirds for the construction of the refinery itself (portion A). Preparation of land and the engineering works of the Project in portion A of this EPC project have been completed. At this stage, we are lagging behind the schedule due to shortage of financial instruments.

Are you satisfied with the progress of works?

The periods of time foreseen in the Project documents under foreign partnership for the completion of portions A and B with the inclusion of running and operation periods were 51 and 53 months respectively, however, final commissioning of the project after the Project units are put into trial operation will take over 4 years. Construction of the pipelines is underway and we are satisfied with the progress of works. Insofar as construction of the refinery is concerned, we have prepared the site land while site foundation was laid in late 2008. Equipping of the contractors' workshop is also underway and soon a 2500 man work force will be stationed on the site. Generally, we are lagging 3% behind the scheduled 8%. Of course, the delay can be compensated for at this stage of work. The area of the site and marginal installations is 260 hectares which equals the area of Mahshahr Petrochemical Free Zone. Over 4 thousand people are directly and indirectly engaged in this Project, a number which is expected to grow further as work progresses. Currently, pursuit of the financing of this national Project remains to be our main concern. ■

Interview with Ali Kardar, the Head of Principle 44 Headquarters at the National Iranian Oil Company

Implementation of Principle 44 of the Constitutional Law



N Could you elaborate on paragraph c of principle 44 of the Constitutional Law at the oil ministry?

The general policies of paragraph c of principle 44 of the Constitutional Law revolve round the issue of expansion of non-governmental sectors through transfer of governmental corporations. Implementation of these strategic policies which include transfer of 80% of the shares of mammoth governmental factories and corporations subject of principle 44 shall facilitate materialization of very significant objectives such as accelerated economic bloom and development of the country, accomplishment of social justice, removal of poverty and winning the aspirations of the 20 year long prospect plan. Under light of these policies, the role of oil ministry will be switched from ownership and direct management to policy making, leading and supervision. Through such a process, not only the specialized human resources of the ministry of oil will increase, but various economic divisions of this ministry are expected to be empowered in order to intelligently address principles and regulations of global oil trade within a gradual and intelligent framework. Privatization in oil industry is a must and the situation should be prepared in such a manner that will allow the private sector to take utmost advantage of available opportunities. The point of prime significance in this sphere is that extensive cooperation and coordination by all is required for the implementation of the policies of principle 44 and the guidelines of the supreme leader of the Islamic Revolution.

What measures has the headquarters of principle 44 drawn up for the closing year of the fourth development plan?

According to our time table, this Iranian year is the deadline for the transfer of the 16 subsidiary companies liable to principle 44 within the National Iranian Oil Company.

What are the major companies on the top of the list of principle 44? Will they be liable to transfer

this year?

Major companies on the top of the list of principle 44 are those which, in accordance with our time table can be transferred by the end of the fifth development plan that is 2014. Of the subsidiary companies of National Iranian Oil Company, the North Drilling and National Iranian Drilling Companies are liable to this law and should be transferred before the end of 2014.

What priorities are considered when transferring the 19 subsidiary companies liable to principle 44 within the National Iranian Oil Company?

The companies appear in four categories; 1 companies which are in priority and liable to transfer without any barriers 2 companies which are liable to transfer and mentioned on the list and are required to change their structures and distinguish duties 3 companies liable to transfer mentioned on the list which due to the nature of their operations are scheduled to be transferred in the last year of the implementation of the said principle 4 companies liable to transfer mentioned on the list which are placed within the health sphere and are irrelevant to principle 44.

Are the companies liable to transfer prepared to undergo the ceding process?

10% of the shares of North Drilling Company have been transferred to the social security organization of the armed forces while PetroIran Development Company has been transferred through bid. Petro Pars Company was put to tender last year and is expected to be transferred this year. The Helicopter Company is undergoing reassessment stage for pricing by official experts in order to be transferred through bid. Tehran Oil Commodities, South Turbine Industrial Equipment, Pira Drilling and Oil Logistics and Transportation Services Companies are undergoing pricing stage. 30% of the shares of the National Drilling Company have been allocated to justice shares and the remaining portion is undergoing the pricing stage. The Fuel Efficiency Optimization, National Iranian Gas Exports, Iran Oil Terminals, Matn, Nikoo and Nikoo Sarl companies are not transferable and some others need to

change their status.

How are you going to deal with the staff of the transferred companies?

The status of the officially employed staff of the oil industry shall not be subject to change while retirement pension funds will remain unchanged.

Transfer of companies does not appear to be rewarding under the present economic recession that dominates world economy. Is the headquarters of principle 44 of National Iranian Oil Company encountering any challenges relevant to the subject?

The companies that enter the stock exchange should be able to accept risk. On the other hand, we have cut the base price of these companies providing a good opportunity for investors. Meantime, purchasers are not obligated to pay the price of these companies all at once and have been given the chance to clear their debts gradually and within a period of five years. We expect to transfer all companies by January 2010.

What principles do you lay emphasis on when transferring these companies?

Preventing monopolization, distinguishing employers' duties and avoiding disruption of the National Iranian Oil Company's operations constitute the principles on which emphasis is laid when transferring companies.

What are the various stages for the implementation of paragraph c of the general policies of principle 44 within the National Iranian Oil Company?

The first step includes planning and setting the stage for determining policies and macro objectives, planning for future measures to be taken, specifying procedures for transfer, obtaining approvals, nominating committees, specifying transfer priorities, addressing financial affairs and other inter-company issues. The second stage includes enabling and transfer which comprises amendment of relevant structures, obtaining of approvals, determining the fate of resources (manpower, capital, ...), specifying the nature of new relations between NIOC and the companies, pricing, preparation of bylaws and

directives, providing the required budget and manpower as well as training and enabling of managers and the staff.

Where will you spend the income which is generated as a result of the transfer of companies?

Such funds will be remitted to a special account with the country's general treasury and spent within the framework of the approved plans and budgets in the following order; encouraging the idea of self reliance in the oppressed and deprived families and reinforcing social security, allocation of 30% of these incomes to nationwide cooperatives for the purpose of combating poverty, laying economic infrastructures in the less developed regions, grant of special facilities for the reinforcement of cooperatives and improvement of non-governmental economic corporations, facilitating partnership of governmental companies with non-governmental sectors to the ceiling of 49% for the purpose of securing economic development in the less developed regions and completion of unfinished projects of governmental companies observing paragraph a of these policies.

What are the general policies for practicing sovereignty and avoiding monopoly?

Continued practice of the government's general sovereignty pursuant to the arrival of non-governmental sectors and preventing intrusion and hegemony of aliens over national economy and preventing monopoly by the non-governmental economic institutions through regulating and ratifying relevant laws and regulations constitute the general policies for practicing sovereignty and avoiding monopoly.

And the last word?

Oil sector is an age old industry in Iran with strategic products and services and therefore, transfer of oil industry's subsidiary companies would be a process that differs from routine procedures for the transfer of governmental companies. And for that reason, the issue of the privatization and transfer of oil industry's companies has been examined accurately in order to prevent this strategic economic sector from coming across any likely challenges in future. ■



Oil and Gas Fields Discovered in Iran in Past Two Years

*N*In the past two years, the National Iranian Oil Company (NIOC) has succeeded in discovering several oil and gas reservoirs plus some fresh oil layers in existing oilfields of Iran.

The Mehr news agency has reported following details of oil/gas and independent oil and gas reservoirs discovered in Iran during the past two years:

1) Sefid Zakhour gas Field

This gas field was discovered in August 2007 in Fars Province and is estimated to hold over 480

Bln cubic meters (bcm) of dry gas and 475 Bln barrels of condensate. Drilling 17 wells in Sefid Zakhour will make production of 30 Mln cubic meters/day (mcm/d) of gas possible.

2) Fresh find in Changouleh & Azar oilfields

Fresh drilling in the two in October 2007 proved that the volume of oil-in-place of Changouleh & Azar oilfields was about 8 Bln barrels, up from the previous estimate of 4.7 Bln barrels.

3) Ilam layer of Azadegan oilfield

Discovery of Ilam layer of Azadegan oilfield in



March 2007 led to the addition of 1.693 Bln barrels of crude, 9 Bln cubic meters of dry gas and 72 Mln barrels of condensate to the in-place volumes of crude, gas and condensate of the oilfield. Ilam layer contains crude oil of 17 API grade and is foreseen to be capable of producing 27,000 bpd of crude oil.

4) **Kajdomi layer of Azadegan oilfield**

Discovery of Kajdomi layer of Azadegan oilfield in November 2007 led to the addition of 280 Mln barrels of crude, 3 Bln cubic meters of dry gas and 26 Mln barrels of condensate to the in-place volumes of crude, gas and condensate of the oilfield.

5) **Kouh-Asmari Jurassic gas reservoir of Masjed Solaiman**

Kouh-Asmari Jurassic gas reservoir is located 30 km to the Southeast of Masjed Solaiman City and was discovered in February 2007. Drilling project of Kouh-Asmari reservoir began in 1976 but found nothing and was soon abandoned because of difficulty in further drilling. Kouh-Asmari holds over 27 Bln cubic meters of dry gas-in-place and 7 Mln barrels of condensate-in-place. Three new wells will have to be drilled in Kouh-Asmari to produce 150 mcf/d of gas.

6) **Farzad-B gas field of Farsi Block**

Farzad-B gas field of Persian Gulf hydrocarbon block of Farsi was discovered in February 2007 as an independent gas reservoir. Farzad-B holds an estimated 508 Bln cubic meters of dry gas-in-place and 212 Mln barrels of condensate-in-place.

7) **Eastern Assalouyeh field**

This field was discovered in Northwestern heights of Assalouyeh Port in July 2008. Eastern Assalouyeh holds an estimated 503 Mln barrels of crude-in-place, 5 Bln cubic meters of dry gas-in-place and 35 Mln barrels of condensate-in-place.

8) **Fresh finds in Jufeyr oilfield**

Ilam and Sarvak hydrocarbon reservoirs of Jufeyr oilfield were discovered in August 2008. These reservoirs hold an estimated 3.635 Bln barrels of

oil-in-place. Fahlian reservoir of Jufeyr was also discovered in August last year and holds an estimated 735 Bln barrels of oil-in-place.

9) **Balaroud oilfield**

Balaroud field of Andimeshk City (of Khuzestan Province) was discovered in July 2008 near Lab-e-Sefid and Ghalehar oilfields. Two reservoirs of Asmari and Shahbazan of Balaroud hold an estimated 1.101 Bln barrels of crude oil-in-place, 44 Bln cubic meters of dry gas-in-place and 91 Mln barrels of condensate-in-place.

In June 2008, another two reservoirs of Ilam and Sarvak were discovered in Balaroud. These two hold an estimated 13 Bln cubic meters of dry gas-in-place and 36 Mln barrels of condensate in-place.

10) **Fahlian reservoir of Arvand oilfield**

Fahlian reservoir of Arvand oilfield was discovered in August 2008 and holds an estimated 453 Mln barrels of crude oil-in-place, over 14 Bln cubic meters of dry gas-in-place and 55 Mln barrels of condensate-in-place. Fahlian reservoir could produce 10 Mln bpd of crude oil, when developed.

11) **Sarvak reservoir of Band-e-Karkheh oilfield**

Sarvak reservoir of Band-e-Karkheh oilfield was discovered in Arvandkenar region of Khuzestan Province in September 2008. The reservoir contains an estimated 2.516 Bln barrels of oil-in-place and 12 Bln cubic meters of dry gas-in-place.

12) **Binaloud oilfield**

Binaloud oilfield (in Iran's Persian Gulf hydrocarbon block of Farsi) was discovered in April this year. Binaloud has two reservoirs of Kajdomi and Sarvak, which hold an estimated 776 Bln barrels of oil-in-place and 12 Bln cubic meters of dry gas-in-place.

13) **Sefid-Baghoun gas field**

Sefid-Baghoun gas field was discovered in Khonj region of Fars Province in May this year. The reservoir contains an estimated 6 Tln cubic meters of gas-in-place, 70% of which is recoverable. ■

Nabucco Agreement and Iran's Reaction

The key intergovernmental Agreement on 'Nabucco gas pipeline project' was signed by all concerned parties in Ankara yesterday and Iran, holding world's 2nd largest gas reserves, was absent.

The Agreement was signed by officials from Turkey, Bulgaria, Romania, Hungary and Austria.

Nabucco is 3,300 km long and is planned to become operational in 2014 at an estimated cost of 7.9 Bln (\$10.9 Bln), and a capacity to carry 31 billion cubic meters/year of gas from the Caspian Sea to Austria via Turkey and the Balkans, bypassing Russia.

Almost all countries that could somehow be interested in or connected to Nabucco, as potential supplier or consumer of its gas, were invited.

Iraq, Syria, Egypt, Turkmenistan, Uzbekistan, Azerbaijan, Georgia, US, Int'l & European Organizations were all represented in that Ankara grand meeting.

Turkey's Comment

Addressing the meeting, Turkey's Prime Minister Tayyip Erdogan said he wanted Iranian gas to flow through the pipeline — despite strong U.S. objections.

"We desire Iranian gas to be included in Nabucco when conditions allow," Erdogan told the gathering of Nabucco partnering and regional countries in Ankara.

Erdogan also said he believed Russian gas could be transported to the European markets via Nabucco.

NIGEC's Reaction

Reacting to the Ankara Agreement, managing director of National Iranian Gas Export Company (NIGEC) Reza Kassaie Zadeh said: "Iran has already decided to supply gas to its European consumers through the 'Pars (Persian) Pipeline' project. To that end, so far companies from Germany, Turkey, Bulgaria, Italy and Austria have been involved in talks to buy Iran's natural gas".

According to the Mehr news agency, Kassaie Zadeh has added: "The issue of pricing and some political hitches have played a major role in blocking export of Iran's gas to Europe. However, the measures that are planned to be taken in this regard are foreseen to overcome the two impediments altogether".

'Persian Pipeline' is supposed to have the capacity to carry about 110 mcm/d of gas and stretch through Turkey, Greece, Italy onto Switzerland, and will later be extended to Austria and Germany.

Building 'Persian Pipeline' will require some \$ 4 Bln fund and five phases of Iran's South Pars gas field would supply the gas to be carried by the Pipeline.

Kassaie Zadeh called Nabucco an 'uneconomical' project and to substantiate that, he asserted: "All heads of Nabucco partners are relying on gas reserves that will not be adequate to meet their needs".

Concerning the transmission of gas of the Caspian Sea littoral countries through a Trans-Caspian pipeline, Kassaie Zadeh warned: "The voiced concern and opposition to the construction of any seabed oil/gas pipeline across Caspian Sea will not allow any direct transmission of gas of these countries".

He said even if Turkey accepts to give up its 15% gas transition fee. Nabucco will not become economical, explaining: "It is the shortage of gas that makes Nabucco uneconomical, not the transit fee".

NIOC's Reaction

Another official who was asked for his reaction to the Ankara Agreement on Nabucco project was Hojjatollah Ghanimi Fard, deputy NIOC MD for 'Investment'. He seconded what Kassaie Zadeh had said and asserted that Nabucco would make economic sense only if Iran becomes one of its gas suppliers.

According to the Mehr news agency, Ghanimi Fard believed that no sensible European could ever ignore Iran's gas reserves, which could turn into a long term reliable source of supply of energy to the continent.

Rejecting the belief that European companies are reluctant to buy Iran's gas, he stressed that: "So far, no European official has formally commented on the issue of boycotting Iran's gas". ■