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EDITORIAL

**North Stream Gas Pipeline, a Strategic Route
both for Russia and Europe / 2**

**VIEWS
ON NEWS**

**Threats Posed by the Qods Occupying
Regime and Oil Market Status / 4**

**ENERGY
HIGHLIGHTS**

/ 7

REPORT

**Iran Oil Ministry Lagging Behind Privatization
Plan / 10**

North Stream Gas Pipeline, a Strategic Route both for Russia and Europe



A remarkable gas market development very recently was testing and putting into operation of the North Stream gas pipeline. The North stream route includes two parallel pipelines the first one of which has now gone into operation and the second one is scheduled to become operational in 2012. The first pipeline is 48 inches in diameter; the world's longest seabed pipeline. In terms of size and length, this pipeline exceeds Norway's North Sea underwater gas pipeline that stretches to Britain. The North Sea pipeline is 1166 kilometers long, however, the North Stream pipeline is 1222 kilometers in length and can transfer 55 billion cubic meters of natural gas per year.

The North Stream pipeline is the symbol of Russia's strategic will to keep West Europe dependent on its rich natural gas resources.

The idea for the construction of the North Stream pipeline project emerged back in 1997, however, it was only until 2006 when the Russians and Gasprom Company of Russia practically initiated to go ahead and commence construction of this pipeline. The project became operational in 2010 and 2011 within a very short period of time. Independent from any other country's territory, this Baltic Sea underwater pipeline stretches to the German soil where it merges with Europe's pipeline

network.

Older pipelines for the transfer of Russian natural gas to Europe crossed Ukraine and Belarus. Ever since collapse of the former Soviet Union and independence of the latter two nations, there have always resided differences and disputes over gas deals. This has been more serious in the case of Ukraine. Russia accuses Ukraine of over-extracting, preventing precise measurement and finally purchasing natural gas at low prices which are not even paid for. So far, Russia has not been in a position to stop flow of gas in a bid to press Ukraine, for in that case transfer of Gas to Europe would be jeopardized. In an attempt to punish Ukraine, in winter of 2006, Russia finally discontinued transfer of gas for the first time. Some viewed this measure as a move intended to ask for more political concessions from Europe. In 2008 too, flow of natural gas to Europe was halted. Discontinued supply of gas to Europe in 2006 put people in that continent into deep trouble and for that matter European governments opted for diversifying their natural gas suppliers and transfer routes as a strategic principle, thus, Naboco pipeline and African suppliers were placed on the agenda more seriously as alternatives to the Russian gas supplies. This attempt by Europe served as an incentive for the Russians to initiate to construct the North Stream

pipeline more decisively this time.

The North Stream gas pipeline will make things more complicated for Ukraine and Belarus as a serious menace. In the event these states fail to come to some kind of agreement with Russia, they will have to prepare for likely discontinuation of gas supplies by Russians. Additionally, the Russians are expected to prefer West European market to the Eastern one any time they are short of supplies.

The North Stream pipeline enjoys high environmental standards, for it crosses free waters and part of the water seabed is located in Finland, Sweden and Denmark and for that matter, Russians had to secure consent of these states which adhere very much to environmental principles.

The North Stream pipeline is an illustration of close interaction of energy and politics revealing the fact as to how gas rich states have to perform when targeting gas markets should they wish to use gas as a political tool and lever of pressure, similar to what the Russians did. There is no doubt that Russians have faced impediments and obstacles when executing this project. Americans, by tradition have been and still are opposed to Europe's deep

dependence on the Russian natural gas. When a country becomes dependent on another nation's gas, the supplier state will have the opportunity to impose its desired price. Performance of Russia in this very special case can be a teaching lesson for the natural gas rich states such as Iran. The target markets should be selected quite carefully while rivals and aliens should not be allowed to impede execution and construction work. 💧





Threats Posed by the Qods Occupying Regime and Oil Market Status

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According to the media, recently, the air force of the Zionist regime in collaboration with the Italian, German and Dutch air forces held a joint military maneuver in Sardinia Island and fire tested Jericho missiles. Meantime, Britain announced that due to the likelihood of strikes against Iran, it shall place her forces on alert, for in the event the United States involves in this war, the British Royal forces stationed in the Indian Ocean shall be called to join. In this regard, Guardian newspaper has reported of Britain's planning for likely raiding of Iran's nuclear installations.

Analysis of these news from the perspective of oil market:

Currently, nominal oil prices stand at a historical record high. The average price of Brent crude from the beginning of 2011 to 1st of November 2011 registered US\$111.75 per barrel. This price rate is unprecedented in the history

of oil industry. That is under circumstances which global economy is still experiencing downturn, Europe's financial crisis remains unsettled, the likelihood exists that Greece may withdraw from the Euro zone and economic news reaching here from the United States are not hope inspiring. Head of the US Central Bank, Ben Bernanke has announced recently that the US Central Bank has reduced the already expected 3.3-3.7% economic growth rate for 2012 to 2.5-2.9% while rate of unemployment by the end of 2012 is not expected to go below 8.5%, whereas, the same bank had stipulated in July 2011 that in 2012 the rate of unemployment in the United States would drop to 7.8-8.2%.

Unrests in the Middle East and North Africa have meantime attracted the attention of the world people, for developments continue in Libya, Egypt, Yemen and Bahrain and the prospect in these states is blur.

Doubtless to say that under such conditions, raiding Iran, no matter what the objectives may be, will severely impact global oil prices. It is clear that higher oil prices will neither

serve nor benefit the fragile global economy which is still being gripped by the 2008 crisis. And what is the incentive of the Qods Occupying regime to speak of waging war against Iran under such sensitive market conditions? The following scenarios seem to be likely:

1- The Qods Occupying regime leaders so assume that higher oil prices will pressure the United States more than any other nation, for the United States consumes 21.1%, 21.73%, 14.75%, 30.69%, and 24.65% of the world's oil, gas, coal, nuclear and renewable energies respectively. That is to say any hike in the price of energy products will impact the United States more than any other nation. This is under conditions when the Qods Occupying regime consumes 0.28%, 0.17%, and 0.22% of the world's oil, gas and coal respectively. Therefore, any military measure taken by this regime will lead to higher oil prices and as a result, they can secure the US military intervention in favor of themselves. The Zionist regime sticks with the assumption that involvement of the US in a military confrontation with Iran will as well involve the US allies in a game that will end in favor of the Zionists and oil prices will return to stable within a short period of time. The US demonstrated a similar approach during its invasion of Iraq. The US invaded Iraq on 20th of March 2003 and conquered Baghdad on 9th of April 2003. The Americans did their best to keep the Iraqi oil industry intact. Iraq's oil production rate which stood at no more than 2 million barrels a day in 2002 due to sanctions dropped to 1.322 million barrels per day following the US invasion. However, the Iraqi oil industry managed to recover immediately and produced 2.021 million barrels of oil per day in 2004. The price of each barrel of Brent crude which in February of 2003 stood at US\$32.54 dropped to US\$30.98 in March 2003 following US invasion of Iraq and with the victory of the US forces, oil prices slipped to US\$25.07 per barrel. Thus, the Qods Occupying regime is of the belief that perhaps this is the opportune moment for a military invasion, for higher oil prices will persuade the American and European consumers (Nato) to take immediate action and bring the war to an end in favor of the Zionist regime.

2- In view of the current world situation, Qods Occupying

regime finds it unlikely that the US and her allies may be inclined to engage in a fresh military headache and instead assumes that the US prefers to impose political and economic pressures on Iran in an attempt to force her into negotiations, for otherwise pursuant to a military raid against Iran by the Qods Occupying regime, the Zionist lobby in the United States will push the US administration to engage in an unwanted military intervention in Iran that will cost the US dearly.



US presence in Iraq and Afghanistan has served as a heavy burden on the shoulders of the US administration and engaging in a new scenario under circumstances when the US economy is still experiencing downturn is not justifiable neither for the US ruling body nor the public opinion of that country. Some news media report of president Obama's disapproval of military invasion against Iran. Therefore, the US administration keeps on insisting on politico-economic pressures in order to make Iran accept her conditions and convince the Occupier regime to avoid carrying out any military raids against Iran. Thus, the US politico-economic pressures will undoubtedly target Iran's oil industry, for oil plays a critical role in Iran's economy and by targeting this sector, the US plans to weaken Iran's economy and make her surrender. Perhaps approval of new sanctions against Iran's energy sector in the US congress following allegations pertaining to terrorist measures taken by Iran against Saudi Arabian ambassador to the US should be viewed within the same context.

No matter which one of these scenarios occupies the minds of Zionists and their supporters, the realities of oil market run

counter to their assumptions, such realities which, if neglected, will endanger the interests of consumers and producers of oil and energy. Currently, oil market situation is way different from the time when the US invaded Iraq. These differences are eye catching. The oil market capacity surplus is scant, for on the one hand exit of Libya from the oil market has made OPEC member states compensate for 1.6 million barrels of missing Libyan oil per day. On the other hand, however, this is reasonable if all OPEC member states except for Saudi Arabia do their best to produce more and more oil and sell it at prices which approximate US\$100 per barrel. The market is not confident whether Saudi Arabia can really adhere to surplus production capacities of 2.25 million barrels a day as it claims.

In February 2003, prior to the US invasion of Iraq, OPEC's surplus production capacity (with the exemption of Iraq) stood at 2.1 million barrels a day of which 1.2 million belonged to Saudi Arabia. In March and following the US invasion, Saudi Arabia supplied about 600 thousand barrels of its surplus capacity per day. The share of other OPEC member states of this figure was 540 thousand barrels per day. According to an OPEC estimate, in view of the world's oil supply and demand, in the first quarter of 2003, the market's negative balance was only 100 thousand barrels per day while in the second quarter of 2003, the market experienced a daily supply surplus of 1.7 million barrels while in the third and fourth quarters, this figure did not exceed 400 thousand barrels per day. That is to say, in fact, the market did not feel shortage of Iraq's crude production.

Under present circumstances and based on OPEC forecasts, in the third quarter of 2011, the market will be short of 600 thousand barrels of oil per day and the same will prevail in the fourth quarter as well. In the event that Iraq and Libya manage to add a total of one million barrels of oil to their production per day, then the market will come across one million barrels of surplus oil per day, however, one million barrels of oil per day will fail to compensate for Iran's oil production that registered 3.6 million barrels per day in September 2011. A military intervention may also upset supply of oil in the entire region. Meantime, uncertainties are associated with the likelihood of any increase in production by Iraq and Libya. Under

conditions that military invasion against Iran is expected to have long term achievements, releasing oil from stocks in the IEA member states will be of no avail. On 28th of July 2011, IEA announced that 28 member states of this Organization have agreed to supply 60 million barrels of oil from the Organization's strategic stocks in July in order to compensate for discontinued oil supplies by Libya. The plan foresaw a contribution of 20% by the Asian states, 30% by the European states and 50% by the US alone. This was the third time in history that the Agency decided to use its strategic stocks and that was indicative of the depth of oil crisis that dominated the industrialized nations. A similar situation prevailed for the first time during the first Persian Gulf War in 1991 and the second time in 2005 when Katrina storm swept across the US.

At any rate, the trend of prices reveals the fact that releasing oil from stocks did not impact price uptrend and the price of Brent crude which marked US\$114.04 per barrel in June, jumped to US\$116.89 per barrel in July and concurrent with release of oil from the Agency's stocks. This was under circumstances that the OPEC member states kept on producing oil with all their might. In July 2011, OPEC's crude production approximated 29.88 million barrels per day which was 646 thousand barrels in excess of December 2010 production (with the inclusion of Libya). Therefore, it so appears that extracting oil from stocks will fail to impact oil prices as is expected.

Unlike the 2000s, the oil price ceiling has increased and fluctuations have been intensified proportionately. One should not expect that the fragile global economy will be able to tolerate price fluctuations. In the event of a military intervention, oil prices will jump dramatically in such a manner that world economy will be exposed to a grave threat. Therefore, in case the Qods Occupying regime initiates to take such a measure, producers and consumers of oil as well as world economy will suffer significantly.

No matter what objectives sanctions imposed against Iranian oil industry pursue, they will fail to bring stability to the oil market. Harming Iran's ability to produce oil is synonymous with supply insecurity and that will not serve the interests of oil consumers. ♦

Abadan phase III yet to be fully on stream



Abdol Reza Mehraban, managing director of Abadan Oil Refinery, referred to the sanction imposed on gasoline project of Abadan Oil Refinery by French, German and English companies and their absence, and revealed that the project will be fully operational this Iranian year (ending Mar 2012).

In an interview with the Mehr news agency, Mehraban talked of the latest status of this project and said: "By commissioning a part of phase 3 of the development plan of Abadan Oil refinery, 4 Mln lpd of premium gasoline has been added to Iran's gasoline production capacity."

Stating that the construction and set up procedure of the final part of this project has been fully finished, Mehraban clarified: "We are fully ready for pre-commissioning and

final commissioning of this part of the project."

Mehraban also announced: "This refinery presently produces about 14.5Mln lpd of regular and premium gasoline."

Mehraban pointed out that once phase three of the project is fully operational, the total gasoline production capacity of Abadan refinery will go beyond 16 Mln lpd, and clarified: "Upon achieving the ultimate production target of this project, no more additive MTB will be used any at this plant."

The project to boost gasoline output of Abadan refinery, with the aim to raise production capacity of premium gasoline (94 octane) to 6.5 Mln lpd, has been carried out since 2006. The first phase of this project, with a capacity of 4.2 Mln lpd, came on stream in August '11.

A competent investor to buy Ilam petchem shares



In agreement and coordination with Iranian Privatization Organization (IPO), a competent investor (one of the current major shareholders) is expected to purchase the shares of some other Ilam Petrochemical Company's shareholders, reported the ISNA.

Stating the above, Abdol Hossein Bayat- managing director of National Petrochemical Co. (NPC)- said: "49% of the shares of Ilam Petrochemical Co. have been transferred to 7 companies via IPO. However, since these companies were facing challenges securing the required financial resources for completion of Ilam Petrochemical Complex, NPC tried to bring the shares of these companies under one capable company who can provide the needed fund for completion of the complex."

Over the last year, 49% of the shares of this complex which belonged to National Petrochemical Co. (NPC)

were transferred to the private sector as follows:

- 14% to Petrochemical Commercial Co. (PCC),
- 7% to Social Security Investment Organization of the Armed Forces (SATA),
- 7% to Alvand Ghadir Development Investment Co.,
- 7% to Paneer Sarafrazan Chemical Co.,
- 7% to Bahar-e-Gharb Co.,
- And 7% to Marun Petrochemical Co. Behshahr Industries Investment Co., Iran Civil Pension Fund Investment Co. (CPFIC) and Social Security Investment Co. - owning 17% of the shares each - are among the major shareholders of this complex.

The construction of Olefins 13, as the largest petrochemical plant Iran has in hand in the west of the country, has been left abandoned due to financial problems, lack of fund and lack of shareholders' involvement.

Iran Oil Ministry Lagging Behind Privatization Plan



Despite the fact that Iranian Privatization Organization (IPO) has frequently called the current Iranian year (started March '11) the 'Year to Privatize Oil Companies', passing 8 months, no oil companies have been privatized and the promises have not yet realized as they should.

According to the ISNA, after passing 4 years, several of the organizations offered serious and somehow groundless resistance against their going privatized, which make the implementation of Article 44 proceeds quite slowly. This is while National Iranian Oil Co. (NIOC) is recurrently heard to be among the non-complying organizations.

A glimpse into a list of oil ministry privatizable companies and privatized ones show the proportion of this important ministry having been privatized.

The list of privatizable companies in 2011-2012 which was released by IPO includes 2 groups of 353 and 46 companies as follows:

The first group consists of the subsidiaries of National Petrochemical Company (NPC), several of which are as follows:

Tabriz Petrochemical Co, Bistoon Petrochemical Co, Petrochemical Kala Co. (PKC), Hegmataneh Industries Petrochemical Co. (HIPC), Arya-SGS Quality Services Co, Petrochemical DownStream Industries Development

Co. (PDSID), PCC International Ltd. (PCCI), Terminals and Tankfarms Petrochemical Co. (TTPC), Bakhtar Petrochemical Co., Petrochemical Research & Technology Co. (Pooyesh), Kavian Petrochemical Corp., Mamassani Petrochemical Co., Gachsaran Petrochemical Co., Lordegan Petrochemical Co., Zanjan Petrochemical Co., Golestan Petrochemical Co., Petrochemical Special Economic Zone Org., Darab Petrochemical Co., Fasa Petrochemical Co., Jahrom Petrochemical Co., Dehdasht Petrochemical Co., Kazeroun Petrochemical Co., Chahar Mahal Bakhtiari (Broujen) Petrochemical Co.

The followings are also among the companies falling under the second group on the IPO's list, which are subsidiaries of National Iranian Oil Refining and Distribution Company (NIORDC):

Tabriz Oil Refining Co. (TBZ), Tehran (Tondgooyan) Oil Refining Co., Shiraz Oil Refining Co. (SORC), Kermanshah Oil Refining Co. (KORC), Esfahan Oil Refining Co. (EORC), Bandar Abbas Oil Refining Co. (BAORCO), National Iranian Oil Products Distribution Co. (NIOPDC), Oil Refining Industries Development Co. (ORIDC).

Among the above companies on the second list only the shares of TBZ and EORC have been so far transferred while the destiny of the rest lies in the shadow.

Persian Gulf Petrochemical Holding Co. is one of the major privatizable companies in 2011-2012, for privatization of which drastic measures have been taken and quite a few decisions have been made on how to transfer its shares. However its privatization has turned into an unresolvable dilemma and no one really knows what will come to this company.

Oil General Welfare Services Co., Kalanaft-Tehran Co., North Drilling Co. (NDC), National Iranian Drilling Co. (NIDC), South Turbine Industrial Engineering & Equipment Services Co. (STIEESC), Transportation & Oil Support Services Co. (TOSSC), Petropars Co., Iran Pira Haffari Co., Kalanaft Canada, Kalanaft Japan, Shell Petroleum Senegal Co., Oil Industries Engineering and Construction (OIEC),

Abadan Lube Manufacturing Co., Abadan Institute of Technology, National Iranian Oil Co. (NIOC)-Sharjah, NIOC-London, NIOC-Singapore, and NIOC-Lybia are among the subsidiaries of National Iranian Oil Co. (NIOC) which are placed on IPO's list.

Iranian Fuel Conservation Co. (IFCO), Petroleum Engineering and Development Co. (PEDEC), Naftiran Intertrade Co. (NICO), Petroleum Industry Health Org. (PIHO) and Iranian Oil Terminals Co. (IOTC) are also subsidiaries of NIOC which are listed to be privatized.

While the future of oil companies is uncertain, gas companies are yet on the lower end of the spectrum and no measures have yet been taken for their privatization. However, based on the IPO's list of 2011-2012, Sarkhoon & Qeshm Gas Treating Co., Fajr-e-Jam (Kangan) Gas Refining Co., Parsian I & II Gas Refining companies, Bid Boland I Gas Refining Co., Masjed Solaiman Treating Plant and Ilam (Meimak) Gas Refining Co. are among the subsidiaries of National Iranian Gas Co. (NIGC) which should be privatized.

Based on the figures released by IPO, since the beginning of current Iranian year, no subsidiaries of NIGC has gone private. However, according to the IPO's report, NIORDC, NPC and NIOC have transferred Rials 3,897 Bln, Rials 984 Bln and Rials 8,194 Bln respectively.

In addition, over the current Iranian year, IOTC, Iranian Gas Transmission Co. (IGTC) and Iranian Oil Pipelines and Telecommunications Co. (IOPTC) have been deleted off the IPO's list and slipped back under government's control.

These three companies have been erased off the list while Shazand Arak Oil Refining Co. got also off the list last year. It was also supposed that the privatization method of 11 companies which the oil minister asked not to be transferred, to have been announced to IPO over the past two weeks.

In the interim, there have been discussions for NIDC and Petroiran Development Co. (PEDCO) to remain public. No one knows where the future of these privatizations is headed. ♦