



Financing the Upstream Oil and Gas Projects in Iran

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ABSTRACT

After the oil and gas reservoirs are discovered, the most important issue is the way the exploitation of the reservoirs should be funded. Contracts of different kinds have been designed to do so. Concession, partnership and service contracts are inter alia the most important agreements of the kind. Iran is one of the richest countries of the world in regard of its oil and gas reservoirs. The first oil well in the Middle-East was excavated in Iran and the country has experienced the enforcement of various types of oil contracts. Financing the oil projects has been turned to an essential issue during the recent years of oil industry operations in Iran.

Keywords: oil and gas upstream industries, investment, oil contracts, participation, buy-back

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INTRODUCTION

Some countries around the globe have witnessed the discovery of huge oil resources. The same issue has made oil an income source in such countries and this, per se, has resulted in the augmentation of oil importance in the daily lives of the people. One such a country is Iran. The first oil well of the Middle-East Region was dug in Iran, in Masjed Soleyman Region. At that time, there was not much weight given to exploitation of oil resources in Iran; but, with the increase in use cases of oil worldwide and also due to the increase in the oil's quotient of the government income the issue found much importance. Exploitation of oil has always been in need of large investment. The current research paper is seeking to investigate the various methods used in Iran for financing the oil and gas upstream projects. Oil projects' funding is a topic that is specified within the course of oil contracts. For the same reason, it is necessary to adopt a finance approach towards Iran's oil contracts. Also, the rules effective on the oil and gas upstream projects financing will be evaluated.

Iran's Oil and Gas Contracts Evolution Trend:

An advantage of investigation in oil contract trends is getting familiar with the background and the evolutionary trend of these contracts. The issue can make us acquainted with the way Iran's oil projects are funded. It also finds twice as much importance when we know that Iran has been somehow a leading country in passing behind some of these contracts one way or another. For the same purpose, here, we adopt a financial approach to deal with Iran's oil contracts.

Types of Oil Contracts:

Nowadays, the common contracts in the oil and gas industry are categorized to four sets. These are: concessionary or license contracts, production sharing contracts, risk service contracts and Hybrid contract which is per se classified into association contract and buy-back (King and Spalding, 2005: 54).

According to another type of classification, oil industry upstream contracts are divided into two general groups of concessionary systems and contractual systems.

In concessionary systems, a party to the contract is assigned to an oil field by the government and the foresaid company takes advantage of the oil field based on either ground rent or royalty interest payments. Contractual systems are generally of two main kinds. The first includes the production sharing contracts (PSC) the more advanced type of which is joint venture. In partnership contracts, the host state's representative company enters a contract with a foreign company in such affairs as exploration and development and the obtained interests are divided based on the contract. The partnership can be carried in the form of establishing an agent company (operator or exploiter). The second type of the contractual system is service contracts that are per se dividable to three groups, namely service contracts with or without risk and buy-back service contracts. In service contracts, the contractor is paid based on the service provided.

Concessionary contracts mark the beginning of the evolutionary trend of the contracts in Iran followed by partnership contracts and then contracted work agreements.

Iran's Concessionary Contracts:

A historical review of Iran's oil contracts indicate that the first oil contracts in the world have been of the concessionary type

and the first oil concession signed in Middle East belongs to Iran (Hatami and Karimiyan, 2016: 610).

One characteristic of the concessionary contracts is that the entire expenditures and costs required for oil exploitation are to be supplied by the receiver of the concession. Thus, the government is not required to enter financing negotiations. Concessionary contracts are classified to two types in Iran.

The First Generation of Concessionary Contracts:

Reuter (1872), Hotz (1883) and Royal Bank (1889) Contracts are to be placed in this set. The common feature of the first generation concessions is that all are signed during the 19th century. And, that they are all granted in a period of time that although Iran had a past record of utilizing oil but the exploration, excavation, exploitation and generally oil industry had not only been in its seminal point but also there was no sign of the existence of oil and gas by such an extensiveness as today's. Among the common effects of such concessions the failure of the companies and the individuals possessing these concessions in commercially exploring and excavating the oil fields can be pointed out (Hatami and Karimiyan).

The Second Generation of the Concessionary Contracts:

The second generation of concessionary contracts in Iran included four concessions, namely Darcy Concession, 1933 oil contract, oil and gas sales contract and an operation procedure management, enacted in 1954 (consortium contract) and 1973 oil sale and purchase contract (1973 consortium).

Darcy concession has been the only then successful contract in Iran. The concession, containing 28 articles, was signed by Muzaffar Al-Din Shah in 28th of May 1901 (Shokuhi and Naderan, 2011: 81-82).

The company was obliged to pay twenty thousand Liras in advance and twenty thousand liras in shares and the entire companies were also obliged to pay some 16% of their net profit as royalty. Corresponding to the chapter fifteen of the concession, it had been stipulated that after the expiration of the concession term the entire properties and the installations should be transferred to the Iranian government free of charge. The contract finally managed to find oil after seven years of hard work by George Reynolds, the head of excavation team, in 1908 in Masjed Soleyman oil field. Four years later, Abadan refinery was established in 1912 and the first oil product was exported (Shokuhi and Naderan, 2011: 83).

Darcy contract is important to the extent that it can be stated that the concession formed the basis of oil concessionary system in the other Middle East countries (Katouziyan, 2009: 92).

Finally, the concession was unilaterally revoked by Reza Shah and the aforementioned decision was approved at the first of December, 1932, by Iran's National Consultative Assembly (Iran Oil Company's legal department, 2002: 23).

1954 Consortium performance set the grounding for the objections, revisions and finally revocation of the contract. Then, a new contract under the title of oil sale and purchase contract was signed by the members of the former consortium and its subordinate companies in 1973. The contract had more advantages in respect to the 1954 consortium but the study of the articles and conditions of the contract reveals the granting of special privileges to the consortium member companies that is reflective of the spirit governing the concessionary contracts.

Corresponding to the conditions specified in the contract, the entire investment required for the oil excavation operations had to be supplied by Iran Oil Company. The Consortium's trading member companies were only to provide up to forty percent of the required capital under the title of oil pre-purchase payment (Hatami and Karimiyan, 2016: 625-628).

This was the first contract that provided room for Iran Oil Company's investment.

Among the common features of the second generation of the concessionary contracts, it can be pointed out that all the later contracts are derived of the first contract of this generation that is the very Darcy contract. The implementation of the entire oil operations including exploration, excavation, production, refining and sale were to be conducted by the concessioner companies in the second generation concessionary contracts and Iran's government and the National Oil Company had no specific role but to perform certain superficial inspections and/or assigning representatives without the necessary jurisdiction for making decisions in any regard. In such concessions, the concessioner companies usually delivered oil productions for domestic use with no calculation of rights and royalties of the host country so as to cap the sensitivities.

Partnership Contracts:

After consortium contract, Iran's National Oil Company entered new contracts with some companies. The twenty-year period spanning from 1954 to 1974 can be considered as a novel prelude to the considerable and dynamic evolutions in the contract designing trends. Concessionary contracts reached to an end in this period and the production sharing and service contracts, respectively, joined the group of the country's oil industry contracts. In this dynamic period, Iran enjoyed a great share of the contractual evolutions in the world's oil industry in such a manner that it can be considered a leading country in this regard.

Following the nationalization of oil industry, Iran's national oil company was established in May, 1951, and oil law was approved by the senate in 1957.

Corresponding to the oil law, Iran's National Oil Company was permitted to enter contracts, partnership and agency, with the foreign companies in order to develop exploration, discovery, excavation, refining and transportation and selling oil operations. Based thereupon, the foreign oil company's expenditures were to be compensated through allocation of oil products. As it is stipulated explicitly in the foresaid law, the oil produced by each of the agent companies from the corresponding oil wells subject to the its operations shall be owned by the referent at well site (the law on exploration, discovery and exploitation of oil inside the entire territory of Iran and continental shelf, enacted in 20th of July, 1957).

The First Generation of Partnership Contracts:

Among the first generation of the partnership contracts, the contract between Iran and Agip Mineraria, as the Annie Italy

subordinate company¹, in 1954, can be pointed out. It was the first partnership contract which is also known as 25-75 contract in such a manner that in sum 75% of the profit belonged to Iran and 25% of the profit went to Agip.

Corresponding to the contract, in case of the exploration operation failure, based on the foresaid approved oil law as well as according to the contract terms, the entire operation expenditures were to be shouldered by Agip and in case of success, the operation costs were to be divided between the two parties to the contract.

The preliminary cost of exploration was 22 million dollars based on the estimations and Agip was obliged to spend 1.5 million dollars annually for four years on exploration operations and then, in the next eight-year period, it had to spend 2 million dollars annually on exploration. It had been stated in the contract that in case that Agip, for any reason, withdraws from continuing the operation, it is obliged to gratuitously pay half of the total sum, 22 million dollars, inserted in the contract to Iran's National Oil Company (Ghaderi and Mohammadi, 2015: 125-127).

The considerable point here pertains to the preliminary capital that had to be supplied by both of the parties to the partnership contract equally and the rest of the required capital was to be firstly borrowed from foreign banks. In case that there was no chance of borrowing the capital from the foreign banks, the parties were obliged to supply the aforementioned capital in the form of loans and inject it to the partnership. The joint venture company was obliged to repay to the parties the principle and the interest (maximum 7%) along with the other costs.

The Second Generation of the Partnership Contracts:

After the first generation partnership contracts (Syrip contract) and with the objective of absorbing larger investment to the oil and gas industry, on the one hand, and bringing about changes in the prior contracts' articles and for such reasons as encouraging the foreign companies, on the other hand, Iran's National Oil Company took measures to sign two contracts featuring a new structure in 1958. These two contracts were: a contract with Pan-American Oil Company and Iran-Canada Oil Company Contract.

According to Iran's national Oil Company and Pan-American Company's contract, the entire expenditure required for oil exploitation operations, except the expenditures the supply of which were to be shouldered by the American party for exploration operations, had to be paid by both of the parties on a fifty-fifty basis. Each party was given the right to demand its quotient to be received by its own company or a representative thereof in goods or in cash (Derakhshan, 2013: 69).

Iran's contract with Pan-American Company led to the formation and registration of a not-for-profit corporation called Ipac. The company was essentially Non-Profit and it acted on behalf of both of the parties and its capital and management was to be shared by both of the parties identically. This latter contract is also enumerated among 25-75 contracts (Ghaderi and Mohammadi, 2015: 127-128).

Unlike the first generation partnership contracts that used to be signed within the format of partnership in profit, the second generation of the partnership contracts was arranged in the form of production sharing. In these contracts, the entire produced oil plus the entire installations and the project properties were own identically by the parties. The total sum of the oil operations, except exploration, was also to be supplied similarly.

The Third Generation of Partnership Contracts:

The entire array of the contracts of this latter type is signed in 1965. These contracts were of 25-75 type. Each of these contracts was, on the one hand, signed with Iran's National Oil Company and in a consortium of various companies, on the other.

Based on these contracts, the entire expenditure for preparation of the oil field and creation of the necessary installations for the exploitation, loading and exporting of oil was to be paid by the parties since the discovery of the first commercial oil well till the onset of commercial exploitation. It was predicted in the contracts that the second party supplies the fifty percent of the development and exploitation expenditures that was supposed to be funded by Iran's National Oil Company, at this stage, and the first party, National Oil Company, was obliged to return it in dollars within a three- to seven-year period. The interest rate had been set equal to Federal Reserve Bank of New York's rate plus one and a half percent (Zowghi, 1999: 34).

The Fourth Generation of the partnership Contracts:

In 1971, three partnership contracts were signed corresponding to the stipulations of 1957 oil law. The contracts are as stated below:

- 1) Partnership contract between Iran's National Oil Company and the Japanese Group of Oil Limited Corporations² with the American Mobil Oil Corporation which resulted in the establishment of an Iranian-Japanese oil company, abbreviated INIPCO;
- 2) Partnership contract between Iran's National Oil Company and the American Amerada Hess Company; and,
- 3) Partnership contract with the American Mobil Corporation.

In the threefold fourth generation partnership contract mentioned above, unlike the previous generations, it had been stipulated that the entire exploration plans and budgets should be supplied by the first and the second party after the first commercial field was confirmed. In the fourth generation of partnership contracts, it had been specified that the foreign company should pay, besides its own share, Iran's National Oil Company's quotient (50%) of the expenditures supplied for the development operations as soon as a commercial field is discovered and upon the foresaid company's request. In case that such a condition was found satisfied, Iran's National Oil Company was obliged to repay the sums of money spent by the

¹ Azienda Generali Italiani Petroli: Agip Company

² TEIJIN LIMITED,

NORTH SUMATRA OIL DEVELOPMENT
COOPERATION CO. LTD,
MITSUI & CO. LTD

foreign company in addition to an interest equal to the interest rate received by the US's Federal Reserve Bank plus one percent and/or a seven-percent interest rate, any of which that was found lower, in 20 equal installments within a ten-year period.

The aforementioned threefold partnership contract was revoked due to the lack of commercial production actualization.

Service Contracts:

Service contracts stem from a longstanding contractual relation in the petroleum industry by means of which the provided services are paid. In petroleum industry, as well, the use of such a contractual format is not unusual for accomplishing such daily works as road construction, restoration of the development site, excavation and an array of the other affairs. But, the use of a changed format of these contracts for taking in the capital from international companies for purposes such as exploration and development of oil fields has been quite a novelty (Zamani, 2010: 108).

As a consequence of disputes among the oil companies and the oil-prone countries as well as the governments' efforts in taking the possession of a larger number of oil resources and more effective supervision and control of the oil operations, the oil contracts' evolutionary trend led to the formation of a new type of contracts called service contracts in the second half of the 20th century.

The First Generation of the Service Contracts:

This generation of the contracts incorporates three contracts during a time spanning from 1966 to 1969.

- 1) A contracted work for exploration and production between Iran's National Oil Company and the French ERAP³ company and another French Sufiran Company (associated with ERAP) in 1966.
- 2) A contracted work for production or exploration between Iran's National Oil Company and European companies.
- 3) A contracted work for exploration and production between Iran's National Oil Company and the American Continental Company in 1969.

The objective of Iran's National Company was explicitly asserted in the introduction to the contracted work agreement as employing foreign oil companies for the purpose of supplying the financial resources, on the one hand, and technical, specialized and managerial qualifications of the foresaid company for developing, producing and exporting crude oil, on the other. As was stated in the contracts, it was the responsibility of the contractor to supply the entire sums of money required for performing such operations as exploration, evaluation and development. Retrieval of the oil expenditures had been made dependent on the discovery of a commercial field and oil production in a tradable extent. The retrieval of the costs and the reception of the wage were to be compensated by the sums earned in sales that could be paid to a third party or the contractor. In such contracts, the foreign party had not been

granted any proprietary right in the resources and/or the productions (Hatami and Karimiyan, 2016: 647-649).

The Second Generation of Service Contracts:

The uncertainties extant in the articles provisioned to the 1957 oil law and the international atmosphere of the then time⁴ caused the 1954 Consortium contract's revocation in 1973 in lieu of which another contract, known as St. Morits contract, was signed. As a consequence of the abovementioned events, a new law called the "oil law" was passed in 1974.

The oil law, passed in 1974, was the second law of the country. Based thereon, the only allowed pattern of upstream contracts is contracted work agreements. The law stipulated that partnership is only allowed in downstream sectors on the condition that the share of Iran's National Oil Company has to never be lower than 50% and the partnership should be signed for a period of time no more than 20 years.

According to the foresaid law, the contractor is responsible for supplying all the funds required for exploration; furthermore, it is the duty of the contractor to finance the expenditures of development in case that the same is demanded by Iran's National Oil Company. Of course, the exploration and development operations' expenditures were to be repaid through oil sales.

Following the enactment of the above-cited law, six contracted work agreements were signed.

Row	Country of the contracted company	Party name	Contract date
1	France	Compagnie Francaise des Petroles (C.F.P)	05/08/1974
2	Germany	Deutsche Erdoel Versorgungsgesellschaft b.H.-DEMINE	08/08/1974
3	Germany	Deutsche Erdoel Versorgungsgesellschaft b.H.-DEMINE	08/08/1974
4	US	Ultramar Company Limited	16/08/1974
5	US-Canada	ASHLAND Oil INC. & PANCANADIAN PETROLEUM LIMITED "ASHLAND GROUP"	29/08/1974
6	Italy	AGIP S.P.A.	03/09/1974

(Shokuhi, 2013: 196).

Post-Islamic Revolution Till 1992:

⁴ Including the establishment of organization of petroleum exporting countries (OPEC) in 1960

³ Enterprise de Recherche et d'Activite Petroliere (ERAP)

When the Islamic Revolution took place in 1978, many of the foreign companies active in the area of the country's oil and gas reduced or suspended their activity levels in Iran and many of the contracts were revoked. In 1980 and with Iraq's invasion of Iran, the increase in Iran's risk was practically doubled. The occurrence of Islamic Revolution and the outbreak of war caused a period of 15 years with no important oil contract between Iran and the other companies. During these years, small developmental activities were only carried out in the upstream sector of Iran's oil industry through it being financed by the country's budget.

According to Iran's constitution, passed post-Islamic Revolution, the sovereignty and the proprietorship of the oil and gas field cannot be originally assigned to the others and the operating companies as equity holders are not allowed to make direct investments the result of which will be an enjoyment of the proprietary right over Iran's oil and gas resources (Sarir, 2015: 97).

In September 1989, the country's third oil law after 1957 oil law and 1974 oil law was enacted. The law does not contain explicit regulations regarding the oil contracts format and it has brought about the grounding for the creation of some ambiguities and concerns regarding the methods of managing oil affairs and the legal stance of the investments by its reinsertion of some principles from the constitution and via emphasizing on the prohibition of foreign investment for oil fields and also by blending investment topics with oil installations issues.

Corresponding to this law, the entire investments should be suggested by the ministry of petroleum with considerations being given to the operating units' budgets and it will be embedded in the country's budget plan after being passed by the general assembly. Foreign investment in such operations is not allowed by any means (Derakhshian, 2013: 78). Since for the continuation of the country's activities, the oil law passed in 1987 could not meet the requirements thus the adherence to 1987 oil law was relatively disregarded in the five-year regulations as well as in various yearly budget laws.

Buy-Back Contracts Period:

During early 1990s, Iran took certain measures in line with signing buy-back contracts. The most important reasons behind signing these contracts are stated below:

- 1) Legal restrictions and requirements;
- 2) Absorbing the technical and technological knowledge;
- 3) Supplying the financial resources and taking in foreign capitals;
- 4) Assisting project products' sales marketing; and,
- 5) Imposition of oil operation risks on the contractor.

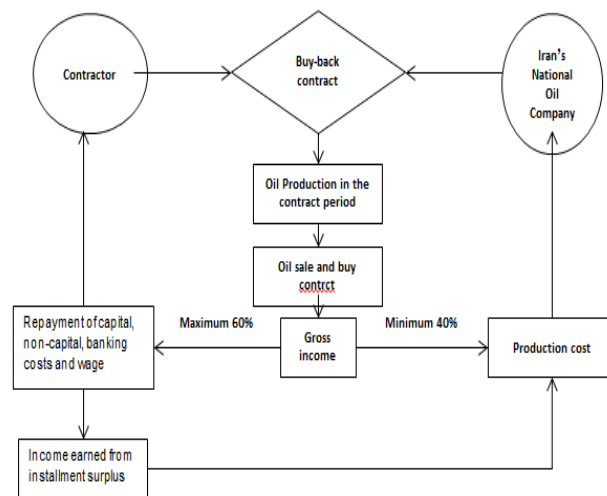
Buy-back contracts can be divided to three general sets under the title of the first, the second and the third generations. Each type of buy-back contracts is not a specific sort of oil contract rather it defines the way the contractor's expenditures should be compensated which is mostly through oil field products' sales.

The most important features of the first generation buy-back contracts were the fixedness of the contract sum, inflexibility of the contract obligations fulfillment and its application for the development of oil and gas fields. First generation buy-back

contracts were signed during the time spanning from 1995 to 2002.

Financial system of the first generation buy-back contracts is similar to what is illustrated in the diagram below:

Diagram (2): buy-back contracts' financial system



(Khaleghi, 2012: 51).

The most important characteristic of the first generation buy-back exploration contracts is that the exploration risk was to be shouldered in whole by the contractor and the National Oil Company was not committed to any repayment of the contractor's costs in case no oil field was discovered in the contracted region.

After the exploration was finished and upon the non-discovery of any hydrocarbon field as well as in cases that a hydrocarbon field was found but it was deemed commercially not cost-effective, the contract was spontaneously revoked and no sum of money could be payable to the contractor. But, in case that the explorations resulted in the discovery of a commercial hydrocarbon field, the parties entered negotiations regarding a comprehensive plan and the costs of various operations and in case that an agreement was reached a development contract was signed between the parties and a total sum of exploration and development expenditures was computed and paid to the contractor as specified in the contract.

It is noteworthy that in case that the parties could not come to an agreement regarding the comprehensive development plan within six months of the field being found commercially cost-effective, Iran's national oil company could ask the other contractors to enter competition with the exploratory company in proposing a comprehensive development plan (Islamic Consultative Assembly's Research Center, 2016: 38-40).

In buy-back contracts, there are anticipated certain banking fees on the compensation of the development operation funding expenditures. Based on an agreement between the parties, the cash and receivable payments of the contractor are charged banking fees based on compound interest. The fees are calculated on a monthly basis and the calculation begins from the first month since the capital and noncapital costs are charged and paid. In sum, in buy-back contracts between Iran

and the foreign companies, the projects had to be funded by the foreign contractor. In between, there are some contracts for the development of oil or gas fields with Iranian companies in the majority of which the process of supplying the financial resources has been through internal resources of Iran's National Oil Company.

In buy-back contracts of the second type the contractor had the right to directly and with no new contract shoulder the development operation in case that a hydrocarbon field was found and it was deemed commercial. In fact, there has been no such a thing as two independent contracts and both concepts have been embedded within a single contract (Sarir, 2015: 165).

In the second generation buy-back contracts, the contract was obliged to offer a comprehensive plan of the three stages, namely exploration, specification and development. In the second generation buy-back contracts, a maximum 50 percent of the field production was allocated to the costs and fees of the contractor.

Although the main incentive in the shift from the first generation to the second generation buyback contracts has been increasing the National Oil Company's interests by discovering new hydrocarbon reservoirs, the move towards the third generation buy-back contracts should be considered as a response to a major concern of the foreign contractors regarding the risk stemming from the unpredictable increase in the capital costs of development operation (Sarir, 2015: 203).

In the third generation buy-back contracts, the contract sum was not specified at first and it was mostly determined in a rough estimate of the capital costs. A definite total allowable sum of the capital costs was to only be determined after signing a contract and performing advanced engineering studies (FEED⁵) and holding bids under the supervision and participation of Iran's National Oil Company within a certain period of time, usually 18 months, since the date an agreement was concluded (Shirijyan and Ebrahimi, 2014: 15).

The main difference in the third generation contracts with the prior ones was the determination of a total sum for the capital costs as stated above. In the previous contracts the total sum was determined and inserted in the contract.

Supplying the Financial Resources via Debt Security:

According to the numerosity of Iran's oil projects and the insufficiency of the investment in this sector, Iran's National Oil Company, in 2010, issued one billion euro worth government bonds to fund part of the Southern Pars Gas Field development costs. This was the first time that Iran issued government bonds in foreign currency format.

In 2015, Iran's National Oil Company issued fuel oil forward bonds. Also, in 2016, Iran's National Oil Company issued Rials government bonds for the purpose of funding the development costs of West Karun oil field as well as for financing the Southern Pars gas field.

Amendments to the Oil Law in 2011:

This law that was indeed an amendment to the oil law enacted in 1987 was approved by the Islamic Consultative Assembly in 2011. In fact, some articles of the 1987 oil law were revised and some others were left intact. The law, in article 16, wholly cancelled the oil law passed in 1974.

In 2011 revised oil law the confidentiality of the oil contracts was for the first time stipulated in article 15.

The 2012 law on the Authorities and Jurisdictions of Ministry of Petroleum:

The law of the ministry of oil's duties and jurisdictions was passed at 19th of May, 2012.

Part (D) of the Article (3), titled the investment and funding affairs, has dealt with the oil contracts investment and contractual patterns. According to the foresaid paragraph, the duties and the jurisdictions defined for the Ministry of Oil in such areas as investment and financial funding are as stated below:

- 1) Verification of the development and investment plans in oil, gas, petro chemistry and refinery fields for the purpose of supplementing the production chain and creation of added value;
- 2) Creation of effective mechanisms for absorbing the required financial resources in line with the implementation of development and maintenance plans regarding preservation of the production power in adherence to the related regulations;
- 3) Absorbing and directing the domestic and foreign capitals for the purpose of developing the hydrocarbon fields with priorities being given to shared fields through designing novel contractual patterns, including partnership with the domestic and foreign contractors without conveyance of proprietary rights in regard of the extant oil and gas fields and in strict adherence to the protective production regulations.

In fact, one of the most important parts of the law on the Ministry of Petroleum's duties and jurisdictions is the recent part (D) of the Article (3) that is devoted to the novel contractual patterns including partnership with domestic and foreign investors. The paragraph can bring about a fundamental change in the realm of oil and gas upstream sector regulations post Iran's Islamic Revolution; before the revolution, the law on exploration, discovery and extraction of oil, passed in 1957, allowed signing partnership and non-partnership contracts including service contracts and/or any other contractual format such as contracted work agreements in a general sense. 1974 oil law only permitted contracted work agreements. Partnership contracts were again rendered permissible after years in the law on the Ministry of Petroleum's responsibilities and jurisdictions.

Iran's Petroleum Contracts (IPC):

In 2013, revising Iran's petroleum contracts was again placed in the Ministry of Petroleum and Natural Gas's agenda. This measure was taken to make up for the shortcomings of the buy-back contracts and creation of fascination in oil contracts.

⁵ Front-End Engineering Design

The most important distinctive feature of these contracts as compared to the buy-back contracts was the presence of the contractor in all of the phases, including exploration, development and production, as well as the lengthening of the contract term. This latter issue can cause an increase in the contractor's motivation to maximize the cumulative production of the field and elevate the protective production. The oil contract term in Iran's oil contracts is in a range from 20 to 25 years.

In such a type of contracts, the oil expenditures charged on the foreign company are divided to direct capital cost (DCC), indirect capital cost (ICC) and cost of money. Direct capital costs include the costs and expenditures that are spent and necessary for the evaluation of the field as well as for accomplishing the development plan objectives and an array of the other operational goals.

Cost of money is calculated on a monthly basis beginning on the first day of the month after which certain charges are incurred on the noncapital costs and exploitation costs as well as on any delay in installments payment. The calculation rate of such costs is based on Libor's interest rate plus one percent (Islamic Consultative Assembly Research Center, 2016: 16-17).

The contractor is responsible for funding the projects based on such types of contracts. Regarding the retrieval method and the contractor's rights in such contracts, it is anticipated that these demands should be depreciated from the field earnings and in the format of cost petroleum⁶. It is worth mentioning that the cost petroleum should not exceed 50% of the field earnings or productions.

The first IPC contract was signed between Iran's National Oil Company and a consortium led by Total France Company in July, 2016.

CONCLUSION AND SUMMARY

As it was stated, the development of oil activities was initiated by concessionary contracts in Iran. Supplying the financial resources was the duty of the concessioner in these contracts. Then the time came for the partnership contracts. The foreign party was responsible for financing the oil projects as ruled by these contracts. In such contracts, in case that Iran's National Oil Company decided to take part in funding the contract costs, it was the duty of the foreign company to provide it either through its own internal resources or via borrowing bank loans and then consider it as the Iran's National Oil Company's quotient of the field development expenditures. These costs were to be compensated after the field was developed and by the oil productions and then the foreign company received it in its principal plus a certain amount of interest.

In the service contracts signed between Iran's National Oil Company and the foreign companies, it was the absolute duty of the foreign company to finance the projects. This same trend was also followed in buy-back contracts with foreign companies. In between, a number of contracts for the development of oil or gas fields were signed by the Iranian

companies in the majority of which financial resources were acquired from inside Iran's National Oil Company. Recently, according to the shortages of available financial resources, Iran's National Oil Company has issued debt securities, including forward securities and government bonds, to fund the specified oil projects. This is reflective of a move by Iran's National Oil Company from corporate financial funding towards project financial funding, although such a move is still devoid of project financial funding features and the oil field development plans are largely carried out via them being financed from the internal resources of Iran's National Oil Company's.

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and development and exploitation wages granted by the field exploration, development and production operator.

⁶ By cost petroleum part of the production is intended that should be allocated to the retrieval of oil costs including commitment and payment costs of exploration, development, production, cost of money

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