

IRAN OIL AND GAS UPDATE

NEW IRANIAN IPCs TO UNDERGO FURTHER AMENDMENTS

Introduction

On 3 August 2016, the Iranian Minister's Cabinet approved an amended draft of the Iran Petroleum Contract (IPC) and sent it to parliament for approval. However, on 16 August 2016, the oil minister announced (following a meeting with the speaker of Parliament) that the contracts would need further amendments in light of comments from lawmakers and other advisory bodies, and would not at this stage be sent to the parliamentary assembly for final approval.

Amended IPC

It is intended that the amended IPC will replace the buy-back system historically used by Iran, although under the present Resolution, that will continue to exist to a limited extent. The Minister's Cabinet Resolution provided for the general terms, structure and model of upstream oil and gas contracts.

Key points to be drawn from the Minister's Cabinet, noting that certain elements may be changed, include:

- The Resolution provides for three types of contract: exploration contracts, development contracts and enhanced or improved oil recovery contracts (Article 2).
- Enforcement of the right of sovereignty and public ownership of all oil and gas reserves will be through the Ministry of Petroleum (Article 3).
- There will be no guarantee by the government and Central Bank of Islamic Republic of Iran and state banks for commitments made under these contracts (Article 3).
- Risks under the contract, including those relating to the making of a discovery or failure to discover an economically viable field, or achieve planned production goals, are allocated to the counterparty (Article 3).
- Agreed remuneration shall be proportionate taking into account the condition of each project and expected logical rate of return on capital investment, compensation for risks, and incentivisation of the counterparty to the contract to deploy efficient methods and modern and advanced technologies in exploration, development and exploitation (Article 3).
- In every contract, Iranian Exploration and Production companies (whose credentials have been approved by NIOC in accordance with the terms and principles stipulated by the Ministry of Petroleum) shall participate as the partner of the competent foreign company/companies (Article 4).
- Specific provisions are set out for the invitation of proposals to develop sites (Article 6).
- As to duration, the Ministry of Petroleum is permitted to specify the duration of contracts for execution of projects, up to a maximum of 20 years (with a possible five year extension for enhanced or improved oil recovery projects depending on the circumstances) (Article 7).

- Detailed provisions are included as to the expenditure, payment of costs and repayment (Articles 8-10).
- Oil, gas and condensate and all the other products discovered in the reservoir subject to the contract wholly belong to the Islamic Republic of Iran; the oil, gas or condensate and all the byproducts of the production wholly belong to the employer/client (Article 11).
- NIOC is authorised to sign buyback contracts for the development of located and undeveloped field or reservoir, if necessary, after obtaining permission (on a case by case basis) from the Ministry of Petroleum (Article 12).

ISRAELI OIL COMPANY ORDERED TO PAY \$1.1 BILLION COMPENSATION TO IRAN

Introduction

An Israeli oil company, the Eilat Ashkelon Pipeline Company, has been ordered to pay \$1.1 billion in compensation to Iran by a Swiss court in respect of a historic partnership between Iran and Israel.

Background

The ruling relates to a partnership between Iran and Israel consisting of the Eilat-Ashkelon pipeline (which streamed oil from the Red Sea to the Mediterranean) and Trans-Asiatic Oil Limited which operated a fleet of tankers and marketing to sell Iranian oil. The pipeline was built by the Israeli company Eilat-Ashkelon Pipeline Co (“EAPC”) in 1968 when Israel and Iran were on friendly terms. EAPC pumped oil transported oil through the pipeline until the 1979 Islamic revolution, at which time EAPC was nationalised.

Subsequently, Iran sought compensation from both Trans-Asiatic Oil Limited and the Eilat-Ashkelon Company, initially through the French courts and later the Swiss court in respect of both oil supplied to Israel on credit prior to 1979 and Iran’s half of the partnership, estimated at US\$7 billion.

Recent Decisions

In September 2015, Iran was awarded over US\$1.2 billion (plus interest) when Trans-Asiatic Oil was ordered to pay for deliveries of oil made prior to the Iranian revolution. A counterclaim by Israel that Iran had failed to supply oil through to 2017 in line with the terms of the partnership was rejected. Israel refused to pay on the grounds that it contravened the Trading with the Enemy Act. An appeal against this decision was rejected by the Swiss Supreme Court in June 2016.

On 27 June 2016, the Swiss Federal Tribunal (the Supreme Court of Switzerland) ordered that EAPC pay US\$1.1 billion in respect of Iran’s share of the revenues from the partnership, along with legal costs and interest of \$460,000. A fully copy of the judgment (in French) can be found on the Federal Tribunal’s website [here](#).

7th September 2016