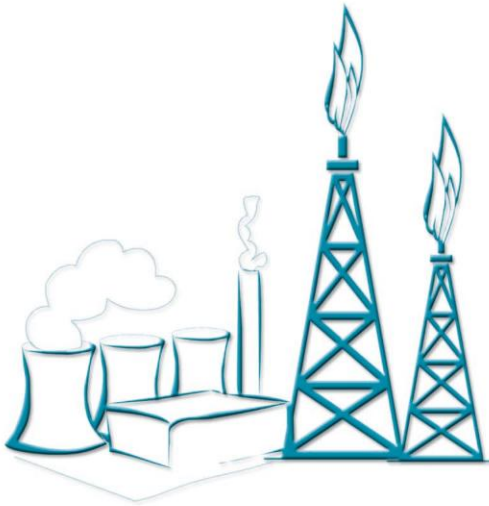




## Past Experience a Key to New Opportunities for Investment in Oil & Gas Sector of Iran



Investment in Iran Is Investment at Home  
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## An Introduction to Oil & Gas Sector of Iran

The second largest holder of petroleum reservoirs in the world, Iran has always been an attractive option for investment by international oil companies. This is mainly due to the low-risk low-cost nature of extracting oil in this part of the Middle East. The country has experimented with all different contract types since the discovery of oil on its ground in 1907. These trials reflect the many changes that have occurred in the political scene of the country. Darcy concession, which led to the discovery of oil in Iran, is a classic example of an old generation concession. The concession, however, did not survive its full term and was terminated in the midst of political turmoil giving rise to the oft-cited ICJ Anglo-Iranian oil company. Prior to the Islamic revolution of 1979, production sharing contracts and joint ventures were also tested. The Iranian petroleum law of 1987, which has very recently been amended, vests the ownership of oil in the government. This along with the socialist post-revolution atmosphere drove the country to opt for service contracts allowing only for limited amounts of foreign investments. After the end of war with Iraq, more pragmatism crept into the political milieu.



of Iran. Subsequently, the ban on foreign investment was lifted and Iran developed its own unique version of service contracts, named the Iranian Buy-Back, which aims to attract investment.

The Iranian Buy-Back has received mixed reviews. In response to criticism and in an attempt to maximize foreign investment, this contract model has undergone changes yielding three different generations of Buy-Back.

Due to the heavy sanctions imposed on the Iranian economy, the last few years have not been particularly promising. Yet, the advent of a new government that demands a greater degree of interaction with the world represents an opportunity for petroleum investors. One of the first attempts of the new administration was forming a committee of experts to refine Buy-Back agreements. Therefore, the country is now planning to introduce a new model of petroleum contracts with a higher degree of flexibility. This model makes a distinction between different oil reservoirs according to

their attractiveness and seeks a win-win result in all cases. Based on this model, more attractive contracts are offered for developing smaller reservoirs. Another interesting feature is that this model creates incentive for investors by rewarding them for an increase in oil production. In addition, in case of commercial discoveries by oil companies, they will be put in charge of developing the reservoirs.

