

# ARE ATTRACTIVENESS OF FISCAL TERM CAN SURMOUNT POLITICAL RISKS IN HYDROCARBON FIELDS DEVELOPMENT? EVIDENCE FROM IPC CONTRACT WITH TOTAL IN IRAN

Hamed sahebbonar, Ph.D Student of Oil & Gas Economic, Faculty of Economics, Ferdowsi University of Mashhad,  
+98 935 532 3661, h.sahebbonar@gmail.com

Zahra Roohi, Ph.D Student of Energy Economic, Faculty of Economics, Allameh Tabataba'i University, +98 913  
264 5035, z.roohi@chmail.ir

Roholla mahdavi, Ph.D Student of Oil & Gas Economic, Faculty of Economics, Allameh Tabataba'i University, +98  
911 922 3557, E-mail: R\_mahdavi\_ir@yahoo.com

## Overview

Despite of a lot of attractiveness in the fiscal term of IPC (Iran Petroleum Contract), signed between NIOC (National Iranian Oil Company) and a consortium with the leadership of Total for developing phase 11 of Iran giant South Pars field last year, this company announced recently that due to US decision to withdraw from JCPOA and to reimpose sanctions against Iran, Total will not be in a position to continue the SP11 project and will have to unwind all related operations before 4 November 2018 unless Total is granted a specific project waiver by the US authorities with the support of the French and European authorities. In this paper, with simulating the fiscal term of the contract and showing the amount of attractiveness of it, we conclude that the idea about using mega projects as a shield against international sanctions is false. Indeed, major IOCs (International Oil Companies) never accept the risks of reluctant political pressures, no matter how much the fiscal regime is attractive.

## Methods

This paper adopts the scenario approach to simulate and evaluate the fiscal term of the contract. The scenario approach is frequently employed to compare the performance of real-world tax regimes. Much of this research has appeared in the form of business consulting reports. For example, Johnston (2003) and Van Meurs (1988 and 2012) each score a large set of international tax regimes according to performance measures calculated using the scenario approach (Smith, 2013). so the fiscal term of the IPC has been modeled in the Excel software and using visual basic for applications (VBA), we compute different sensitivity analysis in order to address fiscal term's parameters effects on the main contract variables.

## Results

The results of this paper shows that there is a huge amount of ambiguity in the contract, regarding main issues like as:

- The gas pricing mechanism which set the rich gas price artificially high and, as a result, computing the government take artificially high
- the recovery limit (50% of revenue) will not restrict the repayment in practice, because of artificially high price of gas, and as a result as it can be seen in the below table, the break-even prices are out of the range

of the price (below 7 cents per cbm which is the floor price of the gas in the contract) and the contractor will not encounter to any carry forward

- The lack of revenue in dollar currency for contractor repayment, because of selling the gas produced domestically, which tend to problems particularly in low oil (and condensate) price

*Table 1- break-even points*

	NPV>0	Unpaid = 0	Unpaid@Yr 20 <sup>1</sup> = 0
<b>Average Gas price (cents per cbm)</b>	2.59	1.20	4.60
<b>Base Fee (cents per Mscf)</b>	20.51	0	0
<b>Capex increase</b>	-	-	481.5%
<b>Other costs increase</b>	273%	3047.6%	1031.6%

## Conclusions

According to the results the fiscal term of the contract has been set with the aim of providing as attractiveness as possible for the contractor. nevertheless, Total, the leader of the contractor consortium, announced recently its intend to pull out the country, because of political pressures and US withdrawing from JCPOA. Hence we can conclude that the idea about using mega projects and major companies as a shield against international sanctions is false. Indeed, major IOCs (International Oil Companies) never accept the risks of reluctant political pressures, no matter how much the fiscal regime is attractive. Whether this attractiveness will be remained in the case of CNPC as the succeder of the Total will be known by the time.

## References

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<sup>1</sup> - means Unpaid amount in year 20 (last year of the contract) which will not be paid to the contractor if the contract term will not be extended.