
Iran and it’s move towards globalization

- Iran is going to have to get quite a bit of foreign investment if they want to achieve their goal of doubling their output
  - Decade and a half – need to bring in $150 Billion dollars to meet their stated goals
- Oil industry was nationalized in the 1950s
- Islamic Republic constitution says that oil company cannot grant concessions
  - Instead it can do these things called “Buy-backs”
    - International oil companies hate this system
      - Contracts are of relatively short duration
        - ~5-7 years
        - skews operational decision-making
      - Rate of return is relatively low
      - Because it is structured as a service contract, the foreign investor in most 3rd party systems cannot use the oil as booked reserves
    - There are foreign investors that have done this buy-back system
      - The region is of a very high strategic significance
      - None are American companies
        - Clinton banned US companies
        - US policy deters lots of other international companies from investing as well

What if there was a US-Iranian breakthrough?

- US companies would be all over Iran if they had the chance (US sanctions lifted)
If not...

- Two options
  - No war
    - Unproductive diplomatic interaction that will last years
    - Chinese, French, Indonesian need to figure out how to get into Iran successfully
    - Iran will have to figure out how to modify buy-back system
  - US and Iran go to war
    - This would really stimulate the Iranians to make some aggressive revisions to the buy-back system

The biggest question marks about future production in the Middle East are fundamentally political.

Iraq

- Relatively low production rates given the resource base
- Lousy security system
  - No one can keep people on the ground in the oil fields in the south
Can keep people in the north
• Lot of political uncertainty for the terms for investing
• Kurds have been really trying hard to find investors
• Kurdish regional government has hydrocarbons
• Estimate from Leverett that there will be a national hydrocarbon law in Iraq in the next few months
• There will probably be several oil sectors in Iraq
  o North with the Kurds
  o South where all the big fields are will have a Shi’a dominated regional government controlling the deals for those oil fields
  o You will have a tremendous amount of uncertainty for the next several years

If you look over the next two to three years there is enough reserve and investment in OPEC that non-OPEC production in the aggregate will probably grow at a nice rate
• After about 2011, that won't hold up
• Beyond that (5-10 years) you really start to wonder if you will be headed towards a real supply crunch