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# Oil Contractions in Iran and the World

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## ABSTRACT

It was in 1872 A.D that Mirza Hussein Khan gave a score to Baron Julius Reuters. According to that score, Reuters got a right to export mines of coal, iron, copper and petroleum; and in return, Iran government could get 15% pure resource of them. That right was presented to England and so, Russia and rather Europe had benefits of it. Later as a result of Russia government against ideas, an English company started to trade in Bushehr and got a score to export oil of wells in Dalaki, but they canceled the score because it was not useful. In 1889, Reuters could get a score of King Bank from King Nasereddin that as a result, the bank was allowed to mining there. In fact in last ages of king in Iran, oil scores about oil wells were out of our country. Fortunately, nowadays we have independence about mining and oil will digging. Iran presents to people, peace, freedom and independence of other countries and governances.

**Key words:** Iran, Oil, Dependence.

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## INTRODUCTION

The 1979 Islamic revolution changed Iran's modern political and economic history. Ayatollah Ruhollah Khomeini and his supporters transformed Iran into an Islamic state with a public sector-dominated economy. Iran's economy subsequently was dealt a hard blow by the protracted, eight-year Iran-Iraq war (1980-1988). In the post-war era, Iran has strive to rebuild war-torn local production, attract international investment, enhance foreign relations, liberalize trade, and, more recently, redistribute wealth under a series of a five-year economic plans. Iran is the second largest oil producer in the Organization of the Petroleum Exporting Countries (OPEC) and its oil and gas reserves rank among the world's largest. Iran's economy is largely dependent on oil and is highly susceptible to oil price shocks. The 1973 oil price bust sent the economy spiraling into crisis, while recent oil price surges have increased Iran's export revenue and reserves. Since the 1979 U.S. embassy hostage crisis in Tehran, Iran has been subject to various U.S. economic sanctions. Such actions have been motivated over time by concerns regarding Iran's nuclear program and support for terrorist organizations. More recently, the United States increasingly has focused on targeted financial measures to isolate Iran from the U.S. financial and commercial system. Sanctions have been imposed in order to change the Iranian government's policies with respect to its nuclear program and support to terrorist organizations. To that end, the United States has imposed sanctions to curtail the development of Iran's petroleum sector and constrain Iran's financial resources in a way that motivates policy change in Iran. The United States also has applied diplomatic pressure on foreign countries and companies to limit business with Iran.<sup>2</sup> In

addition to the United States, some European Union states and other countries also have imposed sanctions on Iran in line with the U.N. moves.

The United States also has pushed for stronger international sanctions against Iran in the United Nations. Most recently, in March 2008, the United Nations Security Council passed a third round of sanctions against Iran through Resolution 1803, calling for the inspection of suspicious international shipping to and from Iran that are suspected of carrying prohibited goods. It encourages greater monitoring of named Iranian financial institutions, travel bans for named Iranians, and freezes additional assets related to Iran's nuclear program. Iran has opposed U.S. and United Nations sanctions vehemently. It has long maintained that the purpose of its uranium enrichment program is to produce fuel for nuclear power reactors, rather than fissile material for nuclear weapons. The government asserts its right to develop nuclear energy for peaceful purposes. Iran increasingly has questioned the justification of the sanctions in light of some recent positive reports on its nuclear activities. A November 2007 U.S. National Intelligence Estimate (NIE) assesses that Iran stopped its nuclear activities for weapons proliferation in 2003. Iran and the IAEA agreed in August on a work program that would clarify the outstanding questions regarding Tehran's nuclear program. Iran has clarified some questions, but a May 2008 IAEA report raised major new questions about Iran's nuclear intentions.

#### **A VIEW OF IRAN'S ECONOMY**

Macroeconomic indicators for Iran provide a mixed picture of the country's economic situation. While the Iranian government asserts that its economy is performing robustly, there are elements of Iranian society that express concern about economic conditions. Some analysts raise questions about the economy's long-term viability and contend that currently rising international oil prices mask vulnerabilities in the economy. The following section discusses certain macroeconomic indicators of Iran's economy.

#### **NATIONALISING OIL INDUSTRY IN IRAN**

This event was very important and affected on the oil industry in our country. Dr Mosaddeq had an applied important role happening the phenomenon. Iran Oil Industry nationalizing took place in 1950 and after it, USA oil companies announced that if Iran sets the oil mining for overseas contraction, they would attend in contracting trades. Teggas, Sokony Vacuum, Svavil and Aramco company's gave 60, 65, 70 and 72 percentages benefits to Iran. USA changes their idea and satisfactory rather than the event.

#### **OIL CONTRACTS**

The validity of the contract was not contested; the dispute between the parties concerned the interpretation and performance of the contract. The arbitrator was satisfied that the plaintiff had fulfilled its obligations under the contract regarding the prospecting works at least until February 1960. He also found that the defendant deliberately refused to carry out certain of its obligations and that this failure was a breach of contract. He further noted that the rule *pacta sunt servanda* was the basis of every contractual relationship. The arbitrator also observed that there was a general rule of private law that said the failure of one party to a synallagmatic contract to perform its obligations releases the other party from its obligations and gives rise to a right to pecuniary compensation in the form of damages. He further noted that this rule could not be set aside even in the case where the contract contained elements which had their origin in administrative law, such as the present case which concerned a

territorial concession: Rules of public law, which might possibly differ from civil law, could only be taken into consideration if the Iranian State had relied upon its sovereign rights and had taken steps of a public law nature likely to endanger the performance of the contract.

**An uneasy balance characterised oil markets in January, with tensions**

**surrounding Iran counteracting a weaker economic outlook.** The onset of winter weather pushed prices for Brent to six-month highs in early February. Brent was last trading at \$117.50/bbl. By contrast, rising stocks at the Cushing storage depot pressured WTI prices lower in early February, to \$99.50/bbl.

**Global oil demand is forecast to climb to 89.9 mb/d in 2012, a gain of**

**0.8 mb/d (or 0.9%) on the year.** Growth has been curtailed by 0.3 mb/d versus January's OMR, as the economic growth rate that underpins the global oil demand outlook has been reduced to 3.3% from 4.0% previously.

• **Non-OPEC supply fell by 0.2 mb/d to 53.2 mb/d in January**, on lower global biofuels output, an escalation of conflict in Syria and between Sudan and South Sudan, and continuing outages in the North Sea. North American light tight oil production and NGLs, as well as increasing production in Latin America, offset declines elsewhere, supporting an expected 0.9 mb/d rebound in non-OPEC supply in 2012.

**OPEC crude oil supply in January rose to 30.9 mb/d, the highest level**

**since October 2008**, on a steady ramp-up in Libyan production and sustained output from Saudi Arabia and the UAE. The 'call on OPEC crude and stock change' is cut by 100 kb/d for 2012, to 29.9 mb/d. OPEC's 'effective' spare capacity is largely unchanged, at 2.82 mb/d.

• **Global refinery crude throughput estimates for 1Q12 are largely unchanged**

from last month's report, as slightly higher OECD runs are offset by a weaker outlook for Latin America, following further capacity rationalisation. At 74.9 mb/d, global 1Q12 runs are forecast 220 kb/d above year-ago levels and unchanged from the previous quarter.

**December OECD industry oil stocks declined by 40.8 mb to 2 611 mb,**

and remained below the five-year average for a sixth consecutive month. Forward demand cover fell by 0.7 days to 57.2 days, but remains 1.6 days above the five-year average. January preliminary data show a shallower-than-normal 11.4 mb build in OECD industry stocks.

**Russia—January actual:** Recent data for January show oil production increased by 50 kb/d to 10.7 mb/d, of which 9.9 mb/d was crude oil. On an annual basis, January's figure stood around 1.5% above January 2011 levels. Almost all of the monthly gain came from a near 40-kb/d increase in Gazprom condensate output. In January, Rosneft's Vankor field increased production by 15 kb/d to average 330 kb/d, raising the company's output to 2.6 mb/d. We expect production from this new field to continue increasing during 2012 to over 400 kb/d. Gazprom is set to inaugurate a new gas and gas condensate processing facility at the Zapolyarnoye field, allowing the company to process an additional 75 kb/d of condensate and keeping annual Russian liquids output growth near 1.2%. 1Q12 expectations in Russia are tempered slightly from last month's outlook given the severity of the winter, which we expect could cut power supplies to remote oil-producing areas as it did in 2006.

**FSU NET OIL EXPORTS**

stood at 8.8 mb/d in December, their lowest level since 4Q08 and a fall of 320 kb/d compared to a month earlier. Crude shipments plummeted by 270 kb/d to 6.4 mb/d as seaborne cargoes dispatched via Black Sea and Baltic ports fell by a combined 400 kb/d. Consequently, Transneft volumes fell by 260 kb/d to 4.2 mb/d [6]. In the Black Sea, volumes of Azerbaijani and Kazakhstani crudes sent via Novorossiysk contracted by a combined 100 kb/d, while cargoes of Siberian Light shipped via Tuapse declined by another 80 kb/d. In the Baltic,

Gdansk's brief resurgence ended as loadings dried up, and Primorsk exports declined by 70 kb/d. In the East, loadings of ESPO from Kozmino rebounded by 60 kb/d to 330 kb/d, and shipments of Vityaz and Sokol crudes from Sakhalin island remained low at below 250 kb/d. Outside Transneft's system, flows through the CPC and BTC pipelines were lower-than-normal at 620 kb/d and 640 kb/d, respectively. Product exports inched down by 30 kb/d after declines in fuel oil (-70 kb/d m-o-m) and gasoil (-20 kb/d m-o-m) while 'other products' (here including naphtha and gasoline) deliveries rose by 60 kb/d, despite the continued 90% Russian excise duty on light products.

Complete 2011 data indicate that FSU net exports contracted by a significant 350 kb/d compared to 2010 [5]. Crude shipments fell by 260 kb/d after lower Kazakhstani and Azerbaijani supplies offset increased Russian volumes. Flows through the Transneft network increased by 180 kb/d to 4.2 mb/d, largely as a result of the start up the ESPO pipeline spur to China which replaced railed deliveries. Loadings at Lukoil's Varandey terminal fell to 90 kb/d due to a precipitous decline at Lukoil's Yuzhno Khylychuyuskoye field, whilst exports from Sakhalin I and II remained stable at a combined 280 kb/d. The introduction of the 60:66 tax regime in Russia curbed product exports in 2011.

### THE EARLY ERA

The United States has always been the world's biggest consumer of oil, and remained the world's biggest producer of petroleum until 1974 when it was surpassed by the Soviet Union. In the initial postwar era, prices throughout the world were quoted relative to that for oil in the Gulf of Mexico, making the Texas Railroad Commission a key player in the world oil market [4].

Although state regulation surely increased the quantity of oil that would ultimately be recovered from U.S. fields, it also had important consequences for the behavior of prices. The production allowables set by the Texas Railroad Commission came to be based on an assessment of current market demand rather than pure considerations of conservation. Each month, the TRC would forecast product demand at the current price and set allowable production levels consistent with this demand. The result was that discounts or premiums were rarely allowed to continue long enough to lead to a change in posted prices, and the nominal price of oil was usually constant from one month to the next. On the other hand, the commissions would often take advantage of external supply disruptions to produce occasional abrupt changes in oil prices in the early postwar era (see Figure 5). The nominal price of oil in the era of the Texas Railroad Commission thus turned out to be a fairly unique time series, changing only in response to specific identifiable events.

*1947-1948: Postwar dislocations.* The end of World War II marked a sharp acceleration in the transition to the automotive era. U.S. demand for petroleum products increased 12% between 1945 and 1947 (Williamson, et. al., 1963, p. 805) and U.S. motor vehicle registrations increased by 22% (see Figure 3). The price of crude oil increased 80% over these two years, but this proved insufficient to prevent spot accounts of shortages. Standard Oil of Indiana and Phillips Petroleum Company announced plans in June of 1947 to ration gasoline allocations to dealers,<sup>5</sup> and in the fall there were reports of shortages in Michigan, Ohio, New Jersey, and Alabama.<sup>6</sup> Fuel oil shortages resulted in 4 This and the following discussion draws heavily from Hamilton. *Supply disruptions and the Korean conflict.* The price of oil was frozen during the Korean War as a result of an order from the Office of Price Stabilization in effect from January 25, 1950 to February 13, 1953.<sup>8</sup> Prime Minister Mohammad Mossadegh nationalized Iran's oil industry in the summer of 1951, and a world boycott of Iran in response removed 19 million barrels of monthly Iranian production from

world markets.<sup>9</sup> A separate strike by U.S. oil refinery workers on April 30, 1952 shut down a third of the nation's refineries.<sup>10</sup> In response, the United States and British governments each ordered a 30% cut in delivery of fuel for civilian flights, while Canada suspended all private flying.<sup>11</sup> Kansas City and Toledo instituted voluntary plans to ration gasoline for automobiles, while Chicago halted operations of 300 municipal buses.<sup>12</sup> When the price controls were lifted in June of 1953, the posted price of West Texas Intermediate increased 10%. The second postwar recession is dated as beginning the following month. *1956-1957: Suez Crisis*. Egyptian President Nasser nationalized the Suez Canal in July of 1956.

### **IRANIAN OIL COMPANY**

After the victory of the Islamic Revolution of Iran, all partnership contracts with a forementioned companies were abolished at the decree of the Supreme Council of the Islamic Revolution in 1979, and a year later, the Iranian Offshore Oil Company (IOOC) was established by combining those companies [2]. The incidents during the imposed war of Iraq against Iran with considerable damages to the offshore and onshore facilities, aimed to stop our production, placed a great challenge before IOOC to achieve its most important goal which was oil production. Facing this challenge required self-sacrifice and industrious efforts of all the personnel concerned [5]. Today conspicuous record of the company despite all ups and downs, is the best evidence for this accomplishment. Although ISA is widely understood to apply to firms around the world that reach an investment agreement with Iran, the provisions could also be applied to Iranian firms and entities subordinate to the National Iranian Oil Company (NIOC), which is supervised by the Oil Ministry. The firm that was sanctioned, Naftiran Intertrade Company (NICO), is one such entity; it is a subsidiary of NIOC. However, such entities, including Naftiran, do not do business in the United States and would not likely be harmed by any of the penalties that could be imposed under ISA. Some of the other major components of NIOC are:

- The Iranian Offshore Oil Company;
- The National Iranian Gas Export Co.;
- National Iranian Tanker Company; and
- Petroleum Engineering and Development Co.

Actual construction and work is largely done through a series of contractors. Some of them, such as Khatam ol-Anbia and Oriental Kish, have been identified by the U.S. government as controlled by Iran's Islamic Revolutionary Guard Corps (IRGC) and have been sanctioned under various executive orders, discussed below [7]. The relationship of other Iranian contractors to the Guard, if any, is unclear. Some of the Iranian contractor firms include Pasargad Oil Co, Zagros Petrochem. Co, Sazeh Consultants, Qeshm Energy, Sadid Industrial Group, and others. Some believe the August 2011 confirmation of Khatam ol-Anbia's chief, Rostam Ghasemi, as Oil Minister, will, over time, bolster the role of the IRGC in Iran's oil sector. Ghasemi has also taken over the chair of the Organization of Petroleum Exporting Countries (OPEC) because it is Iran's turn to hold that rotating post. Ghasemi has been subjected to asset freezes by the United States and an asset freeze and travel ban by the European Union. However, under an agreement between OPEC and Austria, Ghasemi would be allowed to travel to Vienna (OPEC's headquarters) to attend OPEC meetings and perform his duties as rotating head of the organization.

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