companies have concluded contracts with us such as Total, Elf, Petronas, Gazprom, Bow Valley. Tens of others are now competing for some forty investment opportunities.

This shows the world does not condone sanctions. The U.S. is isolated. The American oil firms are the only ones to lose the most from this policy, for they would be left out of the competition.

Iran's attractive oil and gas investment opportunities are luring oil companies. This indicates mostly our willingness for sustainable partnerships based on mutual respects in the global oil and gas arena. Iran is determined to play its constructive role in its economic development, the future of the international community and meeting its rising energy needs.

Iran aims for equal, costructive ties with reputable oil firms within the frame-work of contracts, acceptable to both sides.

Mr. Chariman, Ladies and Gentlemen:

In conclusion, I would like to point out that competion and synergy reinforce each other. Coorperation in our world which is fraught with contention is practical. Hence my support for bodies like OPEC. Member states' collaboration has led to correcting abnormal market situations, the most recent of which was in 1998. We have now been witness to multilateral efforts in OPEC to recover market stability.

OPEC should not be regarded in negative lights.

This view has been promoted in the past two decades while it has been proven that OPEC has contributed positively to correcting imbalances in the oil shocks. It has exhibited constructive effects in the world energy economy.

Thank you for your patience.

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Persian Gulf Gas Resources Conference 7th-8th November, 1999, Tehran-Iran

THE ROLE OF IRAN IN NATURAL GAS TRADE IN THE REGION

Mehdi Rafsanjani

In the name of God

Ladies and Gentlemen:

It is a great pleasure for me be among distinguished guests. in this lecture, I intend to demonstrate the role of Iran, as a very important country, at the beginning of the third millennium for the development of Natural Gas Project in the region.

We are now entering a century, called by many energy experts, as the century of Natural Gas, an important and clean energy.

The special situation of Iran, especially in view of probable and proven reserves of natural gas, is in itself a cause to play important role in this century and I have in mind to explain this in the following chapters:

1. Comparison between Iran and the world natural gas reserves.
2. Natural Gas Domestic Policy
3. Natural Gas International Policy
4. Natural Gas Production Policy

1- Comparsion between Iran and the world Natural Gas Reserves

Iran, having more than 800 TCF reserves of natural gas of the world, is the world's secong largest country in gas reserves after the Russian Federate Republic. This fact has created a strong and powerful situation in view of a safe and secure supply of natural gas in the region Iranian share of the proven reserves of natural gas in the Middle East is 58% (fifty eight percent) followed by Qatar, Abu Dhabi and Saudi Arabia.

2- Natural gas Doméstic Policy

The general goals of the energy sector in the 25-year development plan of the Islamic Republic of Iran include many varieties.

The goal of energy sector, in the first stage, considering the importance of the role of energy as a main infrastructure factor of the country's economy, is to provide the required energy for continuing social economical market today wich has to lead to a change in non-OPEC vision.

Preservation of the environment is one key event in our lives today. We have to safeguard our planet to let our children live in a clean world. Hence we have to pay its price. Prior to Kyoto. we witnessed some heavy tensions between producers and consumers. The developed world has endeavoured to transfer the burden of polluting the climate to the developing world, while the former has been polluting much more than the latter, acquiring more than 4 to 5 times more than the oil producers from taxation on our oil products. Although this trend is still strong but the Kyoto process has defined countries' tasks and roles in improving the environment. It is hoped that these unfair practices are replaced with understanding based on recognition of the rights of all, in the next century.

3- Oil Companies:

Particularly the majors underwent the great changes in recent years. Mergers, in my opinion are aimed at preparing for the new era of ties among industry and market players. Investments in high-cost and marginal fields is bound to be reversed and changed; for low-cost larger fields of the Middle East are being opened up to investors. The Middle East in going to invite the oil companies back to its upstream due to technological and capital requirements.

So these restructurings are designed for preparing the future although its inmediate fruits are cost-cuttings and improved profits. Bigger company sized in these mergers may lead to greater inertia, and less agility.

Producer states are concerned about these developments for they might revisit the past, i.e., the seven sisters. Hence producers are sometimes wary of cooperating with Big Oil. That era has forever left deep scars on the memory and feelings of producers in their relations with oil firms. This mindset if it exists at all in some companies should be jettisoned for it leads to a vicious circle.

I am upbeat on the future. It would be different and based on synergy. The world needs oil, gas and energy. thus has to pay for it. The price should be logical. The parts of this rationale are:

- Meeting sensible producer expectations on a sustainable basis;

- Appropriate revenues commensurate with holders of other goods and services.

- Continued technology transfers to indigenous people in order to elevate them and employ them to attain real self-confidence.

Likewise, we as producers should recoginize investors' and technology owners' logical expectations about our oil industry and must work to meet them.

These expectations' levels are vital. No success is envisaged if technology sales to us are too costly and incommensurate with purchasing our output. Oil companies' attitudes to produces should change from the past. Today some producers are capable of running and developing their oil industry as opposed to the past where they had little contribution in the industry and market. The world of oil and gas is a lethargic, unacceptable one without competition as it is about other spheres of human activity. Competition is a must. Whereas interests clash, competition rises. This is a constructive proccess, even for losers in the lorg-term. I am therefore hopeful that mergers and acquisitions among oil firms would not undermine competition in the industry's future developments. One would hope the newly established giants would not harbor spheres of influence in the world, hence driving smaller independents from the market. The world needs these companies, small and large to interact with each other. Competition is no impediment for synergy. It would expand the fields for companies in producing states. Oil company competition in partnering with producers enhances chances for meeting producers' expectations. This creates firm accepted procedures in future bilateral ties, which is beneficial to both sides.

A return to the past would have its own means. The pricing system cannot remain so. Speculators would have a hard time. The interference of politics in oil has not been limited to producers. In the past decades, some western states' interference in the market raised volatility. Employing sanctions against producers' oil industries such as Iran by the U.S. and its applications to other states i.e., the use of extraterritorial legislation is alarming for the next century. It afflects the global economic interrelationships with dire challenges.

One cannot be sure such events would not affect the established international norms among states and corporation. The world may not be a function of heavy-handed behavior on the part of certain circles. Fortunately we have witnessed positive reaction particularly by the EU. Iran, for its part has meaningfully addressed the issue. We have scaled many contracts with companies worth billions of dollars. Iran was probably the first regional state to have expressed its willingness to cooperate with oil companies in the framework of accepted contracts. This was made possible through a comprehensive understanding of markets, expectations of both sieds, particularly a departure from the past, and starting a new era of synergy based on the new realities of the oil industry and market.

I am pleased to inform you that we recently sealed a contract with Royal Dutch Shell for the redevelopment of Soroosh & Nowrooz crude oil fields located at the Persian Gulf waters. I signed the cotract yesterday. Other

Mr. Chairman, Excellencies, Ladies and Gentlemen:

I would like to express my gratitude for having been invited to this important conference the "International Oil Summit" in Paris. My special thanks go to the organizers of this meeting, particularly Dr.Ait-Laoussine. I wish this summit every success.

We are now spending the last weeks of the twentieth century. Soon we will embark upon a new one. A meaningful goal for all of us may be some hindsight with respect to the last century's experiences in order to plan the future. True, everyone has its own perception of events due to different interests and visions. This holds true for all participants in the international energy arena, i.e., producers, consumers, companies, investors and finally policy makers. Hence different results emerge from this exercise. Of course when there is synergy, divergent interpretations would soon give way to concurrence in views. This is the ideal success one could ever imagine. The oil industry has witnessed great upheavals in the twentieth century. Such as the era of the first industrial development at the dawn of the century, concessions, confronation among producing states and oil companies, emergence of state oil firms, cooperation between the two, the rise of OPEC, IEA, to fulfill certain industry interests, regional conflicts for controlling energy resources, technology-driven restructurings, cost- cutting moves, and others. These bitter sweet events will guide us only to one conclusion, which is: the need to recognize each other's rights, healthy competition, synergy, and paying the price of what we acquire. This upshot is only the theoretical explanation of a must. One cannot claim this to be the common denomination of all oil industry participamts. So let us look deeper at industry interests to identify their commonalities. Producers of oil are divided into OPEC and non-OPEC, or large and small ones. Consumers are also made up of industrial, technologically advanced ones and those which are non-industrial users. Oil traders, state oil firms, governments and policy makers are active here. Each may perform the tasks of others by adding to its interests. For instance an oil company may trade oil even in the future markets or it may explore, and develop oil fields.

Now let us see what the goals of each group and their common points are:

1- Large petroleum producers (mainly OPEC). OPEC and some non-OPEC producers such as Oman, Mexico and Egypt are in this group, The hallmarks of this group are their high oil and gas reserves, large fields with high rates of output, low cost developments, hence they are attractive in terms of low-risk investments. Their economics are mainly dependent on oil revenues. Oil output plays a significant role in their social and political lives. People and policy markers feel strongly about the fate of their oil industry, the global oil market events, therefore politicians and politics interfere in their oil industry development. This is called high political risk in today's industrial world in the eyes of investors and oil companies. These states prefer to pay the price of such risks but remain active at the scenes. Their oil industries are mostly mationalized. They resist the entrance of foreigners through vertical integration.

Oil companies' know-how and capital are needed for those countries' oil industries' optimum development, however, these states have been wary of paying high prices for such facilities.

Those countries believe oil companies regard them as being far from technical and scientific capabilities, i.e., being similar to what they have been in the past.

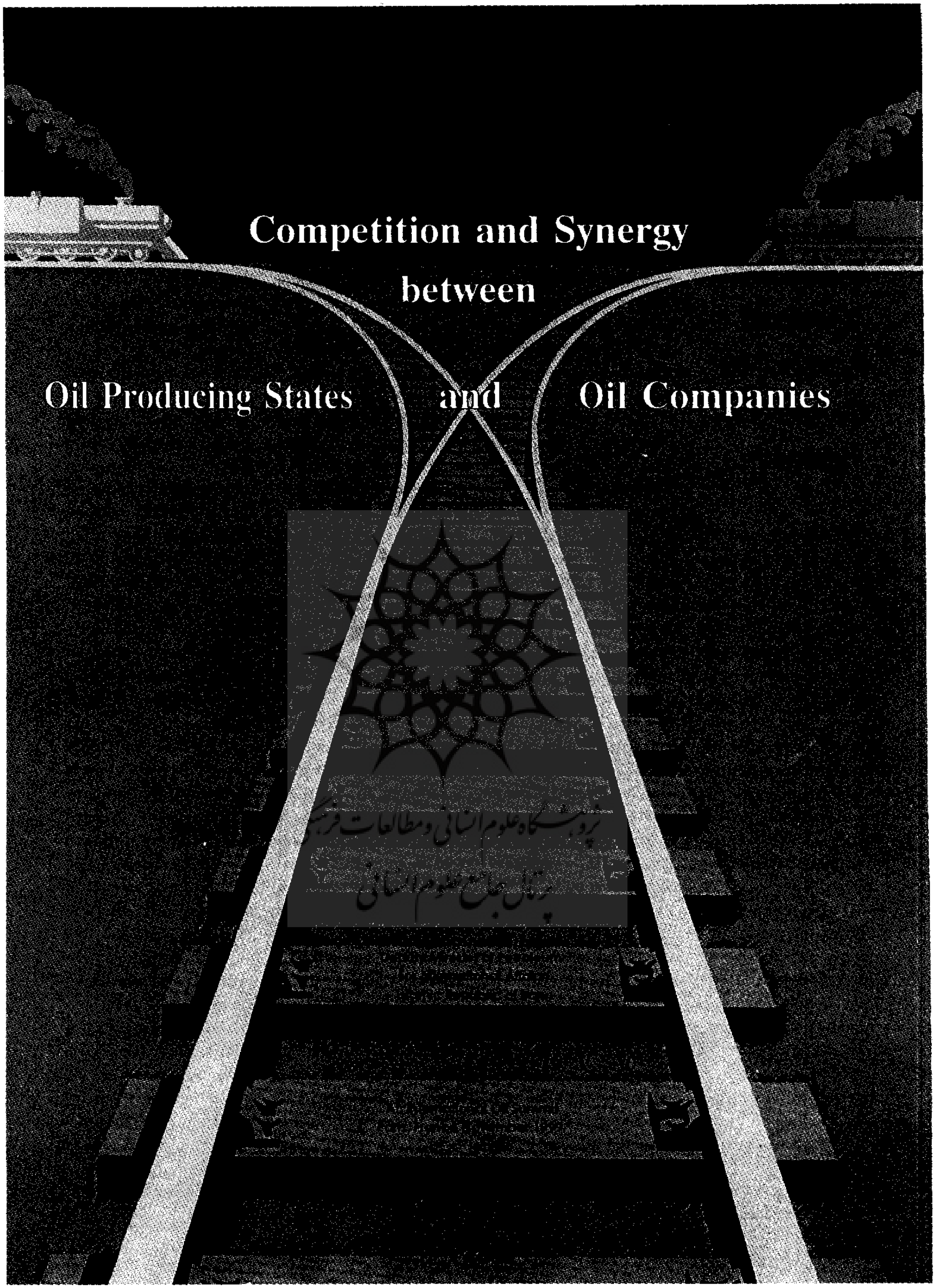
Oil companies' keenness for long-term control of operations and disregard for domestic situations has given fise to serious challenges in ties between the two camps. Sometimes the companies have been expelled from oil states only to return later to open gates. We observe such conservatism on the part of oil producers towards companies in upstream openings displayed in service contracts, buy-backs instead of production sharing agreements.

2- Small producers (NON-OPEC):

Producers such as the UK, Norway, the U.S. and Russia have largely non-state structures. They are perhaps the inevitable result of historical tensions among oil companies and large producers. In other words, companies were content with producing from small marginal high-cost field, after they left the big oil producer states. In some cases they took producing from high-cost remote fields to such extremes one would think they are pursuing adventurous schemes rather than a commercial venture. It is true that this led to great advances in exploration and production. enhanced oil recovery and cost-cutting. This made non-OPEC a great competitor for OPEC. Performing with different structures. For these producers and their revenues have a small role in their economics; hence there is less state intervention. Oil output in these states are outside government domain and under corporate rule.

Non-OPEC producers, whose oil industries are run by private companies have left stabilizing prices to OPEC and turned to flooding the market, since they know OPEC needs oil revenues and thus uses its utmost to regulate the market and prices.

The rise of non-OPEC along with fundamental transformations in oil pricing (shifts from posted prices to spot and futures markets), which were simultaneous events, led to two oil shocks at the expense of OPEC's market shares. Competition over market share is one fragile aspect of the oil


Competition and Synergy
between
Oil Producing States
and
Oil Companies