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Briefing note

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Key comparisons of the new Iran Petroleum Contract and Buy-back

The Iran Petroleum Contract (IPC) has not yet been published. On 3 August 2016, however, the Cabinet of Ministers passed a resolution to approve the terms, structure and model of the IPC. It was stated that the terms announced at a summit held in Tehran on 28 & 29 November 2015 will be included in the IPC.

Below is a summary of: the key terms and challenges of the buy–back contract as previously used; the key terms of the IPC that have been announced; and, the key differences between the two contractual regimes. It will, of course, be critical to assess the extent to which the IPC issued as part of the tender round contains the terms as already announced.

Issue	Buy-back	IPC
Time period	The term of the contract was limited, typically a 2 to 3 year development period, and a 5 to 8 year remuneration period.	Contract term of 4 years for exploration (plus possibility of 2 year extension), 2 years for appraisal, and a maximum of 20 years from the start of development operations (with an opportunity to extend for 5 years for enhanced oil recovery ("**EOR**") operations at the discretion of the National Iranian Oil Company ("**NIOC**")).
	It was not possible for the contractor to extend the term of the contract in order to secure cost recovery.	If the contractor is unable to cover its costs within the contract term NIOC may approve the extension of the term.
Costs - recovery	The contract contained a cap on the capital costs that could be recovered by the contractor, such development costs determined on either the commencement of the contract/within a short time of the commencement, that determination based on an estimate of the development cost of the project.	In contrast to the buy–back contract, recoverable petroleum costs to be based on an annual work programme and budget approved by the contracting parties (with NIOC having the ultimate right of approval).
	The accuracy of that estimate was dependent on the quality of information about reserves and productivity rates as provided by NIOC. Often long–term pre–defined targets were set that did not adequately account for reserve estimates, market conditions, and drilling plans.	It is understood that annual changes to the budget will be permitted, subject to NIOC approval and a 5% cap. It should be noted that any direct or indirect capital costs incurred prior to first production are to be amortised within 5–7 years, and after first production any direct capital costs

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	The cap could only be increased for additional works if approved by NIOC.	incurred will be amortised within 5–7 years from the date of expenditure.
Remuneration	In addition to being reimbursed its agreed development costs, the contractor received a pre–agreed rate of return through NIOC's allocation of production revenue under a long–term export sales agreement. Under such a contractual arrangement Contractor had to bear a high degree of risk with regards to cost overruns and with regards to a delay to production start (such a delay shortening the remuneration period).	Contractor will be reimbursed its petroleum costs, and paid a remuneration fee set as USD per barrel/USD standard cubic foot, linked to production rates and an R factor (i.e. the revenue to costs), and indexed to market prices (subject to a cap on market adjustment). It is not clear how this indexation will work in practice. It is understood that no guarantee will be provided for the payment obligations of NIOC under the IPC.
	Petroleum cost recovery and the remuneration fee were to be paid out of a maximum of 50% of crude oil production / 75% of gas production	It is understood that as before petroleum cost recovery, and the payment of the remuneration fee, are to be paid out of a maximum of 50% of crude oil production/75% of gas production.
Payment in kind and the booking of reserves	Contractor was not entitled to receive its remuneration in kind, i.e. by way of being allocated a proportion of production. Due to the provisions of the buy–back contracts and the Iranian ownership of the hydrocarbons produced, it was not possible for the contractor to book reserves.	Contractor may elect for payment of petroleum costs and remuneration fee through production. It is understood, however, that the Ministry of Petroleum may overrule that selection and require payment in cash. It is unclear whether Contractor will have marketing rights in respect of volumes lifted in kind.
		Production is owned by the State: issues may remain on reserves booking.
Higher risk/ cost fields	No incentives provided.	Incentives to be offered for higher risk fields, and EOR on brownfield projects.
Operational control	Contractor was only permitted to act as operator during the exploration and development phases, handing over operatorship to NIOC for the production phase.	Contractor is required to be a joint venture (incorporated or unincorporated) with an Iranian partner approved by NIOC.
		Contractor to be involved in field operations during production phase. It is understood that contractor will be

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		required to establish a joint operating company in Iran to act as operator for the production phase (with the contractor remaining liable to NIOC for production operations). NIOC will have the right to require the participation in the project of its subsidiaries by way of a joint activity agreement. The subsidiary of NIOC will be required to observe the operational plans of the contractor as originally approved by NIOC.
Production targets	NIOC had the right unilaterally to reduce the remuneration fee if production level fell below that contained in the submitted field development plan.	The field development plan submitted by contractor and approved by NIOC is to contain minimum production targets. The consequences of a failure to meet such production targets have not been stipulated.
Local content requirements	Local content requirement for 51% of the value of the buy-back contract be awarded to Iranian entities.	Local content requirement for 51% of the value of the IPC to be awarded to Iranian entities. Note additional obligation on contractor that executive management positions in contractor/operator be transferred to Iranian nationals, in addition to technology and know-how transfer, and training obligations.
Dispute resolution	Disputes between contractor and NIOC to be resolved by way of escalation with arbitration as the final method.	Disputes between contractor and NIOC to be resolved by way of escalation with arbitration as the final method. The seat of arbitration and rules to be agreed by the parties and approved by the Cabinet of Ministers.
Sanctions and 'snapback'	Not Applicable	It is clear that the 'snapback' of US secondary sanctions will not be recognised as a force majeure event. Furthermore, it is understood that NIOC will not grant any withdrawal right to the contractor in the event of such a snapback.

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