International
Comparative
Legal Guides

Practical cross-border insights into oil and gas regulation

Oil & Gas Regulation 2023

18th Edition

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1 Overview of Natural Gas Sector

1.1 A brief outline of your jurisdiction's natural gas sector, including a general description of: natural gas reserves; natural gas production including the extent to which production is associated or non-associated natural gas; import and export of natural gas, including liquefied natural gas ("LNG") liquefaction and export facilities, and/or receiving and re-gasification facilities ("LNG facilities"); natural gas pipeline transportation and distribution/transmission network; natural gas storage; and commodity sales and trading.

Iran holds the world's second-largest natural gas reserves. The natural resources are estimated at 133 trillion cubic metres (116.5 trillion cubic feet), of which 33% is associated gas and 67% is in non-associated gas fields.

According to the National Iranian Gas Company (NIGC) report, national gas production in Iran increased by 4 billion cubic metres in 2022 at a pace of roughly 840–850 million cubic metres per day.

South Pars is the largest gas field reserve in the world, located in the Iranian waters of the Persian Gulf. Iran shares the field with Qatar, holding approximately 50% of the Iranian domestic gas reserve. It is divided into 24 standard phases of development in the first stage, and most of the phases are fully operational.

Kish is another gas field close to Kish Island, which is under development and is expected to start commercial production in 2023.

Farzad is another offshore gas field in the Fars Province that Iran shared with Saudi Arabia. Iran planned to develop it through an Indian consortium that had discovered the field in 2008 as part of an Exploration Service Contract (ESC). However, negotiations on a Development Service Contract remained inconclusive due to complex terms and international sanctions on Iran. Iran finally decided to develop the field through an Iranian company in 2021.

Another major gas field is the Balal (Belal) gas field, developed at a water depth of 70 m in the Persian Gulf near Iran's maritime border with Qatar. Petropars, a subsidiary of the National Iranian Oil Company (NIOC), has been managing this project's development since 2019.

Forouz B is one of the developed gas fields between Kish, Sirri, and Farour Island, producing natural gas and condensate since 2010.

Iran has two main gas storage facilities and plans to develop 14 more, including the Bidboland Persian Gulf gas refining facility in Mahshahr, Shourije 1 & 2, the natural gas storage facility in the Khorasan Razavi Province, the most extensive gas storage facility in Iran and the Middle East, the Sarajeh underground storage facility near Qom, Gezel Tappeh, and one of the country's most exceptional hydrocarbon fields in terms of temperature and pressure, Nasrabad and Yortsha.

Iran exports natural gas by pipeline to Turkey, Armenia, Azerbaijan, and Iraq, receiving imports from Azerbaijan and Turkmenistan. Iran's natural gas exports to Armenia and Azerbaijan are based on a long-term swap agreement. Russia and Iran are currently negotiating a swap agreement for importing Russian gas to Iran in exchange for Iranian oil.

Iran accounts for 35% of the total active and operational transmission pipeline length in the Middle East from more than 90 pipelines, making the country the leading country in the region.

One critical upcoming transmission project is the Iranian Gas Trunkline-IGAT XI, an onshore gas pipeline that extends from Bushehr to Tehran. The Iran-Oman gas pipeline is also a pipeline project that would run from Iran to Oman.

At the moment, Iran has no functional LNG plant. However, recently, NIGC has invited investors to submit proposals for building small LNG units. Iran has planned four LNG plants targeting European, Indian, and Far Eastern countries and two gas-to-liquid (GTL) facilities.

1.2 To what extent are your jurisdiction's energy requirements met using natural gas (including LNG)?

Most energy in Iran is generated through natural gas. Natural gas accounts for 71% of total energy consumption, followed by crude oil 28% and other sources 1% (hydro, nuclear). The power sector is the largest gas consumer, closely followed by the residential service sector and industry. Iran has the world's most considerable growth rate in natural gas consumption. Over the past decade, Iran's natural gas consumption grew by about 50% due to the following: highly subsidised prices; an extensive new transmission network; domestic production increases; and Government attempts to substitute oil with natural gas in the residential, commercial, and electric power sectors.

1.3 To what extent are your jurisdiction's natural gas requirements met through domestic natural gas production?

Iran cannot meet domestic demand, especially in cold and hot months when energy consumption rises to its highest level. Iran produces only a tiny share of its natural gas reserves due to sanctions and the need for more technology. Iran has been importing natural gas from Turkmenistan, about 23–30 million cubic metres per day (around 5% of the country's consumption).

Further, Iran recently agreed to purchase 9 million cubic metres per day from Russia, which is part of a swap agreement meaning Iran would import gas from Russia and deliver a certain quantity to another country with a gas purchase deal with Russia.

1.4 To what extent is your jurisdiction's natural gas production exported (pipeline or LNG)?

Iran exports natural gas by pipeline to Turkey, Armenia, Azerbaijan, and Iraq. Iran's natural gas export to Armenia and Azerbaijan are based on a long-term swap agreement.

Iran has a 25-year contract to export natural gas to Turkey until 2026. Iran exported 9.3 billion barrels to Turkey in 2022.

Iran has exported 2.3 billion cubic metres/year of natural gas to Armenia since 2009, and exports 10 million cubic metres/day of natural gas to Iraq.

Iran has signed contracts with Oman and Pakistan to export natural gas to both countries through pipelines; however, the contracts have not yet been implemented. Furthermore, Iran is negotiating with Russia to invest in its pipeline and LNG infrastructure. With the investment, Iran is planning to initiate its natural gas export to Oman and Pakistan.

2 Overview of Oil Sector

2.1 Please provide a brief outline of your jurisdiction's oil sector.

Iran has the third-largest oil reserves and is the fifth oil producer in the Organization of the Petroleum Exporting Countries (OPEC). According to NIOC, Iran produced around 2.5 million barrels/day of oil in 2022, which decreased by 200,000 barrels/day from 2021 production. According to the U.S. Energy Information Administration (EIA), Iran accounted for 24% of oil reserves in the Middle East and 12% in the world, and exported around 1.3 million barrels/day of crude oil in 2022. Iran exports more than 50% of its oil to China. In addition to China, Iran exports its petroleum to India and Venezuela.

The two most significant oil fields are the Ahvaz and Gachsaran oil fields. Ahvaz oil field is the largest oil field in Iran, accounting for 23% of Iran's oil reserves, and Gachsaran is the oldest operating conventional oil field. Azadegan oil field in southwestern Iran is another major oil field under development.

Iran has recently signed an agreement with Russia to invest USD 40 billion in the oil sector by 2030, which is a quarter of what is required to develop the oil industry in Iran. Iran also has signed preliminary agreements with China to develop its oil sector.

It is estimated that, if the U.S. lifts the sanctions, Iran's crude oil production could return to its total capacity of 3.7 million barrels/day.

2.2 To what extent are your jurisdiction's energy requirements met using oil?

The share of oil consumption in total final energy demand is 28%, the second-largest after natural gas. Iran's oil consumption is increasing in the post-pandemic era because of increased mobility, improved economics, and higher-vehicle sales that have boosted oil and gas demand. Furthermore, the shortage of natural gas production caused power plants, particularly electricity power and other infrastructure, to use more petroleum energy to compensate for the lack of natural gas for the residential and commercial sectors.

If sanctions are lifted, a reduction in oil consumption and an increase in the export of petroleum and petroleum products will happen.

2.3 To what extent are your jurisdiction's oil requirements met through domestic oil production?

Domestic oil production meets Iran's oil requirement (28% of the entire energy consumption). According to the EIA, as of mid-2022, Iran's total crude oil distillation and condensate splitter capacity was more than 2.4 million barrels/day.

2.4 To what extent is your jurisdiction's oil production exported?

Estimates based on ClipperData show that Iran's oil export was about 1.3 million barrels/day in the second half of 2022. These estimates show a decrease in export (around 37%) due to high prices that slow demand in China and competition from Russia's oil export.

The majority of Iran's oil exports are to China, about 600,000 barrels/day. After China, India is the second-largest importer of Iranian oil, importing around 500,000 barrels/day.

Since 2022, Iran has begun exporting 200,000 barrels/day of crude oil to Venezuela.

3 Development of Oil and Natural Gas

3.1 Outline broadly the legal/statutory and organisational framework for the exploration and production ("development") of oil and natural gas reserves including: principal legislation; in whom the State's mineral rights to oil and natural gas are vested; Government authority or authorities responsible for the regulation of oil and natural gas development; and current major initiatives or policies of the Government (if any) in relation to oil and natural gas development.

In brief, the Iranian oil and gas legal framework contains a series of critical pieces of legislation, including:

- The Iranian Constitution Law (1979).
- The Petroleum Act (1987), amended in 2011, which addresses the ownership of petroleum resources and the extent of rights and powers entrusted to the Ministry of Oil.
- The Foreign Investment Promotion and Protection Act (2002).
- The Law on the Duties and Powers of the Ministry of Petroleum (2012).
- The six Development Plans outlining Iran's economic policy (2017–2022).
- The General Terms, Structure, and Model of the Iran Petroleum Contract (IPC) or the IPC Resolution 2016, which provides the legal framework for the IPC.
- The By-Law on Recognition of the Important Oil and Gas Contracts and their Procedures (2017).
- The Law on the Development of the Gas Industry (1972).

The IPC is the latest oil and gas upstream contract framework, which is a combination of Buy-Back (former upstream contract of Iran) and Product Sharing Contracts (PSCs). The new model, approved by Parliament in 2016, is considered a modern oil and gas regime and is similar to Iraq's Technical Service Contract.

According to the IPC Resolution (Article 2 a), there are three different categories of IPC:

- exploration, development, and production contracts (IPC E&P);

- contracts for the development of explored green fields (discovered fields) and reservoirs (IPC D&P); and
- agreements for improving recovery rates for existing fields (IPC IOR/EOR).

According to Article 45 of the Constitution Law, foreign or private ownership of natural resources is prohibited in Iran. Therefore, oil and gas reserves belong to the public. The ownership right and governance of natural resources are vested in the Ministry of Petroleum (MOP) by the public. The MOP is responsible for regulating oil and gas upstream development and has vested its governance to its subsidiary, NIOC.

NIOC is exclusively responsible for the exploration, drilling, production, distribution, and export of crude oil and natural gas exploration, extraction, and sales. International oil companies (IOCs) can participate in the exploration and development phases through IPCs.

To attract the required foreign investment in the oil and natural gas sector, Iran now allows IOCs to work in all phases of upstream projects through IPCs. In addition to the exploration and development phases, IOCs can participate in the production phases with the possibility of extending to the EOR phases, a distinct departure from the buy-back system Iran had been using for almost two decades.

3.2 How are the State's mineral rights to develop oil and natural gas reserves transferred to investors or companies ("participants") (e.g., licence, concession, service contract, contractual rights under Production Sharing Agreement?) and what is the legal status of those rights or interests under domestic law?

According to the principle of public ownership, the main point that an IOC should consider is that state sovereignty considerations prevent foreign entities from owning oil reserves. The MOP is tasked with exercising public ownership and national sovereignty over oil and gas resources in Iran, and has authorised NIOC to enter upstream oil and gas projects on behalf of the Iranian nation.

Because of the above principle, foreign direct investment by foreign entities in oil and gas upstream activities is prohibited. However, foreign entities can invest in such areas with contractual agreements and enter the Iranian oil market by signing risk service contracts with NIOC.

The IPC, a risk service contract, is a new model of the upstream oil and gas contract. The contract combines Buy-Back and PSC and is a joint venture between an IOC and NIOC for all oil and gas development stages, including production and recovery.

3.3 If different authorisations are issued in respect of different stages of development (e.g., exploration appraisal or production arrangements), please specify those authorisations and briefly summarise the most important (standard) terms (such as term/duration, scope of rights, expenditure obligations).

Contrary to Buy-Back contracts in which the Contractor was absent in the production period, in the IPC, the Contractor will be present in all the exploration, development, and production phases. However, in the development and production phases, a joint operating company (JOC) must be established between the IOC and NIOC (or one of its subsidiaries) to operate the contract.

The IPC offers contract terms of four years for exploration (with the possibility of a two-year extension), two years for appraisal, and a maximum of 20 years from the start date of development with the potential to extend for five years for the IOR/EOR stages.

Costs incurred and paid by the Contractor in connection with this contract are divided into four divisions:

(1) Direct Capital Cost (DCC):
  (a) Costs for achieving primary production goals: the expenses that are evaluated before the contract is signed. These costs stipulated in the contract are not changeable and will be recovered.
  (b) Costs for reaching the next phase of targets: the expenses required to achieve the next level of targets are approved based on predictions, primary production, reservoir behaviour, and field development projects. Submission of an annual work programme and budget approved by the joint development committee and NIOC is a condition for paying this portion of the capital cost. Deviation from the work programme should be at most 5%. The recovery of these costs is neither guaranteed nor fixed in the contract and depends on the reservoir behaviour and market conditions and can be adjusted annually.

(2) Indirect Costs (IDC): these costs mean all costs that are indirectly related to the development operations and are limited to Iranian governmental organisations and official charges, such as the Iranian corporation income tax, value-added tax, withholding tax, social securities, customs duties and so on.

(3) Cost of Money (COM): this item compensates the Contractor's costs in financing the project. COM is solely applicable to IDCs incurred before the first production date, and petroleum costs and remuneration in case of a delay or late payments. The rate of computing the COM is LIBOR plus the premium.

(4) Operating costs (OPEX): these include all costs and expenses incurred and paid by the Contractor relating to the operation and maintenance of the field, such as labour, consumables, and energy.

3.4 To what extent, if any, does the State have an ownership interest, or seek to participate, in the development of oil and natural gas reserves (whether as a matter of law or policy)?

According to Article 45 of the Constitution Law, foreign or private ownership of natural resources is prohibited in Iran. Therefore, oil and gas reserves belong to the public (principle of public ownership). The governance of natural resources is vested in the MOP by the public. The MOP is responsible for regulating oil and gas upstream development and has vested its governance to its subsidiary, NIOC.

3.5 How does the State derive value from oil and natural gas development (e.g., royalty, share of production, taxes)?

The IPC Resolution reinforces the principle of the right of sovereignty and public ownership of all oil and gas reserves through the MOP of the Islamic Republic of Iran. Therefore, production is owned by the State.

However, there is potential room for manoeuvre as the principle also provides that the MOP and NIOC have express authorisation to deal in "above-ground hydrocarbons" (i.e., oil/gas/condensate that has been lifted).

The IPC is a hybrid contract, which contains some features of joint venture contracts (regarding the procedures of implementing petroleum projects) and PSCs (regarding the cost recovery mechanism). Operations will be implemented by a JOC, owned by the IOC and NIOC and possibly including an Iranian third party (exact shareholdings are not specified in the contract and are to be decided on a case-by-case basis). The split ownership structure of the JOC and the Contractor entitle either NIOC or the designated local company (state-owned entities) to its "*pro rata*" share of service fees after recovery by the IOC of its share in the cost of oil.

3.6 Are there any restrictions on the export of production?

Iran's oil and natural gas production exports have been restricted by sanctions imposed by the U.S. on the petroleum sector since 2018. According to the EIA, Iran's crude oil and condensate exports averaged more than 2.5 million barrels/day in 2017 before the U.S. re-imposed sanctions and fell to an average of 0.4 million barrels/day in 2020.

3.7 Are there any currency exchange restrictions, or restrictions on the transfer of funds derived from production out of the jurisdiction?

As a foreign investor protected by the Foreign Investment Promotion and Protection Act 2001 (FIPPA), the IOC can transfer funds out of the country. There is no restriction on the currency exchange for licensed foreign investors. The Central Bank of Iran must secure and make available to foreign investors the equivalent foreign currency for the transferrable amounts.

3.8 What restrictions (if any) apply to the transfer or disposal of oil and natural gas development rights or interests?

According to Article 45 of the Constitution Law, foreign or private ownership of natural resources is prohibited in Iran. Therefore, oil and gas reserves belong to the public (principle of public ownership). Governance of natural resources is vested in the MOP by the public. The MOP is responsible for regulating oil and gas upstream development and has vested its governance to its subsidiary, NIOC.

Therefore, rights and interests can only be transferred from the IOC to a third party with the authorisation and consent of NIOC.

3.9 Are participants obliged to provide any security or guarantees in relation to oil and natural gas development?

The IPC is a risk-based service contract that puts all risks and expenses on the IOC (the Contractor).

The field development plan will contain production targets, and the Contractor must meet certain minimum production levels. It is unclear what the consequences of failing to meet those production levels are, and Contractors will need to clarify this to ensure they can protect against this risk.

Moreover, some guarantees and securities may be obtained from IOCs under the terms and conditions of the contract. These include performance bonds, legal liability bonds or other warranties that may be predicted in the contract.

3.10 Can rights to develop oil and natural gas reserves granted to a participant be pledged for security, or booked for accounting purposes under domestic law?

The Government of the Islamic Republic of Iran has the absolute and exclusive right of ownership of oil and natural gas resources and reservoirs. The IOC has no right of ownership that can be pledged for security or booked for accounting purposes.

Under the IPC By-Law, Article 6(D), the IOC (the Contractor) cannot transfer all or part of its rights and obligations under the final IPC without the approval of NIOC.

3.11 In addition to those rights/authorisations required to explore for and produce oil and natural gas, what other principal Government authorisations are required to develop oil and natural gas reserves (e.g., environmental, occupational health and safety) and from whom are these authorisations to be obtained?

The MOP or NIOC should authorise the participants in the IPC. Further, foreign investors must obtain an investment licence from the Organization for Investment, Economic and Technical Assistance of Iran.

Furthermore, an environmental assessment certificate from the Department of Environment is required to initiate the project. The operator must perform environmental evaluation studies and comply with the relevant safety, healthcare, environment, and social rules.

According to Article 4(c) of the IPC Resolution, the Contractor should employ Iranian nationals to execute the contract and submit comprehensive training plans to improve the quality of national Iranian human resources and investment.

3.12 Is there any legislation or framework relating to the abandonment or decommissioning of physical structures used in oil and natural gas development? If so, what are the principal features/requirements of the legislation?

According to Article 3 of the IPC Resolution, all properties and assets, including physical structures, are owned by NIOC.

The IOC should transfer the assets to a safe place and avoid any environmental risks.

3.13 Is there any legislation or framework relating to gas storage? If so, what are the principal features/requirements of the legislation?

The By-Law on protecting, transmitting, storing, and distributing natural gas (1969) governs Iran's natural gas storage. A certificate of safety and standards should be obtained by any entity engaged in gas storage activities, and environmental rules also apply to the construction of gas storage.

3.14 Are there any laws or regulations that deal specifically with the exploration and production of unconventional oil and gas resources? If so, what are their key features?

No separate regulations deal specifically with the exploration and production of unconventional oil and gas resources. The legal framework mentioned above applies to Iran's heavy oil and shale gas deposits.

3.15 What has been the impact, if any, of the "energy transition" on the oil and gas industry in your jurisdiction, and are there any policies or laws/regulations that require the oil and gas industry to decarbonise? Are there any policies or laws/regulations relating to the development of low-carbon hydrogen and its use in conjunction with or in place of natural gas, or the development of carbon capture and storage?

According to United Nations Framework Convention on Climate Change (UNFCCC), Iran aims to increase the share of renewable energy in its total fuel mix, including an increase in national consumption by 1000 MV annually, an increase in biogas power plants in landfill centres by 20 MV, and an increase in the capacity of incinerators to produce electricity and heat by 10 MV.

Iran has 31 Clean Development Mechanism projects, most of which are related to fuel switching in existing plants, switching from single-cycle to combined-cycle generation, and renewable energy projects, including landfill gas energy, wind farms, and hydropower plants.

Iran joined the Paris Agreement in 2016. However, it is not yet ratified as national law in Iran. Due to sanctions, Iran is concerned that it cannot fulfil the Agreement's objectives.

Iran also has internal obligations to reduce greenhouse gas emissions and develop its renewable energy sources, which align with its international commitments. These obligations have been addressed in regulations and national plans, including the six Five-Year National Development Plans (2016–2021).

However, due to sanctions imposed in the last few decades, the targets above have not been achieved, and energy intensity emissions have increased.

4 Import / Export of Natural Gas (including LNG)

4.1 Outline any regulatory requirements, or specific terms, limitations or rules applying in respect of cross-border sales or deliveries of natural gas (including LNG).

The National Iranian Gas Export Company (NIGEC) is a state-owned entity engaged in natural gas export activity. In addition, private entities can export natural gas, including LNG, with the authorisation of the MOP.

The Instruction on Modification and Improvement of Export, Import, Transit, and Swap of Crude Oil and Natural (Liquified) Gas and Petroleum Products in Customs (2022) (Oil and Gas Trade Instruction) is the latest act ratified to regulate natural gas export and cross-border transactions.

Natural gas exporters should declare goods to the Iran National Standard Organization and obtain clearance if the natural gas is not purchased from the MOP, which is in line with the Iranian Anti-Smuggling Law (2013).

Import and transit of natural gas are also regulated by the Oil and Gas Trade Instruction mentioned above and are subject to the Iranian Anti-Smuggling Law.

5 Import / Export of Oil

5.1 Outline any regulatory requirements, or specific terms, limitations or rules applying in respect of cross-border sales or deliveries of oil and oil products.

NIOC and its subsidiaries perform oil and oil product export. However, in the Budget Plan Year 2022, the sale of oil and oil products to some authorised entities is recognised. Such entities can export the products in compliance with the Oil and Gas Trade Instruction and the Anti-Smuggling Law.

Of the profit of oil and oil product exports by private entities, 45.5% will be transferred to the government account as a share of the sale profit. Private entities should choose the countries to export the oil with the supervision and authorisation of NIOC. Countries in competition with other exporters, particularly NIOC, are prohibited and cannot be chosen as export destinations.

Oil traders should provide a valid bank guarantee as security for transactions. NIOC is not liable for delivering oil tankers and shipping arrangements for private entities to carry the oil.

6 Transportation

6.1 Outline broadly the ownership, organisational and regulatory framework in relation to transportation pipelines and associated infrastructure (such as natural gas processing and storage facilities).

The Iranian Gas Transmission Company (IGTC), a subsidiary of NIGC, is a state-owned company responsible for the management, storage, repair, operation, and transmission of almost 70% of natural gas industry assets and owns the most extensive pipeline facilities in the Middle East and Asia.

The Guideline for implementing the Gas Pipeline Project (2007) applies to natural gas transportation.

6.2 What governmental authorisations (including any applicable environmental authorisations) are required to construct and operate oil and natural gas transportation pipelines and associated infrastructure?

The MOP should first confirm the construction plan. The plan will be submitted to the Supreme Economic Coordination Council (the Supreme Council) for approval. The Supreme Council consists of the President (head of the administrative branch), the heads of the Judiciary system and the legislative branch, and several Ministers.

All construction and infrastructure projects should obtain a clearance certificate from the Department of Environment.

6.3 In general, how does an entity obtain the necessary land (or other) rights to construct oil and natural gas transportation pipelines or associated infrastructure? Do Government authorities have any powers of compulsory acquisition to facilitate land access?

According to the Bill on Procedures for Purchase and Acquisition of Land and Immovable Properties to Implement the National, Infrastructure and Military Project (1979), governmental organisations, including NIOC, NIGC, and their affiliates, can purchase the necessary land from the owner. If the owner refuses to sell the land, the government entity can deposit the value of the land with the public court for the owner and acquire the land. Upon acquisition, the Registration Office must transfer the title deed to the government entity.

6.4 How is access to oil and natural gas transportation pipelines and associated infrastructure organised?

The National Iranian Oil Refining and Distribution Company (NIORDC) organises access to oil transportation pipelines, while IGTC organises access to gas transportation pipelines.

6.5 To what degree are oil and natural gas transportation pipelines integrated or interconnected, and how is co-operation between different transportation systems established and regulated?

No interconnection or integration of pipelines in the oil and gas transportation system is required, as NIOC/NIGC are state-owned entities and arc under one controlling and regulating system.

6.6 Outline any third-party access regime/rights in respect of oil and natural gas transportation and associated infrastructure. For example, can the regulator or a new customer wishing to transport oil or natural gas compel or require the operator/owner of an oil or natural gas transportation pipeline or associated infrastructure to grant capacity or expand its facilities in order to accommodate the new customer? If so, how are the costs (including costs of interconnection, capacity reservation or facility expansions) allocated?

Currently, the Government performs the distribution of various petroleum products exclusively. The high price of land in metropolitan cities and the need for incentives for the private sector to invest in construction facilities and infrastructure due to their high level of investment have caused filling stations to be sufficiently available. Therefore, there are no third-party access regimes regarding oil and gas transportation and its associated infrastructure. Such access can be granted by contract and under the principle of freedom of contract (Article 10 of the Civil Code of Iran). The MOP and NIOC/NIGC may set the terms and conditions and fee structure for such agreements.

6.7 Are parties free to agree the terms upon which oil or natural gas is to be transported or are the terms (including costs/tariffs which may be charged) regulated?

Under the principle of freedom of contract, the parties can agree on the terms of the transportation. However, the natural gas price for domestic residential consumers is highly subsidised. The MOP may set the maximum rate of commission for the parties.

7 Gas Transmission / Distribution

7.1 Outline broadly the ownership, organisational and regulatory framework in relation to the natural gas transmission/distribution network.

Iran's domestic natural gas distribution infrastructure is based on a network of trunk lines. As discussed at question 6.1, IGTC is responsible for the management, storage, repair, operation, and transmission of almost 70% of natural gas industry assets and owns the most extensive pipeline facilities in the Middle East and Asia.

The Guideline for implementing the Gas Pipeline Project (2007) applies to natural gas transportation.

The By-Law on the Protection, Transportation, Storage, and Distribution of LNG (1969) regulates the distribution of LNG.

7.2 What governmental authorisations (including any applicable environmental authorisations) are required to operate a distribution network?

A certificate of technical and professional pipeline operation is required for entities wishing to undertake gas network activities.

Further, MOP authorisation and a Certificate of Clearance from the Department of Environment should be obtained to conduct such activity.

7.3 How is access to the natural gas distribution network organised?

IGTC organises access to gas transportation pipelines.

Domestic consumers access natural gas by signing an official Letter of Commitment in the notary by IGTC. Each consumer should commit to complying with safety and environmental guidelines and pay the required subscription fees. Upon signing the Letter of Commitment, which is considered an agreement between the consumer and IGTC, a pipeline distribution network will be connected to the consumer's residential or commercial place.

7.4 Can the regulator require a distributor to grant capacity or expand its system in order to accommodate new customers?

The distributor should grant capacity or expand its system in line with IGTC-approved pipeline plans.

7.5 What fees are charged for accessing the distribution network, and are these fees regulated?

The Government subsidises the natural gas price in order to make it accessible for public, residential and industrial consumption. The natural gas subscription tariff increases depending on the consumption rate and there are 12 subscription stages of consumption. The subscription fee is fixed in stages one to three, increasing by 30% for stages four to six and by 50% for stages seven to 10. The subscription fee for stages 11 and 12 is very high and subscribers will be charged IRR 50,000 and 60,000 KWh, respectively.

7.6 Are there any restrictions or limitations in relation to acquiring an interest in a gas utility, or the transfer of assets forming part of the distribution network (whether directly or indirectly)?

The Law on the Protection of the Downstream Oil and Natural Gas Sector with Private Investment (2019) was ratified to implement privatisation in Iran's downstream section of the energy sector. The privatisation is subject to the MOP's approval, and the MOP should approve the restructuring of the projects to be transferred to the private sector.

The restructuring process to transfer ownership is subject to anti-competition regulations.

8 Natural Gas Trading

8.1 Outline broadly the ownership, organisational and regulatory framework in relation to natural gas trading. Please include details of current major initiatives or policies of the Government or regulator (if any) relating to natural gas trading.

NIGC and several authorised private entities perform natural gas trading. Any entity, including private sector companies, foreign or national, can conduct natural gas trade activities and should obtain a natural gas trade licence from the MOP. The Guideline on the Purchase of Crude Oil and Natural Gas and

Petrochemicals (2013), the Oil and Gas Trade Instruction, and the Guideline on Combatting Petroleum Product Smuggling (Guidelines on the Export of Crude Oil, Petrol, Liquified Petroleum Gas, Mineral Oil, and Liquified Gas) (2019) govern natural gas trade in Iran.

Trade of natural gas is only authorised from specific regulated customs areas.

8.2 What range of natural gas commodities can be traded? For example, can only "bundled" products (i.e., the natural gas commodity and the distribution thereof) be traded?

Exporting LNG is the exclusive right of NIGC. However, butane and propane can be traded by obtaining a business licence from the MOP, NIGC, and the Iran Energy Exchange.

9 Liquefied Natural Gas

9.1 Outline broadly the ownership, organisational and regulatory framework in relation to LNG facilities.

Iran Liquified Natural Gas Co. is an organisation responsible for the construction of LNG facilities in Iran.

There is no specific law or regulation that applies to LNG projects. The general law and regulations related to the LNG sector are the FIPPA, the Petroleum Law and regulations, the public procurement regulations, and the free zone regulations.

9.2 What governmental authorisations are required to construct and operate LNG facilities?

According to the By-Law on Recognition of the Important Oil and Gas Contracts and their Procedures (2017), contracts of more than five years are considered complex downstream agreements, which means the value, the LNG volume, the applicable law, and the duration of the agreement should be confirmed by the Supreme Council. Furthermore, the MOP should authorise the LNG projects.

9.3 Is there any regulation of the price or terms of service in the LNG sector?

There is no specific regulation regarding the LNG sector's price and terms of service. However, in general, terms and conditions applied to complex petroleum contracts should be applied to the LNG sector. For instance, according to the Law of Maximum Help of Iranian Technician, Engineering, Manufacturing, Industrial, and Executive Capability for Implementation of Projects, at least 51% of the value of the project, excluding immovable properties, must be allocated to goods and services provided from inside Iran.

Should an investor wishes to utilise foreign infrastructure and human resources, it should be a joint venture with 51% of the Iranian share and should be authorised by the Supervision Council.

According to the Tender Act of Iran, the LNG project should be granted by Tender Procedure, as the other party is a state-owned entity.

9.4 Outline any third-party access regime/rights in respect of LNG facilities.

Any third party can access the LNG sector in Iran by investing in and financing the projects. Iran has invited private sector companies, foreign and national, to participate in LNG projects, and NIOC is offering ownership shares for foreign assistance to finish such projects. However, the LNG projects have stopped due to sanctions and the need for more technology and foreign investment.

In addition to these large LNG projects, NIOC also initiated small and medium-sized LNG projects. However, they did not progress as foreign investors did not accept the terms and conditions or gas prices offered.

10 Downstream Oil

10.1 Outline broadly the regulatory framework in relation to the downstream oil sector.

The Law on the Protection of the Downstream Oil and Natural Gas Sector with Private Investment (2019) and its executive by-law, amended in 2022, govern the downstream oil sector.

10.2 Outline broadly the ownership, organisation and regulatory framework in relation to oil trading.

Please see the answer to question 10.1 above. Furthermore, private entities can trade downstream oil products.

11 Competition

11.1 Which governmental authority or authorities are responsible for the regulation of competition aspects, or anti-competitive practices, in the oil and natural gas sector?

Iran adopted its Competition Law in 2008 in Chapter 9 of the Privatization Act (the Act of Implementation of Principle 44 of the Constitution Law). The objectives of Chapter 9 (Iranian Competition Law/Constitution Law) are "Promoting Competition and Prohibiting Monopolies". The Competition Law addresses various issues, including, among other things, pricing, tying agreements, and territorial restrictions.

Parliament ratified the executive by-law on research, investigations, complaints handling, and enforcing anti-competitive decisions in 2016.

Under Article 53 of the Constitution Law, the Competition Council (CC) was created to enforce competition legislation. In addition, to handle the professional, executive, and other affairs of the CC, the National Competition Council has been formed as an independent government institution under the supervision of the President of Iran.

According to Article 62 of the Constitution Law, the CC is the only authority with the power to provide anti-competition procedures and is responsible for investigating anti-competition practices and making decisions. It will find an anti-competition approach either itself or based on complaints from natural or legal entities.

In general, the CC has the power to autonomously impose fines and other remedies for infringement of the Competition Law.

11.2 To what criteria does the regulator have regard in determining whether conduct is anti-competitive?

Articles 44 and 45 of the Competition Law provide the criteria for determining anti-competitive procedures.

11.3 What power or authority does the regulator have to preclude or take action in relation to anti-competitive practices?

As discussed at question 11.1, according to Article 62 of the Constitution Law, the CC is the only authority with the power to provide anti-competition procedures.

11.4 Does the regulator (or any other Government authority) have the power to approve/disapprove mergers or other changes in control over businesses in the oil and natural gas sector, or proposed acquisitions of development assets, transportation or associated infrastructure or distribution assets? If so, what criteria and procedures are applied? How long does it typically take to obtain a decision approving or disapproving the transaction?

Under Article 49 of the Privatization Act, which uses the verb "can" instead of "shall", asking the CC for clearance is not mandatory. Therefore, Iranian competition law has a voluntary merger control regime.

However, the CC has the authority to investigate and research events of breach of competition law. It is empowered to impose fines autonomously and other remedies for the infringement of competition law. Therefore, it is recommended that parties involved in the merger apply for Council clearance before initiating a merger procedure.

If a company in the oil and gas sector submits its request to the CC voluntarily, the CC will have the responsibility of investigating the case within a maximum of one month from receipt of due proposals and informing the applicant of the result in writing or by sending a message if the related actions are not harmful to the competition. If no response is received from the CC within the specified time, the transactions will be considered proper.

If the pre-merger application is not submitted and the merger is completed, the CC can investigate the company's activities by itself or after receiving a complaint any time after completion of the transaction or during the merger activity. Once anti-competitive conduct is proved by the CC's investigations and searches, it can enforce penalties and other remedies on the company. In some severe cases, it can even announce the merger activity as null and void. The CC's decision can be appealed to the Retrial Board by the beneficiary. The deadline for appealing the decision is 20 days for Iranian residents and two months for those outside Iran. The decision of the Retrial Board is deemed final.

12 Foreign Investment and International Obligations

12.1 Are there any special requirements or limitations on acquisitions of interests in the natural gas sector (whether development, transportation or associated infrastructure, distribution or other) by foreign companies?

According to Article 45 of the Constitution Law, foreign or private ownership of natural resources is prohibited in Iran. However, foreign entities can invest in such areas with contractual agreements. IOCs can enter the Iranian oil market by signing risk service contracts with NIOC.

12.2 To what extent is regulatory policy in respect of the oil and natural gas sector influenced or affected by international treaties or other multinational arrangements?

Iran has joined the UNFCCC, the International Convention for the Prevention of Pollution from Ships (MARPOL), the International Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC), the Caspian Environment Program (CEP), and the New York Convention on International Arbitration.

13 Dispute Resolution

13.1 Provide a brief overview of compulsory dispute resolution procedures (statutory or otherwise) applying to the oil and natural gas sector (if any), including procedures applying in the context of disputes between the applicable Government authority/regulator and: participants in relation to oil and natural gas development; transportation pipeline and associated infrastructure owners or users in relation to the transportation, processing or storage of natural gas; downstream oil infrastructure owners or users; and distribution network owners or users in relation to the distribution/transmission of natural gas.

All disputes will be referred to arbitration, with a seat in Iran and applying Iranian law. Article 139 of the Iranian Constitution requires the Council of Ministers and Parliament to consent to any arbitration involving state assets where foreign parties are involved.

There is also a further requirement that, in important cases, approval of the Council of Ministers and Parliament must be obtained even if the parties to the arbitration are both Iranian entities.

13.2 Is your jurisdiction a signatory to, and has it duly ratified into domestic legislation: the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards; and/or the Convention on the Settlement of Investment Disputes between States and Nationals of Other States ("ICSID")?

Iran ratified the New York Convention in 2001. However, Iran is not a member of the ICSID Convention.

13.3 Is there any special difficulty (whether as a matter of law or practice) in litigating, or seeking to enforce judgments or awards, against Government authorities or State organs (including any immunity)?

There is no particular difficulty as a matter of law for litigation or enforcement of an award against the Government or state-owned entities. However, in practice, it is a challenging procedure.

13.4 Have there been instances in the oil and natural gas sector when foreign corporations have successfully obtained judgments or awards against Government authorities or State organs pursuant to litigation before domestic courts?

We are not aware of a foreign entity obtaining a judgment against the Iranian Government. However, the *Crescent* case is an arbitration case in London between a private UAE company and NIOC. The award for the compensation for damages has been issued in favour of Crescent.

14 Updates

14.1 Have there been any new regulatory or policy initiatives in your jurisdiction directly in response to the recent rise in global oil and gas prices (such as price caps, subsidies or a new focus on local sources of energy)?

Iran's policy is to attract foreign and national investment in developing joint gas fields, such as the Pars gas field, which will assist Iran in increasing its natural gas production.

Gas and petrol prices are subsidised in Iran and are distributed to consumers at a low cost.

Recently, Iran completed an investment agreement with Gasprom Russia to attract Russian investment in Iran's LNG project. Furthermore, Iran will authorise industrial energy buyers in upstream projects to attract more funds, particularly to gas projects.

14.2 Please provide, in no more than 300 words, a summary of any new cases, trends and developments in Oil and Gas Regulation Law in your jurisdiction (other than anything already discussed above).

The most recent development is the transfer of shares of state-owned entities to the private sector, particularly in downstream oil and gas projects. The Law on the Protection of the Downstream Oil and Natural Gas Sector with Private Investment (2019) and its executive by-law, amended in 2022, was ratified to facilitate downstream oil and gas projects.

New agreements have also been signed with foreign investors to develop joint natural gas fields and oil reserves.

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