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IOID on a steep learning curve in Iran

By Vahe Petrossian Tehran 10 June 2016 00:00 GMT

Service company and its upstream subsidiary Ofogh Energy ensuring they are well placed to capitalise as the country's energy sector changes rapidly

Iran Ofogh Industrial Development (IOID) is now more of a service outfit than an exploration and production company, but it once held a small stake in a Western-led Caspian Sea exploration project and has ambitions of becoming one of the new generation of private Iranian E&P players.

IOID has long been working with the big players such as Eni, Sinopec and China National Petroleum Corporation providing field and logistical services at Darkhovin, Yadavaran, Azadegan and elsewhere, but now wants to go further upstream.

In January 2016, just after the implementation date for relaxing international anti-Iran sanctions, IOID established Ofogh Energy as a Tehran-registered upstream E&P player. "Strictly speaking, there are no private E&P companies in Iran," says services marketing manager Bahram Massoudi. "But given our past as part of the consortium exploring for oil in the Caspian Sea, and one of our partners' experience outside Iran, we could perhaps exceptionally be described as an E&P company."

Venture The Caspian connection refers to an ultimately abortive venture by Shell, Veba Oil and a partnership of IOID and Lasmo at the turn of the century which saw the start of exploration in Iranian waters in the sea.

The IOID-Lasmo partnership had a 10% stake in the consortium and seemed to be well on its way to making history when a maritime border dispute between Iran and Azerbaijan resulted in an intervention by Iranian gunboats, the departure of an allegedly transgressing BP seismic vessel on the Azeri side and withdrawal from the project by Shell and the other partners.

Massoudi says the service company now maintains and operates production facilities producing 300,000 barrels per day of Iran's crude production.

The company has also carried out pre-commissioning and commissioning at Phase 17 of the giant South Pars development, but is now focused onshore and upstream in the West of Karun region prioritised by NIOC and Petroleum Engineering & Development Company (Peduc).

Big international players such as BP, Maersk, Eni, Total and Shell are known to be looking carefully at what is on offer west of the Karun River, where there are long-term cumulative production targets exceeding 1 million bpd from the two Azadegan fields, Yadavaran and other large reservoirs.

Due diligence "Nowadays, due diligence is all-important," says Massoudi, who knows of at least four due diligence exercises already run by foreign players on IOID in recent months. All local companies will be subjected to due diligence screening forcing them to upgrade themselves.

"This is just the learning stage for local companies, who will have to upgrade themselves in every way if they want to partner foreign companies," he adds.

Ofogh Energy has already gone through part of the process by submitting itself to tests for meeting international management and service standards and, most importantly, by agreeing a project financing deal with a medium-size UK investment company, which Massoudi says does not want itself identified at this stage.

"Finance is the key," he says.

An association has also been set up with Aberdeen-based Xodus Group specialising in reservoir engineering and geophysical studies.

Feeling more secure on both the financing and technical sides, Ofogh is holding talks with foreign E&P companies on possible joint venture upstream projects in the West Karun



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region.

Any eventual joint venture participation would be as a minority partner because of the vast financing requirements for the projects under consideration.

Ofoh Energy predicts that the big foreign players will eventually choose their partners from outside any lists of officially approved companies.

Potential It also sees the whole exercise involving foreign companies returning to Iran under the new investment rules as a potentially transformative experience for local companies and business practices.

IOID started life in 1961 as Ofoh Consulting Engineers, set up by an engineer called Sadra Maali, growing into IOID in 1987 and now branching off into Ofoh Energy to enter the more rarefied upstream zone.



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