

## Chapter 3: Legal Formalities for Registration of Companies and Industrial Intellectual Ownerships

### Article 4

Each company or institution registered in the Zone, whose principal center is in the same Zone, shall be deemed as Iranian and registered in the Zone.

#### Note 1

From the date of enforcement of this decree, any foreign company or institution willing to carry out economic activities through its branch or representative in the Zone, must have been registered in accordance with the current laws and regulations of its own sovereign state, attested by the legation of Islamic Republic of Iran and registered also in the Zone's Registry Office.

#### Note 2

Any foreign company or institution which, from the date of enforcement of this decree, is engaged in economic activity through its branch or representative in the Zone, has to be registered within three months from the enforcing date of this decree otherwise such a company has no legal status and its founders are jointly responsible for probable indemnities.

### Article 5

All kinds of companies and non-commercial institution mentioned in the Commercial Code and other Iranian laws may be registered in the Zone's Registry Office, provided that the subject of their activity is legal. Establishment and activity of companies in accordance with enacted laws, in any case, is possible.

### Article 6

All legal persons having economic activities in the Zone are to adjust their status with the provisions of this decree and its pertinent executive instructions thereto, within three months of proclamation made by the Registry Office.

The executive instruction of this Article shall be written and implemented by of each Zone authority.

#### Note

The State Title Deeds and Real Estate Registration

Organization shall, upon the request of the Zone's Registry Office, send to the said Office, all the documents and files pertaining to the legal persons who have been, prior to the establishment of the Zone's Registry Office, registered in other places of the country and whose principal center (domicile), according to their charter is in the Zone and have obtained license for their activities in the Zone.

The State Title Deeds and Real Estates Registration Organization shall also cooperate with the Zone's Registry Office to prevent and avoid determining similar names for the companies who are in the process of the registration.

### Article 7

Registration of company or institution in the Zone shall be made upon submission of the following documents:

- 1-Letter of declaration applying for registration
- 2-Company's article of association
- 3-Minutes of the founders' general assembly
- 4-Minutes of the first cession of the board of directors
- 5-Certificate issued from one of the banks located in the Zone attesting that a minimum of %35 of cash capital has been paid.
- 6-License of the activity issued by the Organization.

#### Note 1

In case of the foreign legal persons, it is necessary to provide and submit the original letter of authorization indicating representation and the license of the establishment of those legal persons.

Issuance of such documents must be in accordance with those laws and regulations of legal persons' sovereign state (and attested by representative of Islamic Republic of Iran in that country).

In order to register a branch or a representation in Iran, the foreign legal persons, are to attach the Farsi translation of the company's registry declaration forms, and attested copy of the documents indicating the registration of company in their own sovereign country.

#### Note 2

All documents subject of the article 8 of this decree are also to be submitted, by foreign legal persons, in officially translated Farsi version.

# Criteria Concerning the Registration Of Companies, and Industrial-Intellectual Ownership in Free Trade-Industrial Zone of I.R.Iran

## Chapter one: Definitions

### Article 1

In this decree the following terms are utilized against their pertinent detail expressions:

*Country:* Islamic Republic of Iran

*Zone:* Each one of the Free trade-Industrial Zones

*Organization:* Each Organization of Free Trade-Industrial Zones established in accordance with law.

*Law:* Law on Administration of Free Trade-Industrial Zones of I.R.Iran

*Registry Office:* Authority in charge of registration of companies/industrial and intellectual ownerships in each organization of Free Trade-industrial Zones.

*Branch of company or institute:* Branch of a company or institute, is the legal person which is set up in the Zone by the principal company or institute located outside of the Zone.

The majority of its shares belong to that of principal company or institute and this legal newly established person in the Zone is the subsidiary company or institute of that principal one.

*Representative of company or institute:* Representative of a company or institute to whom necessary authorization is vested and its liabilities in the position of representative of company or institute shall be deemed as the liabilities of the authorizing company or institute.

## Chapter Two: Establishment And Functions Of Registry Office

### Article 2

In order to perform the functions pertaining to registration of companies and industrial and intellectual ownerships, the organization of each zone shall set up a unit named as " Companies, and Industrial and Intellectual Ownership Registry Office" in that zone.

### Article 3

The functions of the Registry Office are as follows:

3-1: Registration of Iranian and Foreign companies and institutes.

3-2: Registration of trade marks and trade and industrial names.

3-3: Registration of inventions, patents monograms and industrial drawings.

3-4: Registration of traders' commercial books.

3-5: Plumbing of commercial and non-commercial books in the territory of each Zone.

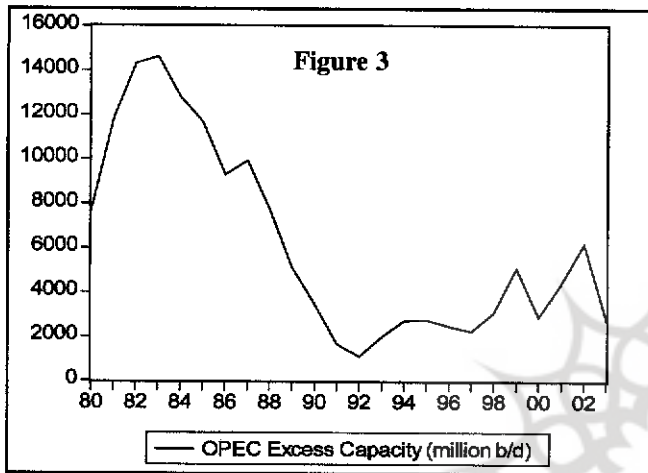
3-6: Registration of banks and credit institutes with regards to the Regulations on Monetary and Banking Operations in the Free Zones.

3-7: Registration of insurance companies in accordance with the governing regulations in the Free Zones.

Table 4

	Brent	Active Rigs North America	Active Rigs OPEC	Other Active Rigs	Dubai
Brent Active Rigs	1	0.7549443876	0.4824503827	0.4982642673	0.9913241502
North America	0.7549443876	1	0.6040899889	0.7723419608	0.7869119601
Active Rigs OPEC	0.4824503827	0.6040899889	1	0.2644716947	0.4996679878
Other Active Rigs	0.4982642673	0.7723419608	0.2644716947	1	0.4949739940
Dubai	0.9913241502	0.7869119601	0.4996679878	0.4949739940	1

Based on OPEC Annual Statistical Bulletin, Vienna: OPEC, various years.



return the surplus cash flow to their share holders, mostly in the form of stock buy backs. Three factors explain the behavior of the major companies. Firstly, in a mature industry such as oil with lower future growth rates, shareholders may prefer cash than plowing back earnings to acquire oil assets. Secondly, uncertainty over prices, as was alluded to earlier, can result in postponement of investments. Thirdly, companies seem to be following stringent return on capital employed (ROCE) for allocation of investment fund. They must accelerate spending on their more mature fields to keep up production on the old fields that accounts for about 60 per cent of their output.<sup>7</sup> Companies are also interested to replace their depleting reserves with high return investment opportunities. The prospects for high yield reserves should be much better in the Middle East and in Russia. However, access to these reserves is limited due to a host of geopolitical, legal, and financial factors.

Although upstream investment projects in the oil producing countries are highly profitable exploration and development plans are often constrained by limited investment funds. As have been observed in a number of oil exporting countries, there is a fiscal issue between the national oil company and the governments. The capital budget for the oil company is controlled by the fiscal authorities. In the fiscal process the

limited government financial resources must be allocated to different projects in different sectors, to different ministries each having their own priorities, and their justification to get a larger share of the national budget. Therefore, the amount allocated to capital investment in a national oil company is not dictated by the feasible and profitable investment opportunities available but to the exigencies of the fiscal allocation. This makes the investment budget for entities the nationally owned oil companies smaller than is justified on economic and commercial grounds.

The balancing factor in the investment equation is the role played by the international capital and finding new channels to fund investment funds to the producing regions. The estimated average annual investment in the upstream oil and gas sector is \$81 billion per annum. The hedge funds are the short-term players in the market for paper barrels and will not be supplying funds for long-term investment. Since the cash flows generated from the oil and gas projects are expected to be strong the banks might increase their project finance loans.<sup>8</sup> More interest has also been shown by South-Asian countries to increase their direct lending and investment in the oil sector. This plus increased project financing by banks might be the channel through which sufficient investment flows to the upstream sector.

#### References:

- Horsnell, Paul, 2004, Why Oil Prices Have Moved Higher, Oxford Energy Forum, August, pp. 10-12.  
 Watkins, G. C. and S. Streifel, "World Crude Oil Resources: Evidence From Estimating Supply Functions From 41 Countries," Working Paper 1756, The World Bank, Washington.

7- Petroleum Economist, October 2004, p. 17.

8- Petroleum Economist, June 2004, p. 7.

not kept pace, as a result price differentials have widened significantly. In other words, while the relevant prices for the hedge funds have shot up, the relevant prices for the producers have not increased nearly as much.

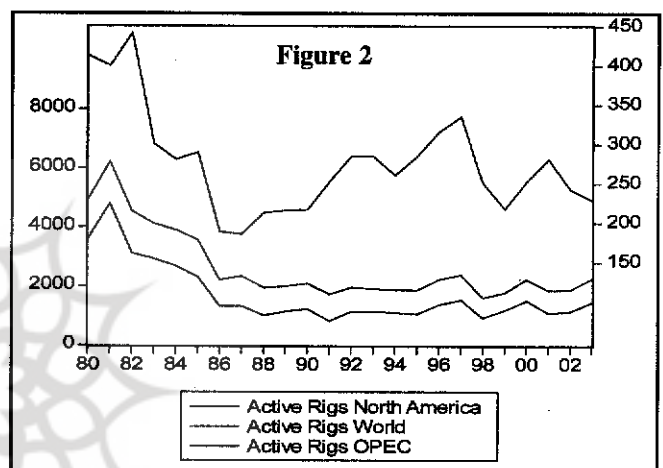
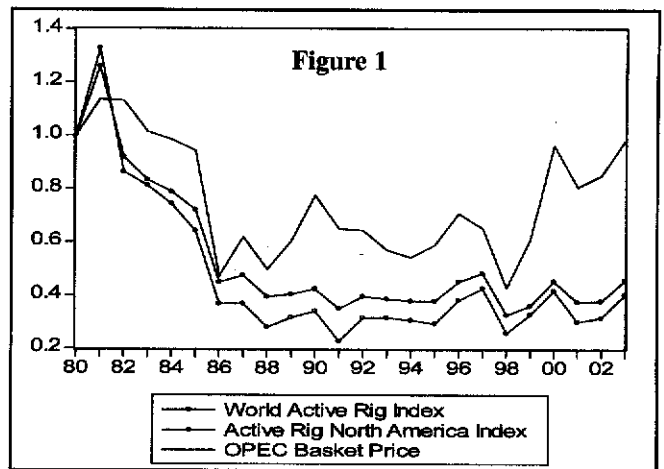
### Oil Prices, Investment and Excess Capacity

Expenditures on exploration and discovery of new reservoirs in the oil business are similar to research and development expenditures undertaken by the manufacturing companies; they are both risky and rewarding. In the aftermath of oil price increases in 1973/74 and in 1979/80, capacity increased both in OPEC and Non-OPEC regions and capital expenditures tracked oil prices to higher levels. But with the price collapse in the mid-1980s cap-ex also decreased sharply. Exploration and development expenditures outside OPEC declined and after the collapse of crude prices in 1986, active rigs, a proxy for upstream investment activity, fell throughout the world and remained flat. It was only in the OPEC member countries (the numbers indicated on the right-hand side scale) that the number of active rigs shows a partial rebound (figures 1 and 2). With lower investments rates in the OPEC countries excess capacity also gradually declined (figure 3). However, OPEC has been able to add to its proven reserves more than the rest of the world producers did. During the last two decades the share of OPEC in total proven crude oil reserves has increased from 67.4 per cent in 1983 to 78.3 per cent in 2003. During the same period the share of Middle East producers in total reserves has increased from 56.3 per cent to 64.7 per cent.<sup>4</sup> The share of reserve net of cumulative output has also increased in OPEC and also the Middle East.

There is a positive though not a strong correlation between crude prices and upstream investments. This implies price cycles can result in investment cycles as has been experienced during the last three decades.<sup>5</sup> The data indicates that historically the number of active rigs, a proxy for investment in the upstream sector, is significantly correlated with the price of oil for the non-OPEC producers but it has a weak correlation with that in OPEC countries (figures 2 and 3). The correlation coefficients for the number of active rigs in different regions of the world and two different crude spot prices are shown in table (4).

### 3. The Investment Prospects

During the high-price 1974-85 period the average representative crude price<sup>6</sup> was \$21.1, much higher than the previous decade both in nominal and real terms. Consequently, capital expenditures were high resulting in large excess capacity in the industry. During the 1982-84 interval the OPEC excess capacity stood around 14 million barrels per day. In the low



price period of 1986-1999, when average crude prices were 17.08 in nominal terms per barrel, new investments declined and excess capacity was shed. However, during the 1999-2004 period the average crude price per barrel rose to \$24.13 but the excess capacity declined further though at a much lower pace. Should we expect a new investment boom resulting in creation of a large capacity build up in the near future as a result of the recent surge in prices? It seems that a big boom in upstream sector is not on the cards in the near future for the reasons mentioned below.

The major oil companies and the OPEC producers account for much of the investment in the upstream sector. The former group has experienced a big surge in profits. However, during the recent price boom exploration and production expenditures in the international oil companies did not follow the increase in prices and profits. A number of major companies have decided to

4- For more details see, OPEC, Annual Statistical Bulletin, 2003, Vienna.

5- For more details see OPEC Review, Special Issue, Vol. XXVII, No. 3, Special Issue, JOINT OPEC/IEA Workshop on Oil Investment Prospects.

6- The representative crude price until 1982 and OPEC reference basket price after 1982. The data for 2004 includes 11 months.