# Oil Spill in the Gulf of Mexico - Consequences

On April 20th 2010, the exploration oil well "Macondo" which has been drilled in the Gulf of Mexico by BP Company encountered gushing of huge volumes of oil into the sea. The oil spill was tragic enough to force the US administration to suspend all drilling and exploration operations in the Gulf of Mexico for a period of six months. The suspension is expected to negatively impact oil production growth rate in the United States and bring about uncertainties about accessibility of oil resources in the US's deep waters. The US president, Barak Obama has recently put a ban on the operations by the existing 33 deep water oil drilling rigs in that country. Thus, no new drilling license is expected to be issued for future drillings. It is not clear whether the restrictive measure is going to be prolonged and whether or not it is going to include deep water exploration operations as well. Relevantly, president Barak Obama abandoned the plan for the transfer of oil regions located west of Gulf of Mexico, a plan which was expected to go into force by the end of 2010. The same is true in the case of Atlantic Coast oil resources. The US president has also put a ban on Royal Dutch Shell Company's exploration operations in the Continental Shelf i.e. Northern coasts of Alaska.

Although the six month long restriction is not expected to significantly impact oil prices, some projects are likely to be affected by it.

According to the British Wood Mackenzie consulting institution, the six month long restriction may drop the US oil production growth rate in this region by 2% in the current year. The figure is estimated at 80 thousand barrels per day for 2011. The consequences of this policy are expected to last till 2014; say Wood Mackenzie. The restrictive measure may just encourage enforcement of yet more gripping regulations for drilling and production of oil in this region of the world, a trend that would delay production in the Gulf of Mexico. In fact, should the ban exceed 10 months, the US oil production capacity is expected to be short of 130 thousand barrels of oil per day by the first quarter of 2011 and should the delay continue for one year, the figure is expected to exceed 163 thousand barrels per day. According to a report released by the US Energy Department, in 2009, over 80% of crude oil produced in the Gulf of Mexico i.e. 1.6 million barrels per day, had been produced from wells drilled in over 1000 feet deep waters while one third of the said crude had been produced from wells located in over 5000 feet deep waters. Therefore, any fresh regulations restricting drilling in deep waters can impact crude production rate in the Gulf of Mexico. Oil companies operating in the deep waters of Gulf of Mexico are expected to sustain millions of dollars in losses during the six month period ahead because their rigs have been practically abandoned. The BP maintained eight drilling rigs in the deep and extra deep waters of the Gulf of Mexico before oil started gushing and in the event restrictive measures are put into effect, the Company will have no alternative but to cease operation. Other reputable companies operating in this region such as Chevron, Total, Exxonmobil, Royal Dutch Shell and Conocophillips as well as companies such as Murphy, BHP Billiton, Anadarko and Hess are expected to encounter similar impediments. At any rate, drilling companies will have no option but to transfer their rigs to deep waters in Brazil and West Africa. Exxonmobil, Shell and Chevron have declared that, affected by the restrictive measures, they may have to transfer their rigs and skilled manpower to regions other than the Gulf of Mexico. For the fear of losing their interests, the US oil companies have now appealed to courts, however, the US administration keeps on insisting on its decision.

A similar concern dominates the oil rich Norway. The government of that country has waived almost all drilling bids for this year. Brazil's state run Petrobras Company too has introduced more restrictive regulations as regards drilling in the country's deep sea waters.

BP was the main target of the tragedy. The Company is expected to have lost a total of US$45 billion as a result of oil spill in the Gulf of Mexico. The value of BP's shares has dropped 50% costing the Company some US$100 billion. It would most likely take BP years and decades to compensate for such a huge loss.

Moscow has called on BP to give assurances that the Russian partners of the Company are not going to be affected by the strike. BP has already entered a joint venture with TNK Company in Russia and invests the sum of US$500 million in that Company per year. BP holds part of the shares of Rosneft Company. One fourth of BP's crude production comes from Russia. Russian President, Dimitri Medvedev has termed the incident a wake up call. In Brazil, the government has announced that it is not in a rush to approve a bill that foresees acquisition by BP of Devon Energy's assets worth US$ 7 billion and that BP's ability to undertake its commitments should be re-examined.

Some contractors and drilling companies merged during the Bush Administration. Subsea and Accergy companies entered a merger worth US$ 4.5 billion and Nobel Company acquired Frontier drilling Company for US$ 2.16 billion. The mergers came as a result of more restrictive environmental conditions and the need for accessing far away waters. These companies believe that in the long term, they will have to inject more and more investments into drilling and production operations in deep sea waters.

The story of BP may serve to be a teaching lesson for many other companies that operate in the deep sea waters. Deep water exploration and drilling operations are risky and cost a fortune, for direct access to sea bed is possible only through remote control systems and robotic control stations and for that matter, many such companies give up the whole idea of drilling in the deep sea waters.

The aftermaths of oil spill in the Gulf of Mexico are worth pondering from a variety of dimensions and a host of reasons of course. In the event, the US administration manages to enforce its restrictive measures notwithstanding opposition from the side of oil, servicing and drilling companies, it should at the same time come up with solutions to make up for the likely future oil shortages that may emerge in the US. Some studies suggest that in case the US administration puts a halt on drilling and exploration operations in the Gulf of Mexico, the US dependence on oil imports in 2035 will reach to 70% compared with the present 60%.Therefore, the US president is expected to propose incentives for the production and supply of alternative fuels and selection of other spots in the US for the production of crude.

In the event such restrictive and gripping measures are extended to other parts of the world in the form of globally accepted standards, oil prices are expected to jack up significantly.

Under such circumstances, the prime question raised is: "what logic is associated with the idea of imposing sanctions and carrying out military operations against some producers of crude which are well in a position to produce oil at lower costs?"

## Khatam HQ quits SP phases 15 & 16

Khatam-Al-Anbia Head Quarter and its affiliate Sepanir Oil & Gas Energy Engineering Co. have pulled out of South Pars phases 15 & 16 development project, reported the PR office of Pars Oil and Gas Co. (POGC).

According to the report, Iran Shipbuilding & Offshore Industries Complex Co. (ISOICO), as the leader, SAFF Offshore Industries Co. (SAFF) and Iranian Offshore Engineering & Construction Co. (IOEC), the other members of the consortium, will continue the project.

Seemingly, this pull out was mainly because of the Khatam HQ and Sepanir are in the embargo list of the western countries.

The project to develop South Pars phases 15 & 16 was kicked off in January 2007 and has so far made over 46% physical headway.

Since all the remaining members of the consortium are offshore contractors, it is said that, POGC is going to handle the onshore part of the project by itself.

Dana Drilling Company (DDC), a subsidiary of Dana Energy Group, is in charge of drilling operations.

## US presses Japan on tougher sanctions against Iran

Japan's Ministry of Finance is considering stiffer financial sanctions against Iran, in line with a new round of nuclear sanctions against Tehran adopted last month by the United Nations Security Council, the Nikkei reported in its Thursday morning edition.

However, ministry officials expressed caution in response to a U.S. request that Japan's megabanks join in efforts to impose tougher restrictions on financial transactions with Iran, as conveyed Wednesday by U.S. Assistant Secretary of Treasury David Cohen. The officials are expected to mull it over, a process that will probably carry over into autumn.

Iran is Japan's third-largest oil supplier after Saudi Arabia and the United Arab Emirates. In 2009, the country imported about $9.2 billion worth of oil from Iran, accounting for 11.9% of its total intake.

On the other hand, Japanese exports to Iran amounted to roughly $1.65 billion in 2009, with automobiles making up about 30% and machinery just over 20%.

While in Tokyo, Cohen visited Mitsubishi UFJ Financial Group Inc. (8306.TO), Sumitomo Mitsui Financial Group Inc. (8316.TO) and Mizuho Financial Group Inc. (8411.TO). But officials at these institutions refrained from commenting on the U.S. request, suggesting that Japan's top international banks will be pressured to respond to Washington one way or another while trying to anticipate what course of action the Ministry of Finance will pursue.

## Fresh Armenian-Iranian energy projects set for launch

Armenia announced on Wednesday the impending launch of three more joint energy projects with neighboring Iran that are estimated to cost more than $700 million.

Energy Minister Armen Movsisian said the two nations will start building this year a third high-voltage transmission line connecting their power grids, a hydro-electric station on the Arax river marking their border, and a pipeline that will pump Iranian oil products to Armenia.

The Armenian and Iranian governments have spent years negotiating on these projects and preparing for their implementation, which would give a massive boost to their economic ties.

With a projected capacity of 140 megawatts and an estimated cost of $350 million, the hydro-electric station is to be constructed by Iranian firms. According to Movsisian, the Armenian side will pay half of the bill with supplies of electricity to the Islamic Republic.

Movsisian told journalists that the two governments will also equally co-finance the $180 million construction of the pipeline which he said will get underway this fall. It will enable Armenian fuel companies to import petrol and diesel fuel at prices well below the international level, he said.

Movsisian added that the two sides will also start "within approximately one month" work on the third power transmission line. He said earlier that it will take 18 months.

The facility will allow for large-scale exports of Armenian electricity to Iran to be mainly generated by Iranian natural gas. Armenia began importing it, in modest amounts, through a newly constructed gas pipeline in May last year. The volume of these deliveries is due to increase drastically to at least 2 billion cubic meters per annum in the next few years.

## SADRA to co-op in 4 phases of South Pars

Referring to the presence of SADRA Co. (Iran Marine Industrial Co.) in South Pars offshore sector of phases 13, 22, 23 and 24, managing director of SADRA Habib Jadidi pointed out: "Pars Oil and Gas Co. (POGC) and the members of the consortium have already signed the original contracts; however, the percentage of the consortium's shares has not been determined yet," reported the Fars news agency.

Jadidi stated that in the recent days some meetings have been held to clarify the shares of SADRA in these projects, and added that SADRA's shares and its relevant value are expected to be finalized soon.

He went on saying: "So far, no down-payment has been given to SADRA for the said projects."

About allocating Rials 5000 Bln loan to SADRA, he said: "Correspondence and follow-ups are maintained, though no satisfactory result has been come up with. In addition, all the involved banks agreed to defer SADRA's Rials 7000 Bln unpaid debt due date with its installment planning still ongoing."