

# Sino-Iranian Oil Investment: Current Status Analysis and Countermeasure Research

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**Abstract:** One of the most significant current discussions in Economics is the foreign investment factor, which Iran and China also have been involved. As China is the most prevalent foreign exchange reserves, united with superb latent in Iranian oil investment environment, bilateral cooperation will not only endorse the development of Iran's oil diligence, it will support the growth of Iran's national economy, but also it will have the same outcome for Chinese enterprises, and it is more vital to provide a solid guarantee for China's oil security. Furthermore, oil imports security is a necessity to oil security, economic security and deliberate issues. Nevertheless, Iran is the world's one of the largest oil producers; hence sustaining noble oil trade is considerable for China's oil security part. The research to date has tended to focus on Sino-Iranian oil trade and investment qualitative. The purpose of this paper is to review the recent researches conducted on the contemporary situation of Sino-Iranian oil investment in oil cooperation barriers and risk analysis. As a final point, according to this study, this paper will hand out ample countermeasures on the subject of Sino-Iranian oil investment development.

**Keywords :** Iran, China, Oil Investment, Sanction, Oil Trade

## 1. INTRODUCTION

China and Iran are the two developing countries that are rising in eastern and Western Asia. After the establishment of diplomatic relations between the two countries in 1971, China and Iran had further developed their trade relations. The friendly political relations between the two countries have set up a reliable and powerful platform for the trade development of the two countries [5]. China's economy continues to develop rapidly, and its demand for oil is increasing. And Iran's economic policy and foreign policy have also injected new vitality into its own economic development. Economic globalization and closer ties lies between the countries. China and Iran are facing major tasks of economic development and opening to foreign investment is an important tool for economic modernization and development. Due to the rapid development of the Chinese economy, growing demand for energy, technology and relatively saturated domestic need outreach production space, expanding markets, further implementation of optimal allocation of factors of production. China is now the world's largest foreign exchange reserves, has positive financial strength, and has had the ability to outward investment [6]. Petroleum is of strategic importance for both sides, the oil trade and investment cooperation to promote the development of the two countries have a vital role. Researchers have treated our study in detail. For illustration, Long.D The oil trading manual from the perspective of oil trade, discusses derivatives. From the nature and characteristics of oil, oil trading tools and oil markets and oil trade administration of the three parts of oil trade related

specifically to the content discussed [9]. Moreover, Robert Hefner III Referred to the transformation of energy, along with economic development, oil and coal demand will increase significantly, the resulting problems are obvious: climate change, environmental pollution and economic subject to oil-producing countries. This shows that the external costs caused by oil and coal use have risen sharply. Which energy can meet economic needs, but also to climatic, environmental and geopolitical risks? Trends in energy transformation described in the book, on China's economic development and restructuring, as well as change the way of growth and industrial upgrading are of great significance to [5]. Wang Yuqi and Hu Yunquan at the China foreign trade of oil present situation, problems and countermeasures of studies mentioned in the process of oil foreign trade in China can be divided into six stages: totally dependent on imported stage ( 1949~1960 ), Oil self-sufficiency and export stage ( 1961~1979 ), And oil export growth falling phase ( 1980~1992 ), Oil imports and increases sharply ( 1993~1997 ), The impact of the financial crisis on the oil trade and the recovery phase ( 1998~2000 ) And the slight decline in oil trade ( 2001 To date). In this process, the oil foreign trade on China's economic growth and modernization has played a considerable role in promoting [7]. Like Hu, Wang Yuqi and Zhao Qi of the China Petroleum which is referred to "China Oil Foreign Trade Situation and Countermeasures Research", the increase in crude oil imports shows the healthiness China's petroleum and petrochemical industry development. On the other hand it also represents that China's reliance on crude oil from the international market is thoughtful, which results in crude oil import security and stability. Same as all the researchers before, Wang Zhen and Zheng Jiong's

“Multinational Investment and mergers and acquisitions” analyzes the strategic situation and development trend of international petroleum investment, environmental assessment, international petroleum taxation agreement, decision factors and evaluation method system and risk management. [10].

It has been depicted that by investing in Iran's oil investment environment and situation analysis, and analysis of China to invest in Iran's oil industry, hamper the cause of bilateral investment cooperation, thus it promotes bilateral oil trade [8]. And, it has shown that China is meeting with domestic oil shortage and at parallel way, market demand is increasing. So, in order to cover the shortages, China is relying on channels for importing oils to meet the domestic demand and that is how China banks on Iran's vast oil resources.

## 2. METHODOLOGY

This article will be on China's foreign investment, Chinese investment in Iranian oil and investment situation analysis, while Iran's economy is dependent on oil, domestic economic needs foreign capital to promote domestic economic development and oil industry infrastructure issues are explained. This paper will also discuss Chinese investment in Iran's oil industry on the Iranian economy and help against us economic sanctions. This work takes the systematic collection of relevant data and information to support this argument with real data information. Furthermore, this article applies to the practical research through the collection, transmission, processing and sorting of information.

## 3. ANALYSIS OF CHINESE INVESTMENT IN IRAN'S OIL

Prior studies have noted that the investment is an important part of a trade, by investing the ties and trades will be increased between the two parties and even more, the economic exchange will be improved. More recently, literature has emerged that offers contradictory findings about the problems Iran has been faced so far. The most dominant problem was the US sanction on Iran's nuclear program. According to the data published by Iran's central bank, exports of petroleum products decreased (2006/2007 year: 84.9%, 2007/2008 year: 86.5%, 2008/2009 year: 85.5%, 2009/2010 79.8%, 2010/2011 year: 78.9%). Sanctions on Iran's nuclear program have had a substantial adverse effect to make it more difficult to obtain the required materials and equipment. Regarding to all the mentioned, an opportunity was given to Chinese enterprises to invest in Iranian oil fields. Iran has also been improving the technology for the development of the oil industry. And

through China's investment in several important oilfields, it will increase the volume of oil exports, compensate for the economic advantages of Iran's domestic economy, and compensate for the amount of imported oil that China needs. Therefore, the investment will increase the economic power of the two countries on the one hand, and on the other hand, it will improve the oil trade between the two countries.

### 3.1 Iran's oil investment environment and current situation

In the Middle East, Iran, a country with the largest population and rich natural resources, has a potential market [2]. However, the history of foreign direct investment (FDI) in Iran has always been lower than the other countries in the region because of its political and structural factors. The government, with a strict domestic regulatory environment, is reluctant to allow foreign investment to enter, which leads to the low level of foreign direct investment. For example, in the field of energy, foreign investment is considered to be restricted by the repo system in Iran. Under this system, the alliance international oil company, which has a contract with Iran, will pay a certain amount of cost, such as "the right to oil or gas development and operation." In 2006, the repurchase is expected to reach \$500 million. However, it is difficult for foreign companies to get financing because the US Treasury has put pressure on international banks to cut off its relations with Iran. In order to avoid conflict with the United States and maintain a good relationship with the United States, foreign companies have only limited investment. International investors have withdrawn from projects developed in Iran, such as oil, gas, ships, and the automotive industry [11]. Iran is facing a significant problem of domestic capital escaping abroad. As an illustration, Iran's investors have found more powerful investment opportunities in the property sector of the overseas market, such as the United Arab Emirates.

According to the Research Association of the IHS Cambridge Energy Research Association, the late foreign investment in 1990s and 2000 played an important role in restoring Iran's oil production. But in 2007, international sanctions had led to a pause in most of the international investment, such as the stagnation of many international oil companies. Also, Iran was forced to withdraw from many western countries, Malaysia and Japan due to non-delivery projects, thus creating opportunities for China and Russia Company. In spite of this, international sanctions have also led to a decline in the speed of Chinese enterprises' investment. Iran cancelled the South PARS oil and gas contract in a corporation of Chinese Petroleum at 2013, And in 2014 because of the continued delay of the project was cancelled with the China Petroleum Group for the development of the South Azadegan field which is worth almost 2.5 billion dollar

[3]. Although Iran also notes that China is dissatisfied with the progress of the project, China's petroleum and natural gas group is also involved in Azad's development projects in the north.



**Figure 1. Iran oil fields**

Iran's oil and gas fields are mostly at the south part of Khuzestan province, and they are about 20 oil fields producing crude oil. Although oil and gas resources are very rich, but Iran is now facing the increasing pressure, but there was no significant oil and gas discovery in Iran in the last ten years.

At present, in the oil and gas industry, the main strategy of the Iran national gas company (NIOC) is (upstream, middle, downstream industries):

- Obtaining financing funds (from internal resources and foreign financial facilities)
- Development of human resources and technical expertise
- Create a competitive atmosphere through privatization and deregulation
- Strengthening the role of Iranians in the global energy market by developing international transactions
- Focus on the development of oil and natural gas resources
- The development of the country's energy sector in the region, taking advantage of the geopolitical status of Iran

Iran recently announced a new oil contract mode called Iran (or integrated petroleum contract) (IPC). Because it has not yet been finalized, it can be changed at any time. The aim of the new framework is to attract foreign investment and use a contract with a similar PSA. The main criticisms of some

buyback contracts include the lack of cost recovery flexibility. In some cases, compared with the international oil company (IOC) in the development area, NIOC's expertise is limited, and the field of torsion has declined. According to the current draft of IPC, international oil companies can establish joint venture agreements with NIOC or related subsidiary bodies to manage oil and gas exploration, development and production projects. The international oil company will help manage the project, but they do not have the ownership of the reserve. Once the production is started, the share of the income of the project is paid by the international oil company. According to the Middle East Economic Survey (MEES), the terms of payment can be adjusted as the project progresses.

**3.2 China's investment in Iran's oil industry**

In the past few years, China has become Iran's largest oil customer and the largest economic partner. In fact, according to the Iran official meeting, in 2011, 166 Chinese enterprises participated in the Iran oil exhibition. Compared with the 100 Chinese enterprises in 2010, the number of Chinese participants as the largest group of foreign participants joined the international business exhibition. Iran and China, in order to expand and accelerate energy cooperation, have also formed a joint venture oil and Gas Commission. In addition, in May 2011 Iran and Chinese promoted their bilateral cooperation in the field of industrial and mining in Iran and signed a \$20 billion agreement. The leaders of the two countries have announced that the plan will exceed its annual bilateral trade, currently about \$300- of \$400 billion, doubled to \$100 billion (2016).

**Table1. Current situation of Chinese investment in Iran's oil projects**

Investment Project	Recoverable reserves	Development companies	Status	Contract amount (USD)
Masjide Suleiman	5 to 6	CNPC NIOC joint venture	In 2006 started implementation of the project, project goal was to add 17 wells, 2300 barrels per day to 25000 barrels per day of production. The project was completed in 2011	2 Billion

South Azadegan	6 to 7	At present, NIOC cancels the contract with CNPC, the Iran national drilling company will hit the well	The oil field began in 2007, and the output in 2013 was 50 thousand barrels per day, the first target was 150 thousand barrels per day, and the second target was 110 thousand barrels per day.	25 Billion
North Azadegan	-	CNPC	First phase is in progress and it is expected to be finished in 2015-2016 (75000 bbl/day). Second phase is expected to commence in 2020 (75000 bbl/day)	17.6 Billion
Yadavaran	3.2	Sinopec	The daily output in 2013 is 25000 barrels per day, and it is expected to reach 85000 barrels per day in 2015. The second period in 2018 is expected to increase from 50000 to 100000 barrels / day. The third period after 2020 is expected to increase by more than 100000 barrels per day.	20 Billion

Until recently, Islamic Republic of Iran was forced to import up to 40% of the fuel needed, because it did not have enough oil refining capacity to meet domestic fuel demand. This allows Iran to be particularly vulnerable to sanctions against

imported fuel imports, prompting the government to improve its refining capacity. China not only through Zhuhai Zhenrong Company improves fuel shipments, but also helps Iran to expand its refining capacity. At present, the efforts between China and Iran may have been achieved [4]. The government of Iran recently declared that it would not import any fuel from China or any other country or even export fuel. Even though it is not exactly the case, Iran is now less vulnerable to import fuel sanctions, partly due to China's help.

### 3.3 Sino-Iranian oil investment barriers and risks

For a developing country, absorbing foreign investment is an important way for the country to develop economy and create employment. Foreign investment will lead to administrative reform, economic exchange and the use of new technologies. Iran has also been trying to promote this direction in order to achieve a large portion of investment and capital transfer in the world. Although many obstacles have been circumventing, Iran still occupies the low position in the world's absorption of foreign capital.

Why is Iran easy to connect to other markets in the region though it has such a special geographical location and economic position, and has the potential resources and potential for investment, so far it has not been able to get investment position? And some of the investment projects in China in Iran are also some of the same difficulties [11]. Through related research and investigation, some experts believe that the main reason is economic barriers, and the other part is due to political and legal obstacles.

#### 3.3.1 Economic barriers

According to the scholars' studies it has found that Iran wills to absorb more foreign capital, especially the important reason for Chinese investment is taking economic barriers, excessive expansion, currency fluctuations, inefficient state-owned institutions including the lack of stable economic and trade policy, double taxation, foreign exchange, rapid change, financial and customs regulations of bank system disorder, investment time limit, lack of infrastructure port, weakness, measures to encourage and provide investment services shortcomings and lack of human resources skills.

#### 3.3.2 Legal barriers

A series of ways to promote the absorption of foreign investment are through state formulation and clear investment regulations and policies, including customs and business taxes. However, Iran has some stricter laws and regulations on foreign investment, which leads to serious obstacles. In a word, the structure of foreign investment laws in Iran is relatively uncommon, which affects the undeveloped economic factors of the country.

### 3.3.3 Political barriers

The main reason for the political obstacles is the sanctions imposed by the US on the implementation of Iran. Secondly, because of the lack of coherence and coordination among the executive agencies, there is no consensus among the Iran government to absorb foreign investment or absorb foreign investment. There are other factors, such as political unrest and security.

In order to improve the situation of investment in Iran, especially for Chinese investors, the following reform is recommended in Iran:

- Complete restoration of national law and economic security
- Fight against financial and administrative corruption
- A plan to liberate and privatize the policy, and to allow foreign investors to participate in the plan
- Adopt clear economic policy, economic structure reform and market economy
- Creating coordinated fiscal and monetary policies, controlling fiscal deficits and inflation, and establishing a stable exchange rate regime
- Create appropriate infrastructure, such as communication systems, highways, ports, and airports, especially in free zones
- In order to gain the confidence of foreign investors, strong diplomatic relations, international organizations, and bilateral investment treaties on the international stage are concluded.

According to the research, in order to expand the transaction with its buyers, especially to restore China to the first country of importing Iran oil, we need to consider that we should try to remove the above obstacles and improve the current situation [Iran national gas company] [12].

### 3.4 Sino-Iranian oil investment risks

In the past few years, the government of Iran has revised the "law of encouraging and protecting foreign investment" in order to attract more foreign investment. It stipulates that foreign investment in the oil industry can enjoy the same rights and preferential policies as domestic investors protected by the government. But there are still many limitations in the investment proportion and investment safety. For instance, "encouragement and protection of foreign investment law" provisions: The proportion of goods and services generated from foreign investment will not exceed 25% in all sectors of the economy, and no more than 35% of each industry. With the "citizen participation" and "repurchase" and "construction" transfer "mode of capital investment returns and benefit only by investing in the project itself to complete the economic behavior, rather than relying on the government or the bank or state-owned company guarantee; if the government or law made decision

to ban or terminate the implementation of the project law approved by the financial agreement, it would cause the loss of compensation by the government, but most cannot go beyond the expiration of the approved amount [26]. Besides, the formal procedure of investment and the cooperation compensates loss and it will depict that the operational efficiency of fiscal transfer are relatively low, which cannot meet the requirements of marketization of international investment for the time being.

## 4. DISCUSSIONS AND RECOMMENDATIONS

A possible economical explanation for Sino-Iranian oil investment development is that the economic development level of China and Iran has a gap of about 20 years, but the economic complementarity of the two countries is very strong. The main area of China's investment is Iran's energy industry and manufacturing industry. It is suggested that a strategic resource supply base should be established in Iran, which is mainly used for the development and utilization of mineral resources, oil resources and forestry resources. However, this is a great strategic significance to the shortage of domestic resources caused by rapid development of Chinese economy. China makes full use of sufficient resources abroad to compensate for the shortage of domestic resources, so as to ensure the healthy and sustainable development of China's internal economy, and to assist Iran's resources to enhance its potential for development.

### 4.1 The confrontation between Iran and the West provides a good opportunity for the cooperation between China and Iran:

In order to change Iran's regime and reduce investment in Iran's oil and natural gas industry, US will reduce Iran's oil revenues and Iran's international status. At the beginning of 2006, the US's severe attack on Iran's economy has begun. The United States has exerted strong pressure on Iran through its hegemonic position, which aims to cut off the linkage between international institutions and Iran through international institutions and banks. Moreover, it has been noted that the tension between the US and Iran makes it difficult for Western companies to get the resources of the Iran market, which leads the European Union to withdraw from the Iran market, so as to provide a good opportunity for the trade between China and Iran. In those days, more than 70 Chinese invested companies launched economic and trade activities in Iran. Among them, nearly 2000 Chinese people participated in the project construction, which showed that the bilateral trade cooperation between the two countries is increasingly close. At the same time, China has the largest number of new labor contracts in West Asia. The largest amount of contracts is Iran, with a contract value of 339 billion US dollars. Iran has become China's largest business

in Western Asia, reaching 215 billion US dollars. So far, more than 80 Chinese companies have set up offices in Iran, most of which are engaged in contract engineering business, involving many fields, covering transportation, hydropower, non-ferrous metallurgy and many other fields. In recent years, China has been implementing the strategic goal of "going global" and "bringing in". Iran has become one of the largest engineering contracting markets in China overseas.

***4.2 The cooperation of China Iran petroleum cooperation in the global environment is taken into consideration, the complementary advantages of the industry and the development of mutual cooperation in industry are carried out:***

At present, Iran has many investment needs in the energy sector, such as oil and gas exploration, mining, refining, natural gas liquefaction, petrochemical industry and so on. All these areas are open investment to China, and there is no obstacle. With the intention of promoting win-win cooperation, the government of Iran has formulated a series of special laws and regulations, aiming to protect the interests of overseas investors, and at the same time, has made a great deal of preparations for absorbing foreign investment. There are more than 20 oil and gas special zones in Iran, which are at the same time carrying out the policies of zero tariff and free return of profit, and the import of foreign enterprises is not restricted by any restrictions. Taking into account the special strategic position of Iran for China, it is proposed to actively attach importance to the development of diplomatic relations, economic and trade exchanges and oil cooperation between the two countries.

After the new president Hassan Rouhani came to power, the relationship between Iran and the West have eased, but unfortunately the two sides did not trust and the sanctions will still be continued against Iran, although the political risk is still high. Facing the oil investment environment of Iran's new situation, China needs to get more effective countermeasures from the state and enterprise level, so as to ensure the safety of foreign assets, reduce investment risks, improve the market competitiveness of oil companies, and ensure the safety of oil statement.

***4.3 Strengthening risk assessment and establishing a scientific and efficient risk management mechanism***

Before the development of new oil investment projects, it is necessary to assess the potential risk degree of the future, and to establish an efficient risk monitoring mechanism. On the political level, information sharing and joint institutions should be set up in oil enterprises, foreign affairs departments and intelligence departments, and the political structure of

Iran should be mastered correctly. At the macroeconomic level, Iran's domestic economic situation should be grasps by oil companies, and we should comprehensively consider the degree of inflation so as to avoid risks caused by economic fluctuations to projects. At the level of oil policy, we need to deepen the consideration of Iran's oil policy, especially to assess the opportunities and challenges caused by the Iran petroleum repurchase contract (Buy Back), which is turned into a production sharing contract (PSC). [1]. At the project level, we need to consider the economic nature of the project, more research on the causes of the project cost, and reduce the economic risks that the project will encounter. On the level of human communication, oil companies need to be full of understanding and respect for Iran's local lifestyle and customs, people oriented, and a harmonious atmosphere of cooperation.

***4.4 Establishing and improving the mechanism of information communication and coordination***

The incompleteness of information is an important reason for the emergence of the foreign investment risk of China's petroleum, especially in the political and regulatory environment. The incomplete information will make Chinese oil companies on the weak side of information asymmetry, and it is difficult to identify potential risks. In the oil company, Sinopec Iran domestic investment company needs to be in Iran Chinese embassy and intelligence cooperation, establish communication and coordination mechanism, consultation mechanism and the construction of the local government in the country, comprehensive access to information, a bad situation caused by information asymmetry. Likewise, we should make full use of the communication methods and experiences of international big enterprises and host countries, especially the relationship between them and host countries, and avoid the way of political risk.

***4.5 Improve the emergency vigilance of risk and improve the ability of oil companies to respond to crisis***

A further study with more focus on risk contingency is therefore suggested. First of all, the maintenance and withdrawal costs should be counted into the total cost during the cost estimation period of the new project. Second, the plan to prepare for the withdrawal of forward personnel and oil assets should be prepared in response to political and military turbulence. For all kinds of potential risks in the process of project operation, effective countermeasures must be made to clarify the responsibilities for handling emergencies, early disposal norms, emergency response, field management and other important areas, and implement safety management responsibilities.

### 5. CONCLUSION

Taking China's and Iran's Oil Trade and investment as the research object was very challenging. This article analyzes the status and advantages and disadvantages of Sino Iranian oil trade, and analyzes the investment situation of China and Iran, and puts forward corresponding suggestions and countermeasures for the development of Sino Iranian oil trade and investment. First, the oil trade between China and Iran is taken as the research object, and the current situation of Iran's oil industry and trade, the trade situation between Iran and China, and the advantages and disadvantages of Sino-Iranian oil trade are analyzed. Then from the angle of Sino-Iranian oil investment, the current situation of China's oil investment in Iran, the obstacles and risks of Sino-Iranian petroleum cooperation are analyzed. Finally, the above analysis is made to provide policy suggestions for the development of Sino-Iranian oil trade and investment.

Through the analysis of the situation in Iran its characteristics of oil resource development, this article argues that the feasibility of China's oil cooperation with Iran is very extremely high. Analysis of Sino-Iranian oil trade is found that investment is a playing a major role in Sino-Iranian ties. Thus, as far as the obstacles and risks are faced to Iran, all should be addressed and solved. Hence, this article puts forward some constructive suggestions and solutions in order to enhance the cooperation between Iran and China.

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