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Norway’s Hemla Vantage closes in on $600m Iran gas joint venture

Najmeh Bozorgmehr in Tehran and Anjli Raval in London

A Norwegian oil and gas company is closing in on a $600m contract with an Iranian petrochemical group for one of the first major gas deals since international sanctions were lifted.

The contract will be a joint venture between Hemla Vantage and the Kharg Petrochemical Company, a quasi-privately-owned company, to produce and export liquefied natural gas and liquefied petroleum gas by 2017.

“Hemla will secure debt financing and will be 50/50 equity partners with KPC/KGRC [the latter is a sister company of the former],” said Gerhard Ludvigsen, a founding member of Hemla group and director of Hemla Vantage.

The potential deal is an indication of Iran’s ambitions: the country sits on the world’s fourth-largest oil and second-largest gas reserves, according to the US energy department, and is among the world’s top 10 oil and top five natural gas producers.

“We are inspired that Iran really wants to shift from a traditional player to a modern player. Nobody would believe that Iran could be the first in the world to produce LNG from a floating production vessel (FLNG) in 2017,” he added.

The joint venture will purchase 200 million standard cubic feet of flared gas per day from offshore oilfields near Kharg Island over a period of up to 15 years. In its first phase, the site is projected to produce 500,000 metric tons of LNG and 200,000 tons of LPG per year. The FLNG barge, produced in China and ready to be shipped to reach Kharg Island by October, will be leased from Exmar, a Belgian company.

KPC was established in the 1960s in a joint venture between National Petrochemical Company and Amoco, the American oil group, to recover propane, butane, naphtha and sulphur from offshore fields. It is now largely owned by quasi-state-owned retirement organisations.

Hemla Vantage said that financing the new project will not be a problem, despite international banks being wary of doing business with Iran. Sanctions against the state were removed under the nuclear agreement which came into effect earlier this year. However, the US alleges Iran continues to finance terrorism.

Iran and Kharg Island have a lot of facilities including jetties, pipelines and storage which make projects much easier and economically justifiable, Mr Ludvigsen said. "Iraq in this region could be the next target thanks to its abundant flare gas."

Mr Ludvigsen added that European banks, including German institutions, are ready to finance the project showing "that banks are opening up and are now being positive to engage with Iran". He did not disclose the names of the lenders.

However, he did not know when exactly the contract will be signed. KPC declined to comment and stated that Hemla was in charge of media announcements.

Iran policies towards LNG projects have fluctuated: Mahmoud Ahmadi-Nejad's fundamentalist government stopped Iran's pursuit of LNG and instead encouraged gas pipelines. But the centrist government of Hassan Rouhani has shown interest in resuming LNG schemes.

"Pipeline gas is so political but you can sell LNG everywhere even if sanctions come back," said Mr Ludvigsen. "With LNG Iran will not be landlocked."

Iran is pushing hard to regain its position as a global energy supplier, ramping up production and exports of oil since the start of the year and re-establishing relationships with former customers.

Iran's political system, however, is stuck in a power struggle which has also impacted on its energy projects.

The new parliament, which is more friendly to the government of Mr Rouhani, is expected to pass the new oil contract system – known as the Iran Petroleum Contract – soon. It offers more flexibility to foreign companies than previous buyback terms, which were also less lucrative. However, international oil companies, analysts say, are discouraged by both the new terms of Iran's contracts and low prices.

Iran's oil minister, Bijan Namdar Zanganeh, announced last week that parts of development of North Azadegan and Yadavaran – oilfields in southern Iran – were handed to China's Cinopec and CNPC under buyback contracts. He gave no further details.

The move could be construed as a warning to western energy majors that Iran will not wait for them if they refuse to sign contracts.

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