

Iran's ministry of petroleum has given the green light to launch a new petroleum exchange in the country. Mohammad Asemipour, adviser to Iran's oil ministry and a key architect of the project, talks to *Stella Farrington*

# A star rises in the east



Chris Cook, Wimpole consortium:  
The exchange will incorporate Islamic values

★ Plans to launch a petroleum exchange in Iran are moving forward, and have the full support of the country's Ministry of Petroleum, sources involved in developing the exchange say.

Reforms to Iran's capital market laws will shortly allow foreign investment, and the beginning of privatisation in the country, recent healthy returns on Tehran's stock exchange and the centrality of oil to Iran's economy mean conditions are ripe for developing a petroleum exchange, advocates say.

Mohammad Asemipour, who was appointed adviser to the minister for the execution of the Petroleum Exchange Market in late 2003, explains why current conditions favour its development.

"The restructuring of our legal, fiscal and capital market systems has to take place simultaneously," he says. "Fluctuations in one market affect another. We have to extend our stock market geographically and we also have to diversify into other instruments," he adds.

Setting up an exchange in Iran will enable the country to manage the risk of volatile oil prices better, he stresses. "We dictate the price of our oil by announcing it, but we don't control it – that's determined by what happens at the New York Mercantile Exchange and London's International Petroleum Exchange. So we want to manage the risk. The establishment of an oil market is the most important market for us."

A source close to Iran's stock exchange who preferred not to be named agrees: "The

ministry and the stock exchange all believe setting up a petroleum exchange will be fruitful for the economy," he says. "A feasibility study has concluded that the right structures for setting up such an exchange are present."

The value of Tehran Stock Exchange (TSE) is currently put at \$40 billion, and the exchange expects to grow to \$100 billion in the next two years. The daily average traded share value is \$5 million, with an average 10,000 trades taking place each day. The average revenue for shareholders grew 150% in 2004 and is up by 40% so far this year, according to Tehran Stock Exchange Services Company.

Despite plans to diversify the economy, Iran remains heavily dependent on oil – 80% of tax comes from the petroleum sector and it contributes 20% of the country's GDP. The petroleum ministry estimates that by 2020, around 60% of the world's oil supply will come from just five countries in the Persian Gulf, along with 40% of the world's gas. Iran's petroleum ministry forecasts the country will be meeting 7% of the world's oil demand by 2020. In addition, with an annual production of 13 million tonnes, Iran produces 35% of the petrochemicals exported from the Middle East.

Trade on the petroleum exchange, which will be electronic, will start with petrochemicals for physical delivery. Direct communication between trading floors and companies' warehouses will be facilitated by satellite, using the services of Informatic Services' Company, which is aligned to the Central Bank of Iran and has an existing satellite network used in banks.

**"We dictate the price of our oil by announcing it, but we don't control it, so we want to manage the risk. The establishment of an oil market is important to us"**

Mohammad Asemipour, Petroleum Exchange adviser



“Eventually we envisage a pan-Middle East exchange with Opec countries trading on it,” the source says.

The exchange developers stress that the exchange will be independent – not run by an existing exchange or the Iranian government. The ministry of petroleum initially invited other exchanges such as Nymex and the IPE to be involved, but project developers feared the initiative would lose its independence. Not necessarily wanting to conform to an existing model, the new exchange will “be a new model that will work within our new laws”, Asemipour says.

One of its unique features will be its clearing operation, which is likely to operate under a clearing union method.

“This is a new partnership-based synthesis of bilateral trading between users combined with a collective guarantee,” explains Chris Cook, a former director of the IPE who, as a member of the Wimpole consortium, provided strategic advice to Asemipour in a pre-feasibility study. “Instead of a central counterparty, we will see a risk/treasury management partner responsible for setting guarantee limits, margining and managing a default fund/pool on behalf of the user group collectively. This is absolutely fascinating in its implications,” he says.

A consortium has been set up consisting of the TSE and its subsidiary Tehran Stock Exchange Services Company, which carries out technical services, clearing and settlement for TSE (65%); Wimpole, a UK-based consortium of technical and energy market experts that

includes an international law firm and an oil consultancy (25%); and a private staff fund for retired ministry of petroleum workers (10%).

Under new rules that now allow exchanges to operate as companies in Iran, plans are under way to register two companies in Iran’s tax-haven Kish Island: the consortium above, and Iran Petroleum Exchange, which will belong to a stakeholder group comprising all interested Iranian institutions including key oil interests.

Cook stresses that the exchange will be owned by a “neutral” market-user group that consists of “all interests, whether intermediaries or end-users.” He also says the group is exploring models that closely incorporate Islamic values. “The conflict of interest between pure investors and exchange users inherent in ‘for profit’ exchanges with external shareholders has been recognised, and we will explore alternative enterprise models more consistent with Islamic values for sharing risk and reward.”

Asemipour says the new model could act as a blueprint for future developments.

“If we construct the market well, we can attract liquidity – it’s not our aim to compete with the IPE or Nymex, but we think if we can build this in a good shape and draw on international expertise, it will be a pilot and a leader for other initiatives,” he adds.

“We see the commercial aspects and opportunities of this now. We have to cope and adapt to changes in the international economy. There are 270 exchanges in the world, and we have to move with the times – you can’t stay an island while others grow around you.” **ER**

**An Iranian oil worker: The importance of oil to Iran means the time is ripe for developing a petroleum exchange**