



Investments of European companies in Syria

A research paper prepared for IKV Pax Christi

Profundo
economic research

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Final version: 13 May 2011

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Introduction

The objective of this report is to provide more information on the investments of Royal Dutch Shell and other European companies in Syria. Concretely the following questions are researched:

1. Shell's investment in Syria:

- What is the nature and extent of Shell's investments in Syria (which activities, which locations, which partners, value of investments in euros)?
- What are the production and sales volumes, revenues and profits for Shell in Syria in the last three years?
- What market share does Shell have in Syria in the markets where it operates (production, refining, marketing)?
- Is it likely that oil produced by Shell is used by military, police and other security sectors of the Syrian regime?
- What are the relationships between Shell / Al Furat Petroleum Company and the authorities in Syria?
- Are there any taxes paid by Shell (Syria Shell Petroleum Development BV) in the Netherlands in connection with activities undertaken in Syria?

2. Investments other European companies in Syria:

- Which European companies have invested in Syria in the energy sector (oil, gas, electricity), telecommunications and (other) infrastructure (roads, ports, airports, railways, etc.)?
- For each European company found: business description, location, size of the investment.

The report is structured as follows: Chapter 1 describes and analyses Shell's activities in Syria, while Chapter 2 discusses investments of other European companies in the oil and gas, electricity, telecommunications and infrastructure sectors. Conclusions are drawn in Chapter 3.

Chapter 1 Shell in Syria

1.1 Introduction

Shell has a long history in Syria. It has had a presence in the country since the 1940s and has been a shareholder in Al Furat Petroleum Company (AFPC) for some 25 years.¹ In Syria, Shell is only active in the upstream segment of the oil sector.²

The two subsidiaries of Shell active in Syria's upstream oil sector, Syria Shell Petroleum Development and Shell South Syria Exploration, are discussed in the following paragraphs.

1.2 Syria Shell Petroleum Development

1.2.1 General overview

Shell's principal operations in Syria are conducted by Shell's subsidiary Syria Shell Petroleum Development BV (SSPD):

Syria Shell Petroleum Development BV
P.O. Box 3663
Damascus
Syria
Tel: +963 11 2217220
Fax: +963 11 2217156

The company performs exploration and production activities in Syria and has its statutory seat in The Hague. It is registered at the Dutch company register (Kamer van Koophandel).

In May 2010 Shell announced that the China National Petroleum Corporation (CNPC) has acquired 35% in SSPD.³ Shell and CNPC stated that they will continue to look for attractive investment opportunities in Syria's upstream industry together.⁴

1.2.2 SSPD's activities in Syria

SSPD undertakes the following activities in Syria:

- SSPD has interests ranging from 62.5% to 66.67%, in three production licences in Syria:⁵
 - Deir-Ez-Zor
 - Fourth Annex
 - Ash Sham

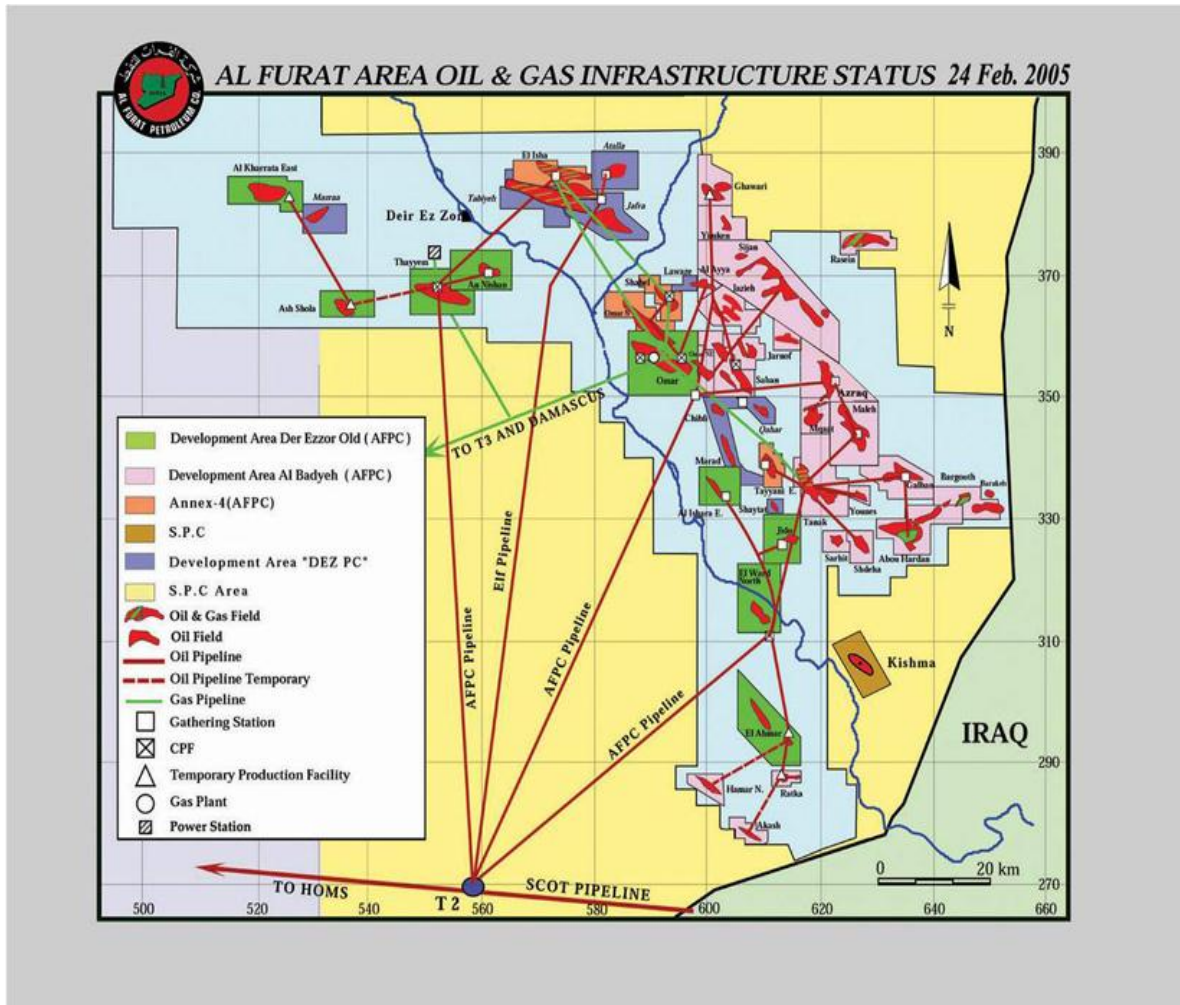
Shell's interests in the licences expire between 2018 and 2024.⁶ All three contracts are concluded with the Syrian government and the state owned General Petroleum Corporation (GPC; previously Syrian Petroleum Company). The oil fields are operated by Al Furat Petroleum Company, in which SSPD holds a 31.25% interest. SSPD's partner in the joint ventures is Himalaya Energy Syria B.V. which is a joint venture between the Indian ONGC Videsh and CNPC from China.⁷

- The three licenses contain about 38 producing oil fields (see Figure 1), which are operated by the consortium Al Furat Petroleum Company (AFPC). SSPD has a 31.25% share in AFPC, the state-owned General Petroleum Corporation holds 50% and Himalaya Energy Syria B.V. holds the other 18.75%. Currently, AFPC produces some 100,000 barrels a day.⁸

- AFPC also carries out development operations in Syria together with Al Badish Petroleum Company (ABPC), of which AFPC is the exclusive agent. SSPD holds a 33.33% interest in in ABPC.⁹
- SSPD is also party to a gas utilisation agreement for the collection, processing and sharing of natural gas from designated fields for use in Syrian power generation and other industrial plants. AFPC performs operations under these contracts.¹⁰

Figure 1 gives an overview of the oil and gas fields operated by AFPC as at February 2005.

Figure 1. Oil and gas fields operated by AFPC



Source: AFPC, "Maps and general information", Website AFPC (www.afpc-sy.com), Viewed in May 2011.

Shell describes its investment in Syria as among the risk factors and uncertainties affecting the company. As Syria is among the countries against which the US government imposed sanctions, Shell could be subject to sanctions or other penalties in connection with its activities in Syria.¹¹

1.2.3 Production of SSPD

The volumes of oil and gas attributable to SSPD are shown in Table 1. To add up oil and gas production, cubic meters of gas are converted into barrels of oil equivalents.

Table 1 SSPD's oil and gas production in Syria

Year	Crude oil and liquid gas production (million barrels/year)	Natural gas production (million m ³ /year)	Total (million boe/year)
2005	13.1	155.0	14.2
2006	10.9	113.7	11.7
2007	8.8	72.4	9.1
2008	8.0	62.0	8.4
2009	8.0	41.3	8.3
2010	6.9	31.0	7.3

Source: Royal Dutch Shell, "Annual Report 2010", *Royal Dutch Shell*; Royal Dutch Shell, "Royal Dutch Shell plc Financial and Operational Information 2005–2009", *Royal Dutch Shell*.

The numbers in Table 1 reflect 100% of the production attributable to Shell's subsidiaries. Since 2010, 35% of these figures is attributable to CNPC. As the table shows, both oil and gas production of SSPD have decreased sharply over the last five years. It is also clear that gas production only accounts for a small part of SSPD's total production.

To get a better picture of the importance of SSPD's production on the Syrian market, Table 2 compares the total oil production in Syria with the oil production of SSPD.

Table 2 Oil production in Syria

Year	Oil production (million barrels/year)	SSPD's share
2005	164.3	8.0%
2006	158.8	6.9%
2007	151.5	5.8%
2008	145.3	5.5%
2009	137.2	5.9%

Source: Source: Royal Dutch Shell, "Annual Report 2010", *Royal Dutch Shell*; BP, "Statistical Review of World Energy, *BP*, June 2010.

As Table 2 shows, SSPD's share in the Syrian oil production decreased from 8 to 6% over the last few years. Table 2 also shows that the total oil production in Syria has decreased considerably between 2005 and 2009.

To assess how important SSPD's production is for Shell, Table 3 puts the production of SSPD in Syria in perspective with Shell's total oil production.

Table 3 Oil production (available for sale) Shell

Year	Oil production (million barrels/year)	SSPD's share
2005	598.9	2.2%
2006	562.5	1.9%
2007	509.5	1.7%
2008	459.5	1.7%
2009	417.6	1.9%

Source: Source: Royal Dutch Shell, "Annual Report 2010", *Royal Dutch Shell*; Royal Dutch Shell, "Royal Dutch Shell plc Financial and Operational Information 2005–2009", *Royal Dutch Shell*, March 2010.

As Table 3 shows, between 2005 and 2009 SSPD has accounted for around 2% of Shell's total oil production.

1.2.4 Financial information

At the end of 2009, SSPD owned total assets worth € 216.8 million. The net profit of SSPD over 2009 amounted to € 124.7 million, compared to € 205.3 million in 2008.¹²

SSPD pays tax in accordance with Syrian tax law under a rate that represents Syrian Corporation Tax. In 2009 the effective tax rate that SSPD had to pay was 36.3%. Over earnings before tax of € 195.9 million in 2009, SSPD had to pay € 71.2 million tax to the Syrian authorities. In 2008, the company paid € 122.3 million in taxes.¹³

1.3 Shell South Syria Exploration

Shell South Syria Exploration (SSE) is a 100% Shell subsidiary registered in Bermuda. It has exploration interests in two production-sharing contracts for blocks 13 and 15 in the south of Syria, expiring in 2011 and 2014 respectively. A one-year extension for block 13 has been requested and is pending government approval. Seismic data acquisition was completed in 2008 and exploration drilling commenced in 2010. Shell is the operator with a 70% interest.¹⁴

Figure 2 gives an overview of the division of oil fields in Syria. The exploration blocks of SSE are clearly shown in yellow.

1.4 Chemical products

Apart from oil, Shell is also present in the Middle East with an extensive portfolio of chemicals manufacturing, storage, logistics and trading operations based in Saudi Arabia, Dubai, Jordan and Egypt. Shell also sells polyurethane products in Syria. For these products Shell uses third-party bulk storage and blending facilities in Aqaba, Jordan.¹⁵

Chapter 2 Other European companies in Syria

2.1 Introduction

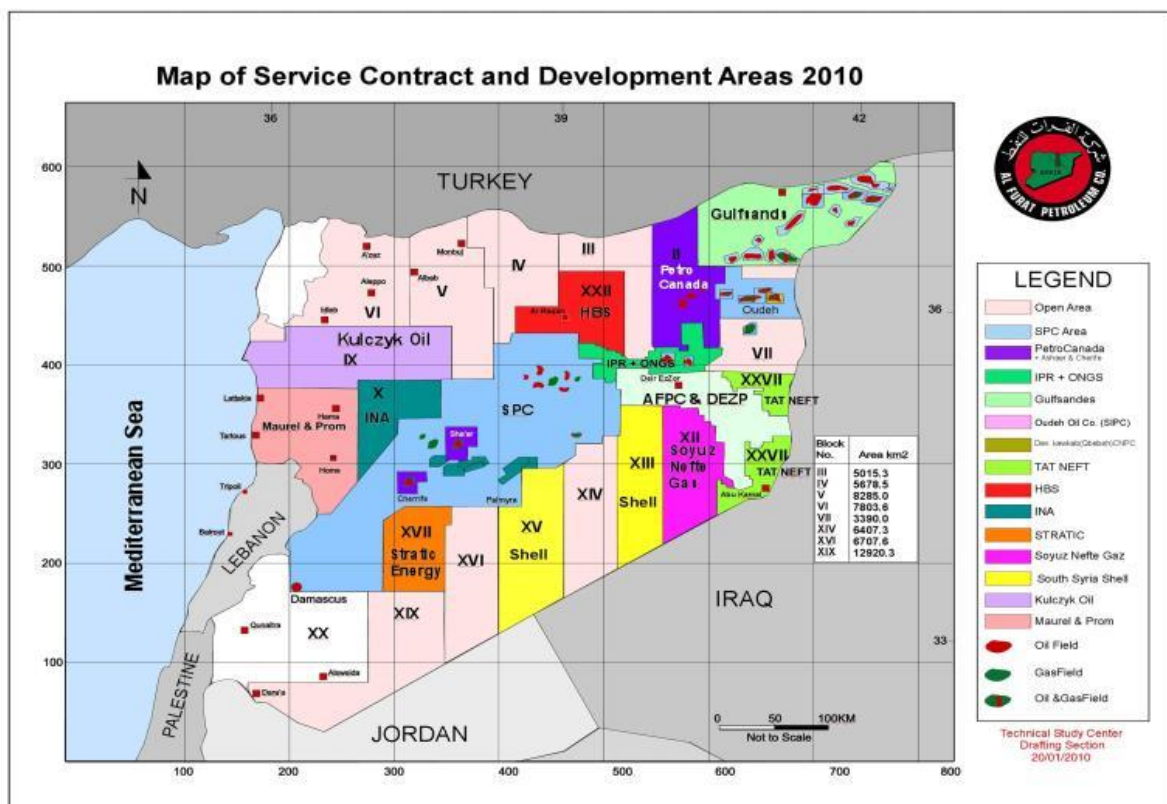
This chapter identifies and describes other European companies which have investments in Syria in the following sectors: oil and gas, electricity, telecommunications and infrastructure (roads, airports, ports, railways, waste, waste water treatment, etc.).

2.2 Oil and gas

2.2.1 Overview Upstream

Upstream oil production is in the hands of a number of companies and consortia (see Figure 2). Most important producer is the General Petroleum Corporation (the GPC, formerly State Petroleum Company - SPC), which is active in central Syria. The GPC also operates in production joint-ventures with some foreign companies. Most important joint-venture is Al Furat Petroleum Company, in which Shell has a 31.25% interest (see paragraph 1.2.2). More recently, some foreign oil companies have acquired exploration licenses, but most of these have not yet started producing.

Figure 2. Oil and gas concession areas in Syria



Source: AFPC, "Maps and general information", Website AFPC (www.afpc-sy.com), Viewed in May 2011.

The most important oil producing companies with their average annual production capacity (in thousand barrels per year) are listed in Table 4.

Table 4 Oil production companies in Syria

Company	European shareholder	Production capacity (thousand barrels/year)	Market share
General Petroleum Corporation		73,000	46%
Al Furat Petroleum Co.	SSPD (Netherlands) 31.25%	43,800	27%
Dijla Petroleum Co.	Gulfsands Petroleum (UK) 50%	18,250	11%
Deir Ez-Zor Petroleum Co.	Total (France) 50%	10,950	7%
Oudeh Oil Co.		7,300	5%
Sino Syrian Al Kawkab Oil Co.		3,650	2%
Hayan Petroleum Co.	INA (Croatia) 50%	< 3,000	2%

Source: USGS, "2009 Minerals Yearbook - Syria [Advance Release]", U.S. Department of the Interior - U.S. Geological Survey, April 2011.

Apart from its oil production in the Deir Ez-Zor Petroleum Company, **Total** (France) also produces gas since October 2009 in the Tabiyeh contract. In 2010 the gas production attributable to Total amounted to about 8.76 million barrels of oil equivalent (boe). Total oil and gas production of Total in Syria therefore amounted to 14.2 million barrels of oil equivalent in 2010, or about 9% of Syria's total oil production. This makes Total the largest European oil and gas company in Syria, surpassing Shell.

Apart from the companies mentioned in Table 4, two other European companies are active in oil exploration in Syria:

- **Maurel & Prom** (France)
- **Saipem** (Italy)

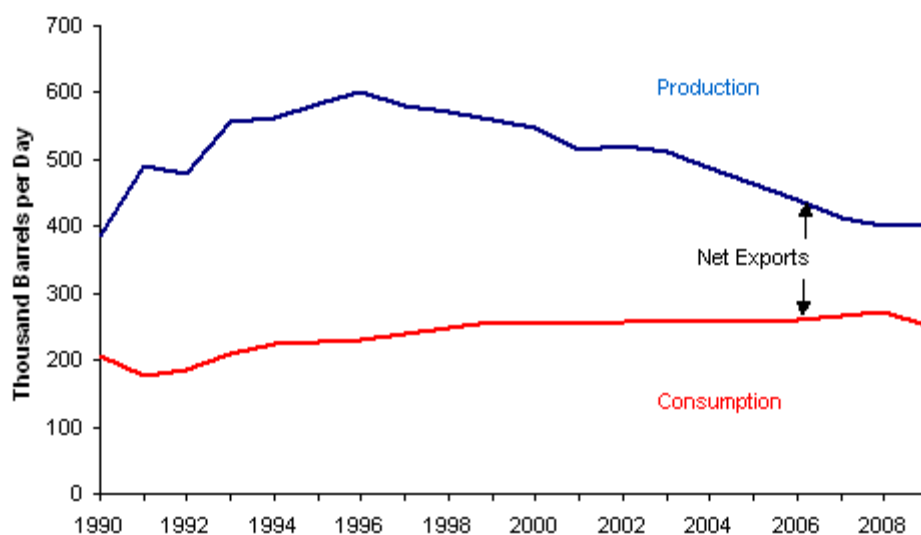
The European companies mentioned above are described in paragraphs 2.2.3 to 2.2.7.

2.2.2 Overview Downstream

All oil produced in Syria by the different operators is sold to the General Petroleum Corporation (GPC). The Syrian Company for Oil Transportation (SCOT) transports the oil to one of the three export terminals (in Baniyas, Tartous and Latakia) or to one of the two refineries in the country, which refine the oil for domestic use. Crude oil exports are marketed exclusively by the state-owned marketing company Sytrol, mainly to **France, Germany, and Italy** and other European countries.¹⁶

Figure 3 provides an overview of which share of Syrian oil production is exported since 1990. With a declining production and a slightly rising consumption, exports are decreasing. In 2009 the net oil export amounted to 148,000 barrels per day in 2009, or 39% of domestic production.¹⁷

Figure 3. Syrian oil production, consumption and export 1990-2009



Source: EIA, "Country Analysis Brief - Syria", U.S. Energy Information Administration, June 2010.

The two refineries in Homs and Baniyas all are subsidiaries of the state-owned General Corporation for Refining and Distribution of Petroleum Products (GCRDPP). The Baniyas refinery has the capacity to refine 133,000 barrels per day and the Homs refinery has the capacity to refine 107,000 barrels per day.¹⁸ To meet domestic demand, the refineries also import light oil to mix with the Syrian oil.¹⁹

Petrol and other refining products produced by the two refineries are distributed throughout the country by Mahrukhat, which also is part of GCRDPP. This company manages some petrol stations itself and also sells petrol to the other petrol stations, which are owned by small domestic companies. Petrol stations in Syria generally consist of little more than a hose, a meter and an attendant, with the more upmarket variety offering food and beverage facilities in the form of snack vending machines.

To improve quality and services in the petrol distribution sector, the government intends to attract foreign investments in this segment as well. These plans are not very successful yet, apart from the contract with Noor Financial Investment Company (Kuwait) which was granted a licence to establish 50 petrol stations in Syria in 2009. Not many other foreign companies have shown interest to invest in petrol stations in Syria.²⁰

In 2009, revenue from the hydrocarbon sector accounted for 4.6% of the GDP compared with 5.2% of the GDP in 2008. The value of crude oil exports decreased by 36% to about US\$ 3.5 billion in 2009, from US\$ 5.5 billion in 2008. The value of crude oil and refined oil products consumed domestically decreased by 43% to US\$ 3.2 billion from about US\$ 5.6 billion in 2008.²¹

2.2.3 Gulfsands Petroleum - UK

Gulfsands Petroleum is a British oil and gas exploration and production company, whose shares are traded on the London Stock Exchange. Gulfsands Petroleum's major focus is on the Middle East and North Africa where it has oil exploration and development projects in the Syrian Arab Republic, oil exploration projects in Tunisia, and upstream and midstream oil and gas business development activities in Iraq. Gulfsands also produces oil and gas from a portfolio of properties in the United States, offshore Gulf of Mexico.²²

Gulf sands owns a 50% working interest and is operator of Block 26 in North East Syria. The Khurbet East oil field was discovered in June 2007 and commenced commercial production in July 2008. This field is producing at an average gross production rate of approximately 18,000 barrels of oil per day through an early production facility. A second field discovery, the Yousefieh field, was brought on-stream in April 2010, and is currently producing approximately 2,700 barrels of oil per day. The current exploration license expires in August 2012. Possible reserves are estimated at 53.6 million barrels.²³

2.2.4 INA - Croatia

INA-Industrija nafte d.d. (INA) is a Croatian oil and gas company established in 1964. INA is 47.26% owned by the Hungarian oil company MOL Rt holding and for 44.84% by the Republic of Croatia. INA is active in oil and gas exploration and production, oil processing, and oil and oil products distribution. Its head office is located in Zagreb.²⁴ Abroad, INA is active in Egypt, Angola and Syria.²⁵

In Syria, INA is involved in exploration and development activities on the Hayan block, where three fields have been discovered: Jihar, Palmyra and Al Mahr. In addition to the reserves of gas and condensates, oil has also been found at the Jihar 2 well, and the exploitation started in 2005. INA has embarked on a joint investment with the company Hayan Petroleum Co. with a view to starting new business ventures on new fields. The year 2006 marked the beginning of natural gas and condensate production. In 2005, INA signed a sales agreement for natural gas with the Syrian Petroleum Company.²⁶

2.2.5 Maurel & Prom - France

Maurel & Prom is a mid-size oil and gas company based in France. Maurel & Prom's business activities include exploration and production and development. The company is active in ten countries on four continents.²⁷

In November 2006, Maurel & Prom signed an exploration permit with the Syrian Petroleum Company and the Petroleum Ministry of Syria. The permit covers block XI, called Alasi, in Syria. This block covers an area of 8,426 km² and marked Maurel & Prom's entry into the Middle East.²⁸ The permit was signed in association with PetroQuest, an American energy company. The Maurel & Prom share in this permit is 75%.²⁹

2.2.6 Saipem - Italy

Saipem is an international oil and gas company based in Italy. Saipem has been listed on the Milan Stock Exchange since 1984 (having previously been a wholly owned subsidiary of state-owned company Eni). Eni currently owns approximately 43% of Saipem. Saipem is organised into two business units: engineering & construction and drilling.³⁰

The Syrian Prime Minister, Mohammad Naji Otri, discussed in May 2010 with Saipem prospects of cooperation between the Syrian government and the company in the fields of oil and natural gas. Talks dealt with cooperation between Saipem and Syrian oil and gas companies regarding a project for establishing a pipeline for transporting Iraqi crude oil from Basra to the Syrian port of Banyas, in addition to a gas pipeline between Syria and Iraq. The meeting was attended by Minister of Petroleum and Mineral Resources, Sufyan Allaw, and Executive Director of Saipem, Pietro Varone.³¹

Cooperation between Saipem and a Syrian company has already taken off. In December 2010 the Syrian Dijla Petroleum Company has awarded Saipem a contract for the Khurbet East field on Block 26. Saipem will carry out the engineering, procurement and construction of a plant (Central Processing Facility) with the capacity to process 50,000 barrels of fluids per day.³²

2.2.7 Total - France

Total is a French international oil and gas company. With operations in more than 130 countries, Total engages in all aspects of the petroleum industry, including upstream operations and downstream operations. Total also produces base chemicals (petrochemicals and fertilizers) and specialty chemicals for the industrial and consumer markets. In addition, Total has interests in the coal mining and power generation sectors, as well as a financial interest in Sanofi-Aventis, a French health care company.³³

Total is the world's fifth-largest international oil and gas producer, with production of 2.38 million barrels of oil equivalent per day and proved reserves of 10.7 billion barrels of oil equivalent as of end-2010.³⁴

In Syria, Total is active in the oil and gas sector through an Exploration & Production Sharing Agreement (EPSA), jointly operated by GPC (50%) and Total (50%) via their Deir ez-Zor Petroleum Co. JV (DEZPC). It also closed another contract, the Tabiyeh contract, which became effective in October 2009. Taking both contracts together, Total's production was 39,000 barrels of oil equivalent (boe) a day in 2010, compared to 20,000 boe a day in 2009 and 15,000 boe a day in 2008.³⁵

Recently, three new agreements were approved:³⁶

- In November 2008, the 10-year extension of the Deir Ez Zor permit to 2021;
- In October 2009, the Tabiyeh agreement, which primarily provides for an increase in the production from the gas and condensates Tabiyeh field;
- In July 2009, the Cooperation Framework Agreement, which provides for the development of oil projects in partnership with the Syrian company General Petroleum Corporation.

2.3 Electricity

2.3.1 Overview

The only electricity generating company in Syria until now is the state-owned company Public Establishment for Electricity Generation & Transmission (PEEGT). No foreign investments in electricity generation have taken place yet, although foreign companies have made important supplies of equipment to PEEGT in recent years.

But PEEGT is not able to meet rising demand on its own. From 50,026 GWh in 2011 annual production will have to rise by more than 50 per cent to 77,715 GWh in 2020. At the same time, some 2,500 MW of existing capacity will have to be retired on account of age. To meet the demand and replace the old capacity, Damascus will need to install about 7,000 MW of new capacity over the next decade.

An investment of an estimated US\$ 7-8 billion is needed in increasing power generation capacity and a further US\$ 3-4 billion in transmission and distribution projects. With the government unable to bankroll such levels of investment, it has turned to the private sector. Steps are taken to attract foreign investments in new fossil fuel-based independent power projects (IPPs). Also, Syria hopes to attract foreign investors for several wind farms.³⁷

2.3.2 Foreign supplies to PEEGT

In September 2005, a German joint venture of **Siemens** and **Koch** was awarded the US\$ 522 million engineering, procurement and construction contract for the new 750 MW combined cycle power plant of PEEGT at Deir Ali. The plant will be powered by Egyptian gas feedstock from the Arab Gas pipeline under construction. Construction took five years.³⁸

In October 2010, **Ansaldo Energia** (Italy), a subsidiary of **Finmeccanica** (Italy), and **Metka**, (Greece) signed a contract with PEEGT to supply a combined cycle plant for the site in Deir Azzour. Ansaldo Energia will supply the plant with two gas turbines plus the relevant generators and auxiliary systems, and one steam turbine with relevant generator and auxiliary systems. The value of Ansaldo Energia's part of the contract totals € 160 million.³⁹

2.3.3 Independent Power Projects

The first independent power project (IPP) planned in Syria is Al-Nasserieh, some 60 kilometres south of Damascus. It will have a capacity of 180-250 MW and will run on heavy fuel oil, natural gas or a mixture of both. A competitive tender process is undertaken to find a foreign investor to build, own and operate the plant and finance 50% of the total costs. In October 2010 PEEGT pre-qualified 16 companies and consortia to bid for the Al-Nasserieh project. The following European companies were included in the short-list:⁴⁰

- **Evonik Steag** (Germany);
- **International Power** (UK) and Orascom Construction Industries (Egypt);
- Marafeq (Syria) and **Wärtsila** (Finland);
- **Mytilineos Holdings** (Greece) and **Metka** (Greece);
- **Terna Energy** (Greece).

As the bidding process is not yet finalised, no investor is chosen yet.

2.3.4 Windfarms

By the summer of 2011 PEEGT aims to issue a request for proposals to developers to build a wind farm. The winning bidder will develop the wind farm as an independent power project (IPP) and operate the plant for 20-25 years. Two sites have been earmarked for the wind farm at Al-Sukhna, which is 70 kilometres east of Palmyra and Al-Hijana, which is 50 kilometres south of Damascus. Each site is suitable for a 50-100 MW project.⁴¹

One consortium aiming to bid for the wind farm, consists of Marafeq (Syria), **Vestas Wind Systems** (Denmark) and Kharafi Group (Kuwait).⁴²

2.4 Telecommunications

2.4.1 Public telecommunication networks

The only operator of a landline telecommunication network in Syria is state-owned Syrian Telecommunications Establishment (STE). There are two operators of mobile telecommunication networks: MTN (South Africa) and Syriatel (Syria). The government is preparing an auction for a third mobile communications license. In December 2010, Syria's Communication and Technology Ministry announced that five companies had qualified to take part in the auction, including **France Telecom** (France). Final negotiations for the third licence were set to take place on 17 April 2011, but no winner is announced yet.⁴³

2.4.2 Emergency telecommunication network

Apart from the public telecommunication networks, Syria has also developed a mobile telecommunications network providing public institutions with emergency and disaster communications and a substitute communication network. In May 2008 **Intracom Telecom** (Greece) signed a € 40 million agreement with the Syrian Wireless Organization for the deployment of this wireless telecommunications network in Syria. Intracom Telecom would use communication technology from **Selex Communications** (Italy), which is a subsidiary of the military and electronics company **Finmeccanica** (Italy). The network was estimated to be completed in early 2010.⁴⁴

2.5 Infrastructure

2.5.1 Wastewater treatment

Only 30 per cent of Syria's wastewater currently undergoes any sort of treatment and this is concentrated in the four main cities. In 2010 the Ministry for Housing and Construction (MHC) started looking for contractors to deliver its programme of wastewater modernisation projects, which comprises construction of about 200 wastewater treatment plants over the next 10 to 15 years. It is also looking to increase the amount of wastewater it re-uses and to streamline the operation and management of its sewerage.

A diverse range of overseas companies already work in the water and wastewater sector in Syria, from countries including Germany. Their investments are in part due to the availability of support from financial institutions in these countries. An **unknown German company** is developing a wastewater plant in Kanaker which have to be operational in 2013.⁴⁵

In May 2010 plans were announced by **Uniha Wassertechnologie** (Austria) to build two water treatment plants in Qaryatin and Hadidat al-Assi towns in Homs Governorate, central Syria. The plants would cost € 7 million and would be financed by a loan from the Austrian government.⁴⁶

2.5.2 Airports

The airports of Syria are owned and operated by the state. Some of the technology has been supplied in the past by foreign companies. In 2007 the military and electronics company **Finmeccanica** (Italy) reported an order for an air traffic radar system from Syria.⁴⁷

2.5.3 Other infrastructure

Other infrastructure seems to be owned and operated by state-owned and private Syrian companies. No information was found on investments by European companies.

Chapter 3 Conclusions

The objective of this report was to provide more information on the investments of Royal Dutch Shell and other European companies in Syria, especially in the oil and gas, electricity, telecommunications and infrastructure sectors.

In all of the sectors researched, state-owned companies play a dominant role. In some sectors, especially roads, airports, railways and comparable infrastructure, no foreign investments have taken place yet. In the oil and gas production sector, on the other hand, foreign investments have played a significant role for decades already and are still expanding.

Some other sectors, such as fossil-fired electricity, windfarms, mobile communications, wastewater treatment and petrol stations, are still largely state dominated but are moving in the direction of the oil & gas sector. The Syrian regime is liberalizing these markets and aims to attract foreign investments. Up to now, no foreign investments have materialized yet in these sectors, except for the South-African mobile communications operator MTN and an unknown German wastewater treatment company.

But as tenders and auctions are underway, many Asian, Middle East and European companies have submitted proposals to invest in these sectors. European companies from Greece, Finland, the UK and Germany are interested in building the first independent power project in the country; the Danish company Vestas is interested in building a windfarm; the Austrian company Unica aims to build a wastewater treatment facility and France Telecom aims to become the third mobile communications operator in Syria. If these investments will materialize is not certain yet.

The Syrian oil and gas production sector is the only sector in which European companies have made significant investments up to date. The most important European company in this sector is Total (France) whose Syrian oil and gas production volumes increased strongly in the past two years, up to 14.2 million barrels of oil equivalent in 2010.

Shell is the second-largest European company in the Syrian oil and gas sector, through its subsidiary SSPD. This company is 65% owned by Royal Dutch Shell and 35% by the Chinese company CNPC.

SSPD has a 62.5% to 66.67% interest in three production licences, which are operated by Al Furat Petroleum Company (AFPC). SSPD holds a 31.25% interest in AFPC⁴⁸ and the state-owned General Petroleum Corporation holds 50%. SSPD is also party to a gas utilisation agreement, operated by AFPC, for use in Syrian power generation and other industrial plants.

Of all oil and gas produced by AFPC, an oil and gas production of 7.3 million barrels of oil equivalent was attributable to SSPD in 2010. This accounts for about 6% of total Syrian oil production and about 2% of Shell's global oil production.

A second Shell subsidiary, Shell South Syria Exploration, is exploring for oil in two blocks in South Syria.

SSPD is not involved in the refining of oil, nor in the marketing of oil, gas or oil products in Syria. The crude oil produced by AFPC on behalf of SSPD is sold to the state-owned General Petroleum Corporation (GPC). As part of the sale of this oil, GPC levies tax on behalf of the Syrian state.

The oil sold by AFPC and other oil producers to the GPC is transported to one of the three export terminals or to one of the two refineries in the country, which refine the oil for domestic use. As GPC owns all oil, it can determine the destination of this crude oil. As 61% of total Syrian oil production is refined and consumed domestically, it is very likely that at least part of the oil produced on behalf of SSPD is refined and consumed domestically. As the Syrian military, police and other security sectors are large consumers of oil products, they probably will use some oil products produced from SSPD's oil as well.

Apart from Total and Shell, there are several other European companies active in the oil and gas production sector in Syria. Gulfsands Petroleum (United Kingdom) and INA (Croatia) are already producing oil, while Saipem (Italy) and Maurel & Prom (France) are active in oil exploration.

The oil and gas sector is an important economic sector in Syria, accounting for about 5% of the GDP. The relative contribution of this sector to the tax income of the Syrian regime is likely to be even larger. As the second-largest European oil and gas producer in the country, accounting for 6% of Syrian oil production, Shell contributes significantly to the tax income of the Syrian regime. In 2008 and 2009 the company paid € 122.3 million, respectively € 71.2 million, in taxes to the Syrian authorities.

Appendix 1 References

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