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SUBJECT: AN ANALYSIS OF THE PROPOSED CONVERSION OF BANDAR MASHUR TO AN OIL PRODUCTS LOADING PORT

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SUMMARY:

As an alternative to the construction of a new oil products loading port on the Bahmanshir River or on the Khor Musa, Consortium officials are at least discussing conversion of Bandar Mashur into a products loading port. This scheme would require new crude lines from Agha Jari to Kharg Island, new products lines from the Abadan refinery to Bandar Mashur and enlargement of the Bandar Mashur tank farm. The basic argument for the proposal is that in ten or fifteen years Bandar Mashur, because of its narrow turning basin, will not be able to take crude-carrying tankers of a size which will then be competitive.

Although the most persuasive of the proposals advanced thus far, this last one does not alter the fact that diversion of tankers from the Shatt-al-Arab will add to the burden on the Iranian economy by greatly increasing river dues for dry cargo ships carrying 65 per cent of Iran's imports to Khorramshahr.

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Economics, national pride and a naval longing for an Iranian-controlled outlet to the Persian Gulf have for some time urged Iranians to find an alternative to the Shatt-al-Arab. The latest scheme appears to be more economical, would seem to require a far more reasonable outlay of capital and might more nearly conform to some of the expected trends in the oil industry.

Bandar Mashur, Iran's principal port for the export of crude oil until Kharg Island jetties become operable, is admirably situated on the Khor Musa in protected water with a maximum working depth of 38 and one-half feet. The channel at the port itself, however, is narrow and there is insufficient turnaround space for tankers of more than 730 feet in length. If, as some oil economists believe and as present tanker construction would indicate, the future of crude tankers rests with ships of 80,000 tons, Bandar Mashur's days as a crude loading port are numbered. Unless its channel is somehow widened, it will be unable to load a tanker of more than about 47,000 tons.

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However, Bandar Mashur offers distinct advantages as a products loading port. River dues on a tanker traveling up the Shatt in ballast, loading products at Abadan and proceeding to the Gulf with a draft of 33 feet (the maximum which can be accomodated at Abadan) come to about $8,960. A ship of the same size passing up the Khor Musa, loading the same cargo at Bandar Mashur and returning to sea would pay only $364. Unlike the Shatt, the Khor Musa must be dredged only at its bar (near the mouth of the channel). Also, the trend in products tankers is toward ships larger than those that can be berthed in Abadan but could easily be handled at Bandar Mashur. While Mashur will not be capable of taking the mammoth crude tankers, it is capable of loading the largest tankers needed for products - ships three times the size of those now calling at Abadan.

Savings resulting from use of the Khor Musa instead of the Shatt-al-Arab could amortize the necessary enlargement of Bandar Mashur and the cost of new pipe lines in a reasonable time assuming products tankers would pay higher river dues on the Khor Musa than crude tankers pay now. Unless the products tankers diverted to the Khor Musa paid the equivalent of what they now pay on the Shatt, or at least a substantial portion of it, the cost of the conversion of Bandar Mashur could not be amortized within an amortization period likely to appeal to Iran.

Because of the number of refinery products (ConDesp 36 of December 27, 1958) new tanks would have to be built at Mashur and probably seven pipelines varying from 4" to 16" would have to be laid from the refinery to Mashur. In addition, new pipe for crude would have to be laid from Agha Jari to Ganaveh since Mashur would no longer be the outlet for Agha Jari crude. There is also the probability that the submarine line now being laid between Ganaveh and Kharg could not take the combined production of Agha Jari and Gach Saran even with the installation of pumps. Since the present 30" line is expected to cost $5,250,000, the expense of doubling it to take Agha Jari crude could cast serious doubt on the scheme although such a cost seems moderate when compared to the $100 million estimated cost of building an entirely new port on the Khor Musa (referenced despatches). International Marine Constructors, who are laying the Kharg-Ganaveh line, have offered to double it at a discount if it can be done while their personnel and equipment are on the spot. The offer was not immediately accepted and at last report was still pending.

During a recent conversation with C. S. SCOTT, a STANVAC marine executive visiting Abadan who first mentioned the proposed conversion of Bandar Mashur to the reporting officer, the possibility of dismantling the Abadan tank farm, moving it to Mashur and rebuilding it there was mentioned. Mr. Scott replied that a simpler solution might be to flood the Abadan tank farm, float the tanks and tow them down the Shatt and up the Khor Musa to a pre-flooded area at Bandar Mashur which could later be drained to serve as the tanks final site. He noted that this had been done in Tientsin and Jean Jochem, General

Refinery Manager, commented later that Scott's suggestion is feasible.

However, Mr Scott believes that the formidable expenditures envisaged by the various Iranian schemes for escaping from the Shatt-al-Arab make little sense when the future of the Abadan refinery is considered. He described it is obsolete by any standards. Further, his own company alone is building or has built refineries in South Africa, Ceylon, Pakistan, Indonesia, Australia and New Zealand in keeping with the present trend in the industry to build refineries in consuming countries rather than in producing ones - a trend demanded by the newly independent consuming countries in the Middle and Far East. Prestige and national pride prompt such demands as well as a wish to benefit from the profit and employment of refining oil.

According to Mr. Scott, Abadan could discharge 15,000 employees and still operate effectively (present employment is over 24,000). Tanker loading facilities, according to Mr. Scott, are hopelessly inefficient. Despite the fact that there are far more tanker jetties than necessary, tanker turnaround is the slowest in the world. In short, because of rapidly diminishing overseas markets, the long period of time before Iranian consumption can be expected to match the refinery's production and the refinery's inefficiency and obsoleteness, further funds should not be invested in it, Mr. Scott believes.

COMMENT:

In the absence of concrete evidence to the contrary, it is assumed that the Basra Port Authority is a non-profit making organization and its revenues equal its cost in maintaining the safe navigation of the Shatt-al-Arab. At present 875 tankers loading products at Abadan pay to the Basra Port Authority approximately $4,900,000 per year in river dues. Shipping agents estimate that 500 dry cargo ships annually unloading at Khorramshahr, which handles 65 per cent of Iran's imports, pay approximately $1,000,000 in river dues. The cost of operating the river varies little with the number of ships: principal expenses are for dredging. If there were no tankers loading at Abadan, a saving could be effected on pilotage and routing operations but the cost of dredging the river would remain unchanged so long as any ocean going vessels called at Khorramshahr and Basra. It is true thatthere might be some slight saving in dredging only for dry cargo ships with a maximum draft of only 27 feet as opposed to tankers which draw up to 33 feet but as long as tankers load at Fao the outer bar must be dredged to tanker depth. In general it may be said that if the tankers are withdrawn from the Shatt, the cargo ships will then pay the river dues now paid by themselves and the tankers. In other words, 500 dry cargo ships now paying $1,000,000 per year will pay $5,900,000 or an average of $11,800 per ship instead of the present $2,000 per ship.

It would appear that unless Iran is prepared to write off the billion rials it has put into improving the port of Khorramshahr, spend even larger amounts in expanding Bandar Shahpour, accept a hugh increase in the cost of imports and at the same time require products tankers loading at Mashur to pay the equivalent or at least a substantial part of their present Shatt dues, the political, patriotic, economic and military hopes for escaping from the Shatt-al-Arab are foredoomed. Although it may be unpalatable politically, continued use of the Shatt still seems to be cheaper than any alternative thus far proposed.

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cc: Tehran, Isfahan, Meshed, Tabriz, Dhahran, Kuwait, Basra, Baghdad