

Legal Implications of Security Risks in the Investment of Multinational Companies in Iran's Oil and Gas Industries

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Received: 2025-10-02 Revised: 2026-02-12 Accepted: 2026-02-19 Initial Publish: 2026-02-24 Final Publish: 2026-12-01

This study aims to analyze the legal implications of security risks on the investment of multinational companies in Iran's oil and gas industries. Using a descriptive–analytical approach grounded in legal documents, domestic legislation, and international arbitration practices, the research identifies political instability, international sanctions, physical and cyber threats, and regulatory inconsistency as the primary factors undermining investment security in Iran. Each of these risks may constitute a violation of the fundamental principles of investment protection—namely the Fair and Equitable Treatment (FET) and Full Protection and Security (FPS) standards—and thus entail international liability for the host state. Examination of the Foreign Investment Promotion and Protection Act (FIPPA) reveals that, despite its formal recognition of investor rights, the lack of regulatory clarity, overlapping institutional authorities, and inefficiency in enforcing foreign arbitral awards continue to weaken legal safeguards. At the international level, Iran's non-membership in the ICSID Convention and limited cooperation with global investment insurance institutions such as MIGA have further reduced investor confidence. The findings underscore that comprehensive legal reform, harmonization with international standards, and the development of autonomous arbitration and insurance mechanisms are essential prerequisites for ensuring investment security and attracting sustainable foreign participation in Iran's strategic oil and gas sector.

Keywords: Security risk, foreign investment, multinational companies, oil and gas law, international arbitration, investment protection act

How to cite this article:

Pirzadeh, A., & Piri, M. (2026). Legal Implications of Security Risks in the Investment of Multinational Companies in Iran's Oil and Gas Industries. *Interdisciplinary Studies in Society, Law, and Politics*, 5(4), 1-20. <https://doi.org/10.61838/kman.isslp.454>

1. Introduction

The oil and gas industries, as the lifeblood of the global economy, have consistently been at the center of attention for international investors. Despite the significance of this sector in securing energy supplies and generating national revenues, the inherently high-risk nature of petroleum activities—particularly in developing countries and unstable regions—has created numerous challenges for multinational companies. Owing to its vast oil and gas reserves and its distinctive geopolitical position, Iran is considered one of the attractive destinations for foreign investment.

Nevertheless, the complexity of its legal structure, international sanctions, and security threats at both regional and domestic levels have created an ambiguous environment for foreign investors. Examining the legal implications of security risks in the investment of multinational companies in Iran's oil and gas industries is therefore of particular importance, as legal stability and security constitute essential prerequisites for attracting and maintaining investment in this sector. In the global context, the relationship between security, law, and investment has become one of the central issues of international economic law. In advanced legal



systems, the host State is obliged to ensure the personal and financial security of investors and to establish effective protective mechanisms against threats arising from political unrest, terrorism, war, or sanctions (Olujobi et al., 2024). Such an obligation is rooted in the fundamental principles of foreign investment protection, including fair and equitable treatment, full protection and security, and compensation in cases of breach of obligations (Ezeh et al., 2024). Conversely, in countries such as Iran, which face structural challenges, extensive sanctions, and regional instability, compliance with these obligations encounters significant difficulties. This situation has rendered security risks a deterrent factor in the decision-making processes of multinational companies (Razavi & Salari, 2020).

The position of foreign investment in Iran's oil and gas sector must be examined within a specific historical and legal framework. From the pre-revolutionary period to the present, the Iranian government's approach toward the presence of foreign companies in petroleum industries has undergone substantial changes. In various periods, contractual models such as concession agreements, production-sharing agreements, and Buy-Back contracts have been employed, each carrying distinct legal and economic consequences (Akhlaj, 2014). Following the Islamic Revolution, Article 81 of the Constitution prohibited the direct involvement of foreign companies in the exploitation of natural resources; however, with the enactment of the Law for the Promotion and Protection of Foreign Investment, the indirect participation of companies through service contracts became possible (Iranpour, 2023). Although this legal framework paved the way for the gradual return of investors, the persistence of political and security tensions prevented the sustainability of this trend.

Indeed, one of the principal obstacles to attracting investment in Iran's oil industry is the absence of confidence in political and security stability. On the one hand, international sanctions imposed during different periods have created restrictions on financial transactions, insurance, and technology transfer (Razavi & Salari, 2020). On the other hand, risks such as insecurity in oil-producing regions, terrorist threats, and cyberattacks on energy infrastructure have increased investment risk (Пашченко et al., 2024). These threats not only entail economic consequences but also have

significant legal dimensions, as any disruption caused by security factors may result in breach of contractual obligations or invocation of force majeure, thereby triggering the liability of the host State or contractual party (Ebrahimi et al., 2014).

The experience of other countries demonstrates that the existence of a transparent and efficient legal system for managing security risks can play a crucial role in reducing investor concerns. For example, in advanced legal systems such as Norway or Canada, the State's commitment to protecting investments against security threats is guaranteed through specific legislation and governmental insurance schemes (Vitryk, 2025). By contrast, in developing countries such as Nigeria, similar challenges to those faced by Iran regarding the security of oil facilities and the presence of foreign companies have been observed, and research has shown that weaknesses in security and legal policymaking have led to the gradual withdrawal of investors (Olujobi et al., 2024). Accordingly, creating legal certainty for foreign investors in Iran requires institutional reforms, enhancement of contractual transparency, and strengthening of international dispute resolution mechanisms.

From an economic perspective, attracting foreign investment in the oil and gas industries for Iran signifies not only the provision of financial resources but also an opportunity for technology transfer, infrastructure development, and enhancement of competitive capacity in the global market. Given the financial constraints resulting from sanctions and declining oil revenues, the participation of multinational companies can contribute to the revival of production capacities and the increase of exports (Niazimohseni et al., 2020). However, achieving this objective depends upon providing legal assurance to investors, particularly under conditions where security threats may lead to project suspension or increased operational costs (Ezeh et al., 2024). In such circumstances, foreign investors seek guarantees that would enable compensation for damages and continuity of investment in the event of crises.

The specific nature of oil and gas activities, which are typically conducted in geographically sensitive areas, inherently intertwines them with various types of security risks. These risks may include political instability, economic sanctions, border conflicts, and even environmental threats. Each of these factors entails

not only economic impacts but also particular legal consequences. For instance, in the event of a military attack or sabotage operation against oil facilities, the issue of the host State's legal responsibility toward foreign investors arises, as the State is obliged to protect their security and assets (Montazeri & Ebrahimi, 2014). In cases of negligence or failure, international claims may be brought against the State before arbitral tribunals such as ICSID or UNCITRAL (Rafiei, 2020).

From the perspective of international investment law, the principles of "fair and equitable treatment" and "full protection and security" are among the most significant principles that States must observe toward foreign investors (Ebrahimi & Shirijian, 2013). Any violation of these principles, including as a result of security threats or unpredictable policies of the host State, may entail international responsibility. Consequently, many countries have incorporated obligations concerning compensation for damages arising from security risks into bilateral or multilateral investment agreements (Azizi, 2020). In Iran, although the Law for the Promotion and Protection of Foreign Investment generally refers to necessary protections, ambiguities remain regarding the precise definition of security risks and the enforcement mechanisms for breaches of obligations (Mehdi Montazer & Seyyed Nasrollah Ebrahimi, 2013).

Security stability constitutes the most important factor in guaranteeing investors' rights. From the perspective of multinational companies, investment in a country such as Iran becomes rational only when political and security risks are properly identified, assessed, and managed. The greater the predictability of the legal and political system, the higher the likelihood of investor entry. Moreover, transparency in petroleum contracts and the provision of effective dispute resolution mechanisms can play a preventive role in disputes arising from security conditions (Kardel, 2019). Otherwise, legal ambiguities and weaknesses in the enforcement of obligations not only undermine investor confidence but also diminish the international credibility of the country's economic system.

Given the importance of this issue, this article has been prepared with the objective of analyzing the legal implications of security risks on the investment of multinational companies in Iran's oil and gas industries. In this study, in addition to examining the legal and contractual frameworks governing foreign investment,

the impact of security factors on the obligations of the host State, the legal responsibilities arising from security breaches, and compensation mechanisms will be analyzed. The ultimate aim is to present a comprehensive picture of the legal challenges and improvement strategies for strengthening the protective framework in order to attract and maintain foreign investment in Iran's strategic oil and gas industries.

2. Theoretical and Conceptual Foundations

In analyzing the legal implications of security risks in the investment of multinational companies in Iran's oil and gas industries, it is first necessary to clarify the fundamental concepts related to "risk," "security risk," "foreign investment," and "multinational companies" in order to provide the requisite theoretical and legal framework for examining the subject. In economic and legal literature, risk generally refers to the probability of the occurrence of events that may adversely affect the outcome of an economic or legal decision. Risk is typically associated with uncertainty, and its magnitude increases in politically or economically unstable environments. In the field of foreign investment, risks are broadly divided into two categories: commercial risks, which arise from market performance and enterprise management, and non-commercial or political risks, which originate from the legal and political environment of the host State (Amani & Hamidzadeh, 2015).

Security risk is considered a subset of non-commercial risks and refers to threats arising from security and political factors that may lead to damage or breach of contractual obligations. In strategic industries such as oil and gas, security risk encompasses a very broad spectrum and includes political instability, terrorist attacks, military conflicts, economic sanctions, and even cyber threats against energy infrastructure (Пашченко et al., 2024). From the perspective of international investment law, the host State is obliged, within reasonable and customary limits, to provide the necessary security for the activities of foreign investors and to prevent actions or omissions that may endanger their assets or economic activities (Ezeh et al., 2024). Foreign investment in legal literature refers to any allocation of tangible or intangible assets by nationals of one country within the territory of another country for the purpose of obtaining long-term benefits. Such

investment may be direct or indirect. Direct investment generally involves the entry of the investor as a partner in the ownership and management of the host enterprise, whereas indirect investment is primarily conducted through the acquisition of shares or securities (Azizi, 2020). In Iran's oil and gas industries, foreign investment is typically realized in the form of long-term service contracts between multinational companies and governmental entities such as the National Iranian Oil Company (Ebrahimi et al., 2014).

A multinational company is an economic entity that conducts its production, commercial, or service activities in more than one country. Owing to their substantial financial capacity and access to advanced technology, these companies play a fundamental role in the development of large-scale oil and gas projects. From the standpoint of international law, such companies are subject to the legal system of their home State; however, within the host country, they are considered subject to the domestic laws of that State (Olujobi et al., 2024). Consequently, their principal challenge in countries such as Iran lies in adapting to particular legal systems and ensuring the security of investment in an environment characterized by sanctions, regional threats, and political fluctuations (Razavi & Salari, 2020).

In Iran, the legal foundations of foreign investment may be examined at several levels. The first and most significant legal instrument in this regard is the "Law for the Promotion and Protection of Foreign Investment," enacted in 2002, which established the necessary legal framework for the entry of foreign capital. Pursuant to Article 2 of this Law, foreign investors enjoy legal guarantees and protections equal to those afforded to domestic investors, and the State undertakes to protect them against unlawful expropriation or nationalization (Iranpour, 2023). Furthermore, Article 9 of the aforementioned Law emphasizes the possibility of compensation in cases of expropriation, thereby providing a basis for discussion concerning State responsibility in relation to security risks.

In addition to this Law, the contractual regime of Iran's oil and gas sector plays an essential role in regulating relations between the State and multinational companies. Following the Islamic Revolution, due to the prohibition of foreign ownership over natural resources under Article 81 of the Constitution, the Iranian government adopted specific contractual models to

attract investment. Buy-Back contracts represent one such model, under which the foreign company undertakes the costs of exploration and field development and, after production commences, recovers its capital and profit through the sale of oil (Akhlaqi, 2014). Despite the advantages of this model, numerous criticisms have been raised regarding the limited authority of the investor and the absence of effective compensation mechanisms under conditions of insecurity (M. Montazer & S. N. Ebrahimi, 2013).

In recent years, in order to address these shortcomings, a new model known as the Iran Petroleum Contract (IPC) was introduced. Compared with Buy-Back contracts, the IPC is more flexible and accords a greater role to foreign companies in the production and management phases. Nevertheless, ambiguities remain concerning the enforceability of the host State's security-related obligations under this type of contract (Montazeri & Ebrahimi, 2014). From a comparative law perspective, the principles governing foreign investment in Iran are similar to those in many other legal systems, which require the State to guarantee investment security; however, deficiencies in the effective implementation of these principles and lack of coordination among executive authorities have led to a low level of confidence among multinational companies (Rafiei, 2020).

The legal nature of the host State's obligations to ensure investment security derives from general principles of international law. According to international arbitral practice, States are required to accord fair and equitable treatment to foreign investors and to guarantee full protection and security (Ebrahimi & Shirijian, 2013). The concept of full protection and security is not limited to physical security but also encompasses the assurance of legal and political stability. In other words, the State must provide conditions that enable the investor to operate within a stable and predictable environment (Vitryk, 2025). If the State fails to fulfill this obligation or does not take adequate measures in the face of security threats, it may incur international responsibility.

Within the Iranian legal system, although the Law for the Promotion and Protection of Foreign Investment generally affirms the obligation to ensure investment security, the precise manifestations of such security and the limits of State responsibility have not been clearly defined. This legal gap implies that, in the event of

incidents such as attacks on oil facilities or severe economic sanctions, the possibility of claiming compensation from the host State at the international level may be limited (Razavi & Salari, 2020). In contrast, in many other legal systems, such incidents are classified as “political or security risks,” and compensation mechanisms through insurance or arbitration have been established (Olujobi et al., 2024).

The types of security risks in Iran’s oil and gas industry may be examined in several categories. The first category consists of political risks arising from domestic and international decisions and policies. Sudden changes in economic policies, diplomatic disputes, or the imposition of sanctions constitute prominent examples of this type of risk. The economic sanctions imposed by the United States and the European Union in recent decades represent a clear example of political risk that has directly affected Iran’s oil contracts (Niazimohseni et al., 2020). These sanctions not only disrupted financial transfers and insurance services but also compelled many multinational companies to withdraw from projects.

The second category comprises military and physical risks, which primarily relate to the security of facilities and personnel. Terrorist threats, sabotage of pipelines, or military attacks on oil-producing regions are among the dangers that have consistently concerned foreign investors in the volatile regions of the Middle East (Пащенко et al., 2024). Where the host State is unable to ensure the physical security of facilities, international responsibility may arise. Comparable cases have been observed in international arbitration practice, in which foreign investors have succeeded in obliging the host State to compensate for damages resulting from security instability (Ezeh et al., 2024).

The third category consists of cyber risks, which have gained prominence in recent years due to the digitalization of energy infrastructure. Cyberattacks against refineries, oil transmission lines, and data centers may disrupt production activities and cause extensive losses. Such threats are generally transnational in nature, and identifying the perpetrator is often difficult; consequently, legal systems are striving to determine responsibilities and preventive measures in response to such risks (Vitryk, 2025). Iran has also experienced multiple cyberattacks on its energy

infrastructure in recent years, with significant economic and security consequences.

The fourth category encompasses risks arising from sanctions and international pressures. Sanctions constitute a political instrument that exerts profound effects on national economic systems. In the context of foreign investment, sanctions lead to reduced investor confidence, increased transaction costs, and restrictions on technology transfer (Razavi & Salari, 2020). From the perspective of international law, sanctions may at times conflict with the principles of freedom of trade and investment protection; however, due to political considerations, investors are often unable to claim compensation from sanctioning States, and only the host State is regarded as accountable for the decline in investment security (Rafiei, 2020).

The fifth category of security risks relates to regional and geopolitical threats. Due to its location in a highly volatile region, Iran has consistently faced risks stemming from regional conflicts, the presence of foreign forces, and energy rivalries. Instability in the Persian Gulf or border disputes may directly affect the security of oil and gas export routes (Kardel, 2019). Such threats have not only economic effects but also legal consequences, as they may result in suspension of contractual performance or alteration of commercial conditions, thereby giving rise to disputes between the host State and foreign investors (Ebrahimi et al., 2014).

Accordingly, within the theoretical framework of this study, security risk is a multidimensional phenomenon encompassing both economic and legal dimensions. From the standpoint of international law, the host State is obliged, while respecting the principle of national sovereignty, to guarantee the security of investors and to provide appropriate compensation in the event of security incidents (Ebrahimi & Shirijian, 2013). However, this obligation is not absolute, and the State may be exempted from responsibility under circumstances of force majeure, provided that it demonstrates that the incident was beyond its control (Mehdi Montazer & Seyyed Nasrollah Ebrahimi, 2013). Consequently, the relationship between security risks and State obligations is based on a balance between public and private interests; that is, the State must, on the one hand, safeguard national security and public interests, and, on the other hand, respect its

international obligations toward investors (Amani & Hamidzadeh, 2015).

Overall, the theoretical and conceptual foundations of this study demonstrate that security risks in Iran's oil and gas industries are not merely economic in nature but also constitute, from a legal perspective, a test of the effectiveness of the country's legal system in protecting foreign investors. The precise definition of the host State's obligations, clarification of the limits of responsibility in the face of security threats, and establishment of effective compensation mechanisms can play a decisive role in enhancing the confidence of multinational companies and attracting sustainable investment in this strategic sector.

3. Legal Framework for the Investment of Multinational Companies in Iran's Oil and Gas Industries

The legal framework governing the investment of multinational companies in Iran's oil and gas industries is the product of a historical interaction among economic interests, legal requirements, and political conditions that has continuously evolved from the period prior to the nationalization of the oil industry to the present day. From the beginning of the twentieth century, multinational companies—particularly British and American firms—played a major role in the discovery, extraction, and export of Iran's oil. The first oil contract was concluded in 1901 between the Iranian government and William Knox D'Arcy, which led to the establishment of the Anglo-Persian Oil Company (Kardel, 2019). This contract, which was valid for 60 years, allocated only a small share of oil revenues to Iran and, due to its legal inequality, provoked widespread domestic criticism. This trajectory continued until the nationalization of the oil industry in 1951, which is regarded as a turning point in Iran's national sovereignty over natural resources.

After the nationalization of the oil industry, the Iranian government, while seeking to maintain control over resources and simultaneously meet its technical and financial needs, pursued new contractual models capable of safeguarding the country's economic independence while benefiting from foreign investment and technology. However, the sanctions and international pressures that followed the Islamic Revolution in 1979 subjected the presence of multinational companies to serious challenges. In subsequent decades, as the Iranian

government adjusted its economic approach and enacted the "Law for the Promotion and Protection of Foreign Investment," it sought to create a legal and institutional basis for the return of foreign companies (Iranpour, 2023).

In this process, contractual models played a pivotal role. In the post-revolutionary era—particularly from the 1990s onward—Buy-Back Contracts were introduced as the principal instrument for attracting foreign investment in oil and gas projects. Under this type of contract, the foreign company assumes responsibility for providing capital, technology, and implementing exploration or field development operations and, after production begins, recovers its capital and profit from oil sales without acquiring any ownership over the resources or production (Akhlaji, 2014). This structure was designed to preserve national ownership over natural resources while attracting foreign capital, yet it entailed legal and economic limitations. One fundamental critique concerns the short repayment period and the inability to sustain the long-term presence of foreign companies in extended operational phases (Mehdi Montazer & Seyyed Nasrollah Ebrahimi, 2013).

Over time, with increasing needs for investment and technology in the energy sector, and amid regional competition to attract investors, the Iranian government moved to reform its contractual model. The outcome of these reforms was the design of contracts known as Iran Petroleum Contracts (IPC). In these contracts, unlike the Buy-Back model, the foreign company also participates in the production phase and, in addition to receiving costs and a reasonable profit, may play an active role in the management of production operations (Montazeri & Ebrahimi, 2014). IPCs also incorporate longer-term mechanisms, risk-and-return allocation between the parties, and more explicit obligations concerning technology transfer and the training of Iranian human resources (Ebrahimi & Shirijian, 2013). This contractual model sought to reduce prior limitations and, while preserving Iran's sovereignty, create more attractive conditions for multinational companies (Amani & Hamidzadeh, 2015).

Nevertheless, certain legal challenges remain. The first issue is ambiguity regarding the scope of the host State's responsibility for guaranteeing investment security. Although the Law for the Promotion and Protection of

Foreign Investment emphasizes support for foreign investors in Articles 2 and 9, the details concerning compensation for losses arising from security incidents or sudden policy shifts are not clearly articulated (Iranpour, 2023). The second challenge is the tension between domestic legal principles and international requirements. Under Article 81 of the Constitution, granting concessions for the exploitation of natural resources to foreigners is prohibited; yet, within the framework of ordinary legislation, the Iranian government may conclude service contracts with foreign companies. This tension between the two legal levels has long been contested and has affected the legal stability of contracts (Azizi, 2020).

On the other hand, the performance of contractual obligations within Iran's domestic legal order relies on general contract law and civil law provisions. Pursuant to Article 219 of the Civil Code, contracts concluded between parties are binding unless they are terminated on legally recognized grounds. However, in international oil and gas contracts, the complexity arising from the involvement of governmental entities and the presence of sovereign considerations renders the interpretation and performance of obligations more difficult. Where the government or the National Iranian Oil Company acts as a contractual party, the issue of the State's "international obligations" also arises, since any failure to fulfill security-related or economic obligations may result in claims being brought before international fora (Rafiei, 2020).

From a comparative perspective, the experiences of other countries indicate that a clear and predictable legal framework is an essential condition for attracting multinational companies. For example, states such as Norway, Qatar, and the United Arab Emirates, by reforming their legal systems and guaranteeing security and contractual protections, have succeeded in creating a secure environment for investment in the energy sector (Vitryk, 2025). By contrast, countries such as Nigeria, confronted with insecurity and administrative corruption, have witnessed a decline in the presence of international companies in oil projects (Olujobi et al., 2024). In this comparison, Iran occupies an intermediate position: on the one hand, it possesses foundational legal infrastructure for attracting foreign capital; on the other hand, weaknesses in effective enforcement and the

existence of security risks generate investor distrust (Razavi & Salari, 2020).

From the standpoint of international investment law, Iran is a party to certain institutions and agreements related to investment protection, yet it has not acceded to the Convention on the International Centre for Settlement of Investment Disputes (ICSID). This means that, in the event of disputes between the Iranian government and multinational companies, fewer international arbitral avenues are available for adjudication. Nonetheless, many Iranian petroleum contracts include international arbitration clauses under UNCITRAL or ICC rules in order to enable dispute resolution outside domestic courts (Ebrahimi et al., 2014). This approach reflects Iran's attempt to maintain a balance between national sovereignty and the requirements of international investment.

At the domestic level, institutions such as the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI) and the Ministry of Petroleum play significant supervisory and executive roles in the process of attracting and managing foreign investments. Under the Law for the Promotion and Protection of Foreign Investment, all proposed projects must be reviewed by this organization and investment licenses must be issued accordingly. At the same time, the Supreme National Security Council and other sovereign bodies also intervene in assessing the security risks of projects. This multiplicity of decision-making bodies at times produces policy and implementation incoherence in relation to contracts (Niazimohseni et al., 2020).

Another important dimension of Iran's investment framework concerns equal treatment of foreign investors. At the international level, the fair and equitable treatment (FET) standard and the principle of non-discrimination constitute key benchmarks for assessing host State obligations. Any discriminatory conduct or imposition of unreasonable restrictions may amount to a breach of these standards and give rise to international claims (Ezeh et al., 2024). In Iran, although the foreign investment law generally emphasizes legal equality between domestic and foreign investors, certain implementation constraints—such as currency transfer, investment insurance, or the use of foreign labor—have at times resulted in indirect infringements of this principle (Azizi, 2020).

A further notable point is the role of international sanctions in weakening Iran's investment legal framework. Since many multinational companies are subject to the laws of their home States, extraterritorial sanctions imposed by the United States or the European Union may impede the execution of their lawful contracts with Iran (Razavi & Salari, 2020). Legally, this situation creates a conflict between contractual obligations and international restrictions, placing companies in a dual predicament between breaching contracts and violating sanctions regimes (Rafiei, 2020). This demonstrates that security and political risks in Iran are not confined to domestic threats but also possess transnational dimensions.

Within such a context, the Iranian State's obligations to protect foreign investors acquire particular significance. The State is required not only to guarantee the physical and legal security of investors but also to ensure legal stability and policy predictability. Any sudden change in tax, customs, currency, or environmental regulations may be construed as a breach of the fair and equitable treatment standard (Ebrahimi et al., 2014). In this regard, the role of domestic judicial and arbitral institutions in the effective enforcement of obligations and the fair adjudication of investor claims is also crucial. The greater the independence and efficiency of the judiciary in resolving disputes, the higher the level of foreign investor confidence will be (Amani & Hamidzadeh, 2015).

The interaction between Iran's domestic law and international investment law also constitutes a vital part of this framework. While Iran has, in the drafting of domestic laws, demonstrated respect for principles of international law, in practice tensions sometimes emerge between sovereign considerations and international commitments. For example, the principle of permanent sovereignty over natural resources permits the State to make decisions at any time regarding the exploitation of resources; yet, the principle of protecting foreign investors obliges the State to respect contractual commitments (Ebrahimi & Shirijian, 2013). This tension between sovereignty and obligation constitutes the core of many investment disputes in developing countries, including Iran.

Overall, the legal framework governing the investment of multinational companies in Iran's oil and gas industries may be characterized as a system in transition: a system

that, on the one hand, seeks to preserve independence and national sovereignty over natural resources and, on the other hand, is compelled to provide legal certainty and investment security to facilitate the presence of foreign companies. Legal reform, clarification of State obligations, strengthening of arbitration mechanisms, and closer alignment with international principles of investment protection can enhance Iran's position in the global energy market and foster the confidence of multinational companies.

4. Nature and Instances of Security Risks in Iran's Oil and Gas Industries

Iran's oil and gas industries, as one of the principal pillars of the national economy and a vital source of government revenues, have consistently been exposed to a wide range of security risks. These risks are not only economic in nature, but also generate extensive legal consequences for the host State and foreign investors. In international investment regimes, investment security is regarded as a fundamental principle, and any disruption may entail the international responsibility of the State and undermine the confidence of multinational companies (Ezeh et al., 2024). In Iran, due to its sensitive geopolitical position, extensive sanctions, political volatility, and physical and cyber threats, security risks in the oil and gas sector have become one of the most significant obstacles to attracting foreign investment (Razavi & Salari, 2020). A careful examination of the nature and instances of these risks indicates that each may directly or indirectly lead to breaches of contractual obligations, project suspension, increased operational costs, and even the emergence of international legal disputes.

Risks arising from political instability and sanctions constitute the most important indirect security threats within Iran's economic structure. Political instability commonly results in sudden changes in economic policies, investment regulations, and international relations. Under such conditions, a foreign investor cannot make long-term decisions on the basis of reliable forecasts, which in turn increases legal risk in petroleum contracts (Azizi, 2020). International sanctions—particularly those imposed by the United States and the European Union—operate as a driver of political instability and have halted numerous joint oil projects (Niazimohseni et al., 2020). These sanctions have not only created financial and banking constraints, but also,

from a legal standpoint, have impeded the performance of Iran's contractual obligations vis-à-vis multinational companies. For example, U.S. secondary sanctions against foreign companies cooperating with Iran have led many firms, fearing penalties and exclusion from international markets, to terminate their contracts or defer performance (Razavi & Salari, 2020).

From the perspective of international investment law, although sanctions are imposed by third States, their direct effects are borne by the host State and investors operating within that State's territory. In such circumstances, the host State is required, to the extent possible, to mitigate the adverse impacts of sanctions on investors; otherwise, its international responsibility may be engaged (Rafiei, 2020). However, in Iran, mechanisms for compensating losses caused by sanctions have not yet been expressly incorporated into the Law for the Promotion and Protection of Foreign Investment. This legal gap has resulted in multinational companies being compelled, in the event of losses, to bring claims before international arbitral fora (Ebrahimi et al., 2014). Moreover, domestic political fluctuations, frequent managerial changes within the Ministry of Petroleum, and unpredictable economic policies have created additional legal and economic risks for foreign investors (Kardel, 2019).

Alongside these factors, physical security risks also constitute a serious threat to the continuity of petroleum activities in Iran. Such risks include terrorist attacks, sabotage of facilities, insecurity in operational مناطق, and deliberate incidents. Since a substantial portion of Iran's oil and gas facilities are located in sensitive and, at times, high-tension areas—such as Khuzestan, Bushehr, and Hormozgan—any attack or insecurity may generate direct economic and legal consequences (Montazeri & Ebrahimi, 2014). In these circumstances, if the State is unable to protect the facilities and personnel of foreign companies, its international responsibility may be implicated under the principle of “full protection and security” (Ebrahimi & Shirijian, 2013). This principle, expressly reflected in most bilateral or multilateral investment treaties, obliges the State to guarantee the investor's physical security even where the threat originates from non-State actors (Olujobi et al., 2024). Comparable instances of such responsibility exist in international arbitral practice; for example, in cases brought before ICSID, host States have been ordered to

pay compensation due to their inability to prevent riots or attacks on investors' facilities (Vitryk, 2025). From this standpoint, the state of physical security in Iran's oil-producing regions is regarded as a decisive factor in investment risk assessment. Furthermore, with the escalation of terrorist threats in the Persian Gulf and regional insecurity, the likelihood of incidents such as pipeline explosions or attacks on offshore platforms has increased (Пашченко et al., 2024). Such threats not only impose substantial financial losses on investors but may also, at the international level, undermine the credibility of the host State.

In addition to physical threats, risks arising from war, military tensions, and regional conflicts are of significant importance in Iran. Iran's geopolitical position adjacent to the Persian Gulf, the Strait of Hormuz, and politically contested states means that any regional crisis may directly affect investment security in the energy sector. From the Iran–Iraq War in the 1980s to more recent threats associated with the presence of foreign forces in the Middle East, Iran's oil and gas industries have repeatedly sustained damage caused by armed conflicts (Kardel, 2019). From the standpoint of international law, if war or armed conflicts cause harm to foreign investors, the host State is obliged to provide compensation unless it can demonstrate that the incident was beyond its control and constitutes force majeure (Ebrahimi et al., 2014). Nevertheless, in many situations, the boundary between force majeure and the State's failure to provide security is unclear, which complicates the adjudication of international claims (Amani & Hamidzadeh, 2015).

Beyond military threats, geopolitical rivalries between Iran and other regional powers, including Saudi Arabia and Israel, have also increased uncertainty in the energy market. Potential closure of export routes, higher insurance costs for oil tankers, and threats to sanction ports or shipping lanes are examples of the indirect effects of these risks, which directly influence petroleum contracts (Razavi & Salari, 2020). In such conditions, multinational companies commonly incorporate “termination or suspension in the event of a security crisis” clauses into contracts to avoid financial liability for project interruptions (Ebrahimi & Shirijian, 2013). However, because Iran's domestic law does not expressly define the legal guarantees applicable to these situations, disputes arising from the invocation of such

clauses are often referred to international arbitration (Rafiei, 2020).

In the past decade, a new category of security risks—“cyber risks”—has emerged and is regarded as a serious threat to energy infrastructure. The digitalization of production, transmission, and monitoring processes in oil and gas has turned industrial control systems into potential targets for cyberattacks. In Iran, multiple incidents of cyberattacks on oil and petrochemical facilities have been reported, temporarily disrupting operations (Vitryk, 2025). Such risks are typically orchestrated by States or non-State groups located outside the country, and their objectives may include disrupting production, stealing sensitive data, or exerting political pressure (Пащенко et al., 2024).

Under these conditions, the principal legal question is whether the host State bears responsibility for cyberattacks. Some viewpoints argue that the State is obliged to undertake necessary preventive and defensive measures to protect critical infrastructure, even if the attacker is a foreign State or external group (Ezeh et al., 2024). Otherwise, failure to adopt adequate security measures may be regarded as a breach of the “full protection and security” obligation (Olujobi et al., 2024). On the other hand, difficulties in identifying the source of the attack and establishing causation between the damage and State omission make the attribution of responsibility in the international arena challenging. Nonetheless, the global rise of cyberattacks and the vital role of oil and gas in national security underscore the need for more comprehensive legal frameworks in this field (Azizi, 2020).

Another category of security risks in Iran’s oil and gas industries consists of legal risks arising from changes in policies and regulations. Over recent years, frequent amendments to tax, currency, environmental regulations, and even oil export policies have created an unpredictable environment for foreign investors (Mehdi Montazer & Seyyed Nasrollah Ebrahimi, 2013). For example, repeated reforms in petroleum contractual frameworks or the imposition of new restrictions on capital repatriation have led some companies to refrain from renewing or performing their contracts (Akhlaji, 2014). Such changes, beyond their economic impacts, also carry legal consequences, because in many international legal systems, abrupt legal changes may be

considered a breach of the “fair and equitable treatment” obligation (Ebrahimi et al., 2014).

This situation becomes more complex when legal changes are implemented suddenly or without consultation with foreign parties. In some cases, States, for political or economic reasons, annul or revise petroleum contracts, which multinational companies consider to constitute a breach of contractual commitments (Amani & Hamidzadeh, 2015). Such measures not only generate extensive legal disputes between the State and investors but also affect the host State’s international credibility (Rafiei, 2020). In practice, the persistence of macro-policy changes without adequate legal safeguards creates an insecure and unpredictable investment climate.

Alongside all these factors, it must be noted that many security risks in Iran’s oil and gas industries are multidimensional in nature; that is, they cannot be reduced solely to political or physical dimensions. For instance, economic sanctions may reduce the State’s capacity to protect facilities and thereby increase physical risks. Likewise, cyberattacks may entail simultaneous economic and legal consequences. In such circumstances, comprehensive risk management requires coordination among legal, security, and economic institutions (Vitryk, 2025).

Ultimately, examining the nature and instances of security risks in Iran’s oil and gas industries demonstrates that the main challenge lies not in the absence of protective rules, but in weak enforcement and a lack of clarity in the allocation of responsibilities. To reduce these risks, it is necessary for the Iranian government, in addition to reforming legal and contractual frameworks, to develop insurance and compensation mechanisms aligned with international standards. Only then can the necessary legal certainty be provided for multinational companies and Iran’s role in the global energy market be consolidated.

5. Analysis of the Legal Implications of Security Risks on Foreign Investment

Security risks in Iran’s oil and gas industries not only have significant economic impacts, but also constitute, from a legal perspective, one of the most challenging issues in relations between the host State and multinational companies. The complex nature of these risks and the breadth of their effects place the

performance of petroleum contracts and the interpretation of the parties' legal obligations in a context of uncertainty and ambiguity. In practice, any security or political instability may directly affect the implementation of petroleum contracts and create the conditions for international disputes (Ebrahimi et al., 2014).

In petroleum contracts, the parties' obligations are typically structured on the basis of the principle of *pacta sunt servanda*, meaning that each party must fully adhere to its obligations unless the occurrence of unforeseeable circumstances prevents performance. However, where security risks such as sanctions, terrorist attacks, or political unrest impede the fulfillment of obligations, the question of the host State's responsibility, as the guardian of the projects' economic and physical security, becomes central (Amani & Hamidzadeh, 2015). Within this framework, foreign investors commonly argue that the State is required to adopt the necessary preventive measures to avert losses; otherwise, it will be responsible for breaching its contractual and international obligations (Ezeh et al., 2024).

In Iran, petroleum contracts are predominantly structured as Buy-Back or IPC arrangements, under which the State—through the National Iranian Oil Company—acts as the principal contractual counterparty to foreign companies. In such a structure, if security risks lead to operational suspension or reduced production, an investor may contend that the State failed to provide safe conditions for project execution (Akhlaqi, 2014). Given that a substantial portion of petroleum activities takes place in high-tension and sometimes vulnerable areas, the extent of the State's obligation to ensure security has become a sensitive issue in contractual negotiations (Montazeri & Ebrahimi, 2014). In many newer IPCs, clauses concerning force majeure, emergency conditions, and rights to suspend performance or extend project timelines have been incorporated so that, in the event of security incidents, a framework exists for allocating responsibilities (Mehdi Montazer & Seyyed Nasrollah Ebrahimi, 2013).

Nevertheless, one of the fundamental problems in Iranian law is the absence of a precise definition of "security risk" and the modalities for compensating losses arising from it. Although the Law for the Promotion and Protection of Foreign Investment

emphasizes, in Article 9, the right to compensation in cases of expropriation or nationalization, it remains silent regarding circumstances such as armed attack, sanctions, or cyberattacks that may indirectly result in non-performance or other breaches of obligations (Iranpour, 2023). This legislative gap compels the parties, in such situations, to refer disputes to international arbitral tribunals (Rafiei, 2020).

Within international investment law, the fair and equitable treatment (FET) standard and the full protection and security (FPS) standard constitute two key bases for assessing the conduct of the host State. The fair and equitable treatment standard requires the host State to refrain from sudden, discriminatory, or unreasonable measures that cause harm to the investor (Azizi, 2020). In other words, the State must provide a legal and administrative environment in which the investor can operate within a stable and predictable framework. By contrast, the full protection and security standard obliges the State to protect the investor's physical and legal security against any internal or external threat (Ebrahimi & Shirijian, 2013).

In numerous international arbitral cases, breaches of these standards have been found to entail host State responsibility. For example, in *Asian Agricultural Products Ltd. v. Sri Lanka*, the Sri Lankan government was ordered to pay compensation due to its inability to prevent the destruction of the investor company's assets during internal unrest. Likewise, in *AMT v. Zaire*, the government of Zaire was found responsible for failing to protect the facilities of a foreign investor against rebel attacks (Vitryk, 2025). These precedents demonstrate that, within the international arbitration system, the host State is required—even during conflict or security crises—to adopt necessary measures to reduce risk and protect the investor's assets (Olujobi et al., 2024).

In a comparable framework, in Iran's oil and gas sector, if the State cannot protect the facilities and personnel of foreign companies against security threats, it may be exposed to international claims. For instance, where sanctions or armed attacks result in the suspension of contractual performance, the investor may argue that the State breached its obligation to provide a secure economic environment (Razavi & Salari, 2020). Although the State may invoke national sovereignty and force majeure as defenses, arbitral tribunals generally accept such defenses only where the State can demonstrate that

the incident was beyond its control and that there was no negligence or delay in adopting preventive measures (Rafiei, 2020).

In many petroleum contracts, the force majeure clause is employed as an instrument for regulating the legal effects of security risks. Under such a clause, if unforeseeable circumstances such as war, sanctions, or natural disasters prevent performance, the parties are temporarily relieved from their obligations. However, in practice, interpreting this clause is among the most contested issues in petroleum arbitrations, because the distinction between a “force majeure event” and “instability resulting from State omission” can be highly nuanced. If security instability is caused by State policy choices or insufficient protection of facilities, it cannot properly be characterized as force majeure (Ebrahimi et al., 2014). Conversely, if the incident results from external factors or uncontrollable threats, the State may rely on this clause to be relieved of responsibility (Montazer & S. N. Ebrahimi, 2013).

A notable point in international arbitration is that tribunals typically assess State conduct through the lens of “positive and reasonable measures.” This means the State is not required to guarantee absolute security; rather, it must show that it adopted rational and proportionate steps to prevent harm (Ezeh et al., 2024). In energy-sector cases such as Occidental Petroleum v. Ecuador or BG Group v. Argentina, States were ordered to pay compensation due to policies that resulted in breaches of the fair and equitable treatment standard. These awards indicate that where security risks are aggravated by mismanagement or political decisions of the State, they may serve as a basis for international responsibility (Vitryk, 2025).

A similar situation is observable in Iran. Many disputes between the State and foreign companies have arisen from sudden changes in energy policies or sanctions imposed by third States. For example, in certain petroleum projects, following the intensification of U.S. sanctions, the Iranian government, in an effort to adapt to new conditions, unilaterally altered contractual terms or suspended implementation (Razavi & Salari, 2020). From the perspective of foreign investors, such measures constitute a breach of the fair and equitable treatment standard and, in some cases, have resulted in claims before international fora (Azizi, 2020). Legally, even if the State’s decision is adopted for the protection of

national interests, it does not necessarily preclude international responsibility for breach of contractual obligations unless necessity and force majeure can be established (Montazeri & Ebrahimi, 2014).

The investor’s right to claim compensation for losses arising from security risks is among the most fundamental rights guaranteed within the international arbitration system. Where the host State breaches its obligations concerning security provision or fair treatment, the investor may claim damages based on contractual provisions or investment treaties (Ebrahimi & Shirijian, 2013). Compensation is commonly determined on the basis of the principle of “full reparation,” which aims to restore the investor to the position it would have occupied absent the breach. This principle, first articulated in the landmark *Chorzów Factory* (1928) decision of the Permanent Court of International Justice, now underpins many investment arbitration awards (Amani & Hamidzadeh, 2015).

In practice, the principal challenge for foreign investors lies in proving causation between security risks and the losses incurred. For instance, if an armed attack or sanctions cause a project to halt, the investor must demonstrate that the incident was the direct result of the State’s failure to fulfill its security-related obligations (Olujobi et al., 2024). Conversely, States typically defend themselves by arguing that the conditions were beyond their control or that necessary measures were taken to mitigate losses (Rafiei, 2020). For this reason, international arbitral tribunals usually examine State conduct and the scope of preventive measures with particular scrutiny.

Where States invoke force majeure defenses, tribunals generally assess three core criteria for acceptance: unforeseeability, irresistibility, and being beyond the State’s control (Ebrahimi et al., 2014). If all three conditions are satisfied, the State may be relieved of responsibility. Yet, in many situations, security risks are exacerbated by weak governance or inadequate protective measures; in such cases, the State cannot rely on force majeure to escape liability (Montazeri & Ebrahimi, 2014). For example, in cases involving terrorist attacks or internal unrest, if it is established that the State failed to take sufficient protective measures, the force majeure defense will be rejected (Ezeh et al., 2024). In Iran, given its distinctive geopolitical position and recurring sanctions, the State has continuously been

required to balance national interests with international obligations. On the one hand, the State is responsible for preserving national security and economic independence; on the other hand, it owes multinational companies obligations of fair treatment and investment security (Razavi & Salari, 2020). This difficult balance has caused security risks to frequently evolve into legal and political challenges.

Overall, analyzing the legal implications of security risks for foreign investment in Iran's oil and gas industries shows that these risks function not merely as economic factors, but as multidimensional legal issues that directly affect State obligations and investor rights. Effective implementation of petroleum contracts requires a transparent framework for defining security risks, delineating the limits of State responsibility, and providing compensation mechanisms. In the absence of such a framework, disputes between the State and multinational companies will inevitably be drawn into the domain of international arbitration. Accordingly, reform and strengthening of the domestic legal system, accession to international dispute settlement instruments, and enhancement of institutional capacity for managing security risks can facilitate the realization of legal security and the attraction of sustainable investment in Iran's energy sector.

6. Protective Mechanisms and Compensation for Damage in Domestic and International Law

Protective mechanisms and compensation for damage in the field of foreign investment constitute one of the essential pillars of national legal systems for creating confidence among international investors. In practice, no investment regime can achieve the stability and attractiveness required for the inflow of foreign capital without providing instruments for compensation and effective protection of investors against security risks. In Iran as well, given the national economy's deep dependence on the oil and gas industries, the need to design and implement effective protective mechanisms within the framework of domestic laws and international commitments has become increasingly pressing (Iranpour, 2023). These mechanisms encompass domestic protective legislation, international investment insurance, the system of international arbitration, and reliance on the capacities of public international law to

compensate losses arising from breaches of security-related obligations.

Within Iran's legal system, the most important statutory instrument that outlines the general framework for protecting foreign investors is the "Law for the Promotion and Protection of Foreign Investment," enacted in 2002. This Law was adopted in order to reform earlier regulations and align with international requirements so that foreign investors could operate in a secure and predictable environment (Azizi, 2020). Article 2 of this Law expressly provides that foreign investors in Iran enjoy the same rights, protections, and guarantees as those *предусмотр* for domestic investors. This principle of legal equality constitutes the cornerstone of foreign investor confidence. In addition, Article 9 obliges the government to compensate the foreign investor in cases of expropriation or unlawful nationalization (Ebrahimi et al., 2014). This provision reflects an implicit acceptance of the international principle of "full reparation" in Iran's domestic law, although its effective implementation in practice requires stronger mechanisms.

Alongside these general protections, the implementing regulations of the Law address the details of dispute settlement, profit transfer, and capital repatriation. Under these rules, where a dispute arises between the investor and the State, the parties may, by mutual agreement, submit it to international arbitration. Although Iran has not acceded to the Convention on the International Centre for Settlement of Investment Disputes (ICSID), by accepting arbitration under the United Nations rules (UNCITRAL) or the International Chamber of Commerce (ICC), international claims remain available to investors (Rafiei, 2020). Nevertheless, certain limitations persist, including the requirement to obtain authorization from the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI) to initiate proceedings or to transfer compensation-related currency abroad. Such constraints may at times delay compensation processes or increase investors' legal risk (Razavi & Salari, 2020). One complementary mechanism that can play an effective role in protecting foreign investors is international investment insurance. At the global level, the Multilateral Investment Guarantee Agency (MIGA), affiliated with the World Bank, is among the most significant institutions providing specialized insurance

coverage for political and security risks. Such insurance covers unlawful expropriation, breach of contract, transfer restrictions, and war or civil disturbance (Olujobi et al., 2024). Multinational companies active in the oil and gas sector commonly place part of their investment under MIGA coverage or similar institutions so that, in the event of security crises, losses can be compensated through these bodies (Ezeh et al., 2024). Although Iran is not a formal member of MIGA, it can, through bilateral arrangements or by utilizing regional insurance institutions, provide comparable conditions for investors.

In addition to MIGA, certain countries have established analogous national institutions for insuring overseas investment. For example, in the United States, the Development Finance Corporation (DFC) covers investment risks faced by U.S. companies abroad. In Germany, Hermes Cover (the federal export credit and investment guarantee scheme) operates with a similar mandate. By creating financial and insurance backing, such institutions reduce investment risk and increase multinational companies' confidence when engaging with high-risk jurisdictions (Vitryk, 2025). The absence of a comparable insurance structure in Iran constitutes a major obstacle to attracting foreign investment in the oil and gas industries, because in the absence of international insurance guarantees, companies tend to avoid assuming high security risks (Montazeri & Ebrahimi, 2014).

The system of international arbitration is one of the most effective tools for dispute resolution and compensation in the investment domain. Arbitration—especially in the energy sector—is recognized as a neutral, expeditious, and specialized mechanism that enhances investor confidence in the host State's compliance with obligations (Ebrahimi & Shirijian, 2013). In numerous cases brought within international arbitration frameworks, including disputes involving oil companies in developing countries, fora such as ICSID, UNCITRAL, and ICC have played a decisive role in compelling States to pay compensation. For example, in *Occidental Petroleum v. Ecuador*, the State of Ecuador was ordered to pay more than USD 1.7 billion in damages due to the unilateral termination of a petroleum contract and the breach of its obligations to ensure the investor's legal security. This case clearly demonstrated that even

sovereignty-based decisions cannot justify breaches of contractual obligations (Ezeh et al., 2024).

In Iran, although recourse to international arbitration is contemplated in law, in practice the government often prefers to resolve disputes through domestic arbitration or negotiation. This is largely driven by concerns about reputational damage at the international level or exposure to substantial compensation awards (Razavi & Salari, 2020). However, the practice of other States indicates that active participation in international arbitration is not merely a threat but can serve as an opportunity to strengthen a country's legal credibility and enhance transparency in economic relations (Amani & Hamidzadeh, 2015). For instance, Türkiye and Indonesia, by acceding to the ICSID Convention and accepting international arbitration, have succeeded in significantly increasing foreign investor confidence.

A comparative review of other legal systems shows that oil-producing countries have employed a set of guarantees and protective mechanisms to attract foreign investment. In Qatar, the government has undertaken to compensate investors through special funds if a security or political disruption prevents contract performance. In Norway, specific laws have been developed for insuring political and environmental risks in oil and gas projects, implemented jointly by the State and insurance companies. In Nigeria, following increased attacks on oil facilities, a compensation regime based on "shared responsibility of the State and companies" was established (Olujobi et al., 2024). These models demonstrate that, by creating preventive and compensatory mechanisms, States have been able to increase investor confidence.

From the perspective of public international law, States' obligations toward foreign investors have been consolidated through general principles and customary international norms. One of the most important of these is the fair and equitable treatment (FET) standard, which is incorporated into most bilateral investment treaties (BITs) (Ebrahimi et al., 2014). Under this standard, States are obliged to avoid discriminatory or unreasonable treatment of foreign investors and to provide a stable and predictable environment for their economic activity. Breach of this standard—particularly through sudden policy changes or failures in providing security—entails international responsibility and an obligation to compensate (Rafiei, 2020).

Alongside FET, the full protection and security standard plays a foundational role in compensating losses arising from security risks. This standard obliges the State to protect the life, property, and economic activities of investors against domestic and external threats (Ezeh et al., 2024). International arbitral tribunals have emphasized in their awards that such protection includes not only physical security but also legal and economic security. In other words, States must refrain from creating instability in their economic laws and regulations and, where security incidents occur, must act promptly to compensate losses (Azizi, 2020).

In Iran, although the foreign investment protection law generally accepts these standards, in practice a coherent and effective system for their implementation is still lacking. Many investment disputes arise from the absence of a clear compensation mechanism or delays in paying damages (M. Montazer & S. N. Ebrahimi, 2013). For this reason, strengthening cooperation among executive, judicial, and insurance bodies to establish an integrated compensation regime is an undeniable necessity. In addition, concluding bilateral investment treaties (BITs) with countries where multinational oil and gas companies are headquartered can constitute an effective step toward ensuring international protections (Amani & Hamidzadeh, 2015).

At the international level, the capacities of investment law and public international law can provide effective instruments for compensating losses arising from security risks. Arbitral fora such as ICSID and UNCITRAL not only have jurisdiction over claims arising from breaches of contractual obligations, but may also require States to pay compensation for breaches of customary and international obligations (Ebrahimi & Shirijian, 2013). Moreover, the International Court of Justice (ICJ) and regional arbitral bodies, such as the arbitration mechanisms of the Organization of Islamic Cooperation, may in specific circumstances be invoked (Vitryk, 2025). Ultimately, an effective compensation regime may be understood as a combination of three essential pillars: domestic legal obligations, insurance mechanisms, and international arbitration. To reduce the effects of security risks in the oil and gas sector and to increase attractiveness for multinational companies, Iran must develop all three pillars in an integrated manner. Reforming domestic laws, joining international dispute settlement institutions, strengthening engagement with

global insurers such as MIGA, and establishing national compensation funds can be effective steps toward achieving legal security and investment sustainability in the country's strategic industries. This pathway would not only enhance international confidence, but could also position Iran as a legal model for managing security risks in the region.

7. Challenges and Legal Obstacles in Ensuring Investment Security in Iran

Ensuring investment security in Iran, particularly in the oil and gas industries, faces a set of legal challenges and obstacles rooted in the country's legal, political, and institutional structure. These challenges are not confined to weaknesses in domestic legislation; rather, they also manifest in the interaction among international commitments, economic sanctions, and administrative and security barriers. Although the Law for the Promotion and Protection of Foreign Investment has been designed as the principal framework for protecting foreign investors, its implementation in practice encounters serious impediments, which has reduced multinational companies' confidence in Iran's investment environment (Iranpour, 2023).

One of the most significant challenges is structural weakness in domestic laws and regulations. Iran's legal system in the field of foreign investment lacks the necessary coherence, and there exist fragmented rules on taxation, customs, energy, and international contracts that at times conflict with one another (Azizi, 2020). For example, while the Law for the Promotion and Protection of Foreign Investment accepts principles such as equal treatment of domestic and foreign investors, in practice certain restrictive tax and currency regulations prevent investors from fully benefiting from these rights. Moreover, the absence of transparent implementing rules for defining and managing security risks means that, in the event of an incident or sanctions, multinational companies have no clearly delineated path for claiming compensation (Ebrahimi et al., 2014). This legal gap—particularly in petroleum contracts, which are typically high-value and long-term—has increased legal risk and reinforced investor distrust (Amani & Hamidzadeh, 2015).

The tension between national interests and international requirements constitutes another legal obstacle in ensuring investment security in Iran. On the one hand,

the State is obliged to preserve its permanent sovereignty over natural resources and, under the Constitution, to prevent the transfer of ownership to foreigners; on the other hand, to attract foreign capital, it must accept commitments that at times conflict with principles of national sovereignty (Ebrahimi & Shirijian, 2013). This duality affects both policymaking and implementation. For example, when concluding petroleum contracts, the government may offer special incentives to attract foreign investors, yet in the event of a political crisis or a change of administration, these incentives may be revoked or modified. From the investors' standpoint, such measures may be regarded as breaches of the fair and equitable treatment (FET) standard and may lead to international claims (Rafiei, 2020). Consequently, the lack of alignment between domestic policies and international commitments has produced legal instability and increased investment security risk.

Another fundamental challenge concerns the enforcement of foreign arbitral awards. While international arbitration is among the most important tools for protecting foreign investors, the enforcement of awards issued by international tribunals in Iran has consistently faced obstacles (Razavi & Salari, 2020). Although Iran is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, in practice certain domestic judicial bodies have refused enforcement by invoking security considerations or alleged inconsistency with public policy (Mehdi Montazer & Seyyed Nasrollah Ebrahimi, 2013). Such practice is perceived by multinational companies as an indication of weakness in international compliance and lack of judicial independence. By contrast, in many countries—particularly those party to the ICSID Convention—the enforcement of arbitral awards is mandatory, and States are obliged to pay compensation or implement decisions (Ezeh et al., 2024). Accordingly, the absence of an effective mechanism for guaranteeing enforcement of arbitral awards in Iran is a major factor undermining investor confidence in the national legal system.

International sanctions have also had a profound impact on the effectiveness of legal protections. U.S. and European Union sanctions against Iran have not only restricted the State's access to international financial resources, but have also, as a legal matter, made the

performance of contractual commitments with foreign companies more difficult (Niazimohseni et al., 2020). Many multinational companies, as a consequence of sanctions, withdrew from Iranian petroleum projects or placed them in suspension. Under such conditions, foreign investors seeking compensation for sanction-related losses have faced numerous legal and administrative barriers, since sanctions are imposed by third States and fall outside the host State's direct control (Razavi & Salari, 2020). Nevertheless, from the standpoint of international law, Iran remains obliged, to the extent possible, to mitigate the effects of sanctions on investors, and may incur international responsibility in cases of omission or inaction (Rafiei, 2020).

Sanctions have also weakened Iran's cooperation with international insurance and arbitration institutions. For example, international insurers such as MIGA or World Bank-affiliated financial institutions are unable, due to sanctions, to provide insurance services for Iranian projects (Olujobi et al., 2024). As a result, foreign companies operating in Iran are compelled to assume high risks without insurance coverage. This becomes a particularly serious barrier in large-scale oil and gas projects worth billions of dollars. In addition, banking sanctions have rendered the transfer of compensation funds or investment profits for foreign companies nearly impossible (Ezeh et al., 2024). These restrictions mean that even where the Iranian government is willing to pay damages or comply with awards, practical transfer may not be feasible.

Beyond legal barriers, administrative, political, and security factors also play a significant role in reducing Iran's attractiveness for multinational companies. A complex administrative system, lengthy licensing procedures, and lack of transparency in decision-making complicate the investment environment for foreign firms (Montazeri & Ebrahimi, 2014). In many instances, foreign investors have complained about prolonged delays in obtaining operational permits, sudden regulatory changes, and lack of coordination among governmental bodies (Amani & Hamidzadeh, 2015). Furthermore, extensive bureaucracy and administrative corruption within certain executive institutions constitute serious obstacles to the performance of petroleum contracts (Azizi, 2020). On the other hand, security conditions in oil-producing regions such as Khuzestan and Bushehr have at times led to the

temporary or permanent withdrawal of foreign experts (Пащенко et al., 2024).

Political challenges also influence investor decision-making. Frequent shifts in governmental policy toward the private sector and foreign investment have prevented multinational companies from developing a long-term outlook regarding operations in Iran (Razavi & Salari, 2020). In particular, following each sanctions episode or governmental change, certain contracts have been annulled or revised without adherence to prior commitments. From the perspective of international investors, such measures signal a lack of policy and legal stability (Ebrahimi et al., 2014). In contrast, in successful oil-producing countries such as Norway and Qatar, legal frameworks are designed so that political changes do not affect the validity and enforceability of investment contracts (Vitryk, 2025).

Ultimately, it must be acknowledged that the legal challenges in ensuring investment security in Iran are multidimensional and deeply interconnected. Weak coherence of laws, tension between national sovereignty and international requirements, difficulties in enforcing foreign arbitral awards, the disruptive effects of sanctions, and administrative complexity have collectively led foreign investors to doubt Iran's legal stability and economic security. Addressing these challenges requires structural reforms in the legal and administrative system, more active engagement with international arbitration and investment insurance institutions, and institutional transparency in executive processes. Only through revising legal frameworks and committing to international principles of investment protection can Iran restore the lost confidence of multinational companies and lay the groundwork for attracting sustainable investment in its oil and gas industries.

8. Conclusion

An examination of the legal effects of security risks on the investment of multinational companies in Iran's oil and gas industries demonstrates that legal security and political stability constitute the two principal pillars for maintaining and developing international economic relations in this sector. Despite possessing vast energy reserves and holding a strategic position in the global oil and gas market, Iran has not been able to consolidate its genuine standing in attracting foreign investment due to

numerous security, political, and legal challenges. The present study indicates that a substantial portion of the existing problems stems not only from external factors such as sanctions or geopolitical threats, but also from weaknesses in domestic structures and the lack of coherence within the country's legal and institutional frameworks.

From a legal perspective, security risks directly affect the performance of petroleum contracts, the reciprocal obligations of the parties, and the stability of contractual relations between the Government of Iran and multinational companies. When the State fails to provide the necessary physical or legal security for investors' activities, the likelihood of violating fundamental principles such as fair and equitable treatment or full protection and security increases. The result of such a situation is the emergence of legal disputes and international arbitrations which not only impose substantial financial costs on the State but also undermine the credibility of the national legal system at the international level. Accordingly, guaranteeing investment security is not merely an economic matter; rather, it is a legal and institutional concept that requires governmental commitment to structural reforms, adherence to international standards, and the establishment of sustainable mechanisms for investor protection.

In the oil and gas industries, the nature of operations is such that security risks are inherently high. From cyberattacks to political instability and economic sanctions, each of these factors may disrupt contractual performance and create legal responsibility for the host State. What is crucial, however, is not the complete elimination of risks but their legal management and control. Through the enactment of clear legislation, the establishment of specialized supervisory institutions, and the strengthening of insurance mechanisms, the State must provide the necessary assurances to investors. The experience of successful countries in this field demonstrates that the existence of a transparent legal framework, an independent arbitration system, and international insurance coverage can significantly mitigate the effects of security risks.

The Law for the Promotion and Protection of Foreign Investment represented an important step toward establishing such a framework; however, in practice its effective implementation has faced numerous

challenges. Although the provisions of this law recognize the principles of investor protection, ambiguities remain concerning the precise scope of State responsibility in the face of security risks, the method of compensation, and the limits of international obligations. Consequently, foreign investors confronted with economic or political insecurity often lack reliable domestic legal avenues for vindicating their rights and are compelled to resort to international arbitration. In the long term, this situation increases legal costs and diminishes the attractiveness of the Iranian market for multinational companies.

In addition to legal challenges, bureaucratic structures and institutional discoordination play a fundamental role in weakening investment security. Complex licensing procedures, frequent regulatory changes, and opaque administrative decisions make the economic environment difficult for foreign companies. When investors lack confidence that governmental decisions will remain stable or that concluded contracts will enjoy sufficient judicial protection, they are unlikely to commit substantial capital to the country. Therefore, administrative reform, strengthening governmental accountability, and enhancing transparency in decision-making constitute essential preconditions for improving investment security.

At the international level, Iran's position in relation to global commitments also requires reconsideration and more constructive engagement. Accession to institutions such as the International Centre for Settlement of Investment Disputes (ICSID) and the expansion of bilateral investment treaties (BITs) with major capital-exporting countries could play a decisive role in rebuilding mutual trust between the State and multinational companies. Active participation in such institutions would not only provide necessary legal instruments for dispute resolution but would also convey a clear message of Iran's commitment to international standards and investor protection.

Economic sanctions and international pressures represent one of the most significant obstacles to ensuring investment security. Sanctions produce not only economic consequences but also legal complexities, placing the State in a difficult position: in many cases, the State is neither the originator of sanctions nor capable of lifting them, yet it is perceived as responsible vis-à-vis foreign investors. To address this challenge, the State must strengthen domestic compensation and support

mechanisms, particularly where sanctions impede contractual performance. The establishment of national compensation funds, the conclusion of specialized insurance arrangements to cover sanction-related risks, and the development of legal strategies for resolving sanction-related disputes are measures that could mitigate the negative impact of this phenomenon.

Moreover, the governmental approach to economic security must shift from a reactive to a preventive orientation. In other words, instead of focusing solely on compensation after crises occur, emphasis should be placed on preventing security threats and establishing durable protective frameworks. Designing a comprehensive legal regime for managing security risks in the oil and gas industries, formulating clear guidelines concerning force majeure, and incorporating contractual safeguards to protect investor interests constitute key instruments in this regard. Such reforms could not only reduce international claims but also improve Iran's image as a responsible and committed host State.

At the institutional level, coordination among executive, security, and judicial bodies in ensuring investment security is indispensable. No protective system can function effectively without alignment among relevant institutions. The Ministry of Petroleum, the Central Bank, the Ministry of Economic Affairs and Finance, and the Investment Organization must operate within a coordinated framework for risk management, threat response, and fulfillment of obligations. Furthermore, the establishment of specialized judicial units for investment disputes could expedite proceedings and enhance transparency in adjudication.

At the international plane, Iran's active engagement with global economic and legal institutions is equally important. Effective participation in investment law forums, involvement in the formulation of global standards, and learning from the experience of successful countries can contribute to improving the domestic system. In this context, redefining Iran's position within the international legal and economic order should be based on the principle of "legal coexistence," whereby the State balances the preservation of national sovereignty with respect for international commitments. Such balance is the key to achieving sustainable stability in international economic relations and attracting long-term investors.

The findings of this study also indicate that investment security in Iran depends not only on legislative reform but also on institutional and cultural transformation regarding foreign investment. In many instances, mutual distrust between the State and multinational companies arises from a political rather than a legal perception of investment. When investors perceive that governmental decisions are influenced by political considerations or changes in administration, they regard their presence as carrying unmanageable risk. Therefore, separating economic decision-making from political considerations and strengthening institutional independence in economic policymaking constitute essential prerequisites for realizing investment security.

Ultimately, achieving investment security in Iran requires comprehensive renewal at three levels: first, reform and consolidation of the domestic legal system based on transparency, predictability, and accountability; second, expansion of international cooperation and alignment with global arbitration and investment insurance systems to reduce political and security risks; and third, institutional and cultural reconstruction at the domestic level to foster mutual trust between the State and investors. If these three levels of reform are realized, Iran, relying on its vast oil and gas capacities, can attain a worthy position within the international investment system and pave the way for sustainable development and the attraction of long-term capital.

Authors' Contributions

Authors contributed equally to this article.

Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

Acknowledgments

We would like to express our gratitude to all individuals helped us to do the project.

Declaration of Interest

The authors report no conflict of interest.

Funding

According to the authors, this article has no financial support.

Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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