ENERPO NEWSLETTER

Volume 1 Issue 7
30th October 2015

Week in Review - *Pierre Jouvellier, Aaron Wood*

Energy News Blog

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Patience Is Bitter, but it Has Sweet Fruit – Post Sanction Iran Looks Ahead

– Aaron Wood

Follow a marathon 20 months of negotiations and a bumpy road to ratification in the US Congress, the nuclear deal between the P5+1 and Iran is moving ahead. Final approval of the measures hinged on the ruling of the influential Guardian Council in Tehran. The twelve-member electoral commission, composed of six faqihs, or experts on Islamic law, and six jurists approved the deal on the 14th of October after fierce debate and deliberation.

Anticipation of the lifting of sanctions is palpable in Iran. People have celebrated in the streets and those in government are already courting Western investment. Many in Iran are optimistic that the sanctions may be lifted by as early as the end of this year. This relief from a long and strict regime of embargos and constrictions could mean a much needed injection of capital and technology into the ailing Iranian oil and natural gas industries. Experts from the International Atomic Energy Administration caution that this will only happen pending their inspections and approval. IAEA Inspector Yukiya Amano recently stated that how quickly this is done depends entirely on Iran's compliance with the inspection program and regulations set forth in the JCPOA of the 14th of July.

The new nuclear regulations imposed on Iran, though highly criticized by many, are unprecedented in scope and breadth. Highly enriched uranium has been banned at key facilities in addition to a full ban on weapons grade plutonium. Two-thirds of enrichment centrifuges must be dismantled and their components kept under IAEA surveillance. Iran reduce its stockpile of enriched uranium by a whopping 98 percent, leaving it with insufficient enriched to create a single atomic weapon. This cap on enriched uranium is to last for 15 years before considerations are made to extend it. In addition to constraints on the supply of uranium permitted within the country, Iran is also subject to a strict monitoring regime. The IAEA will be monitoring every step of Iran nuclear program from the very mining and milling of raw uranium to disposal of the spent nuclear waste. The plan is based not on trust, but verification.

Since a 1979 Executive Order by thet Carter administration Iran has been under some form of sanctions by the United States, starting with a seizure of billions of USD worth of Iranian government assets.

In 1995 sanctions were expanded to include bans on oil and oil technology and in 2005 were extended to block nuclear technologies from entering the country. Under the US sanctions regime, almost any form of involvement of US companies in petroleum was banned, financial, technological or otherwise. In 2011 several European countries joined this regime and expanded the definition of petroleum products to include LNG and critical technologies involved in the freezing process to turn natural gas into a liquid. The EU list of sanctions, which is extensive, extends from freezing of Iranian assets to insurance, trade, and very importantly, "embargo on key equipment and technology for the oil and natural gas industries". This effectively crippled Iran's ability to produce and therefore export LNG.

Figure 1. Iran's nuclear infrastructure

In order to reach European markets via pipeline, Iran would need to invest in 4,000 kilometers of pipeline. A plan which the director of the National Iranian Oil Company stated would be unattractively expensive venture for Iran. Iran would much rather have its natural gas reach European markets by LNG tanker, the import and regasification terminals for which already exist. Spain, who had hoped to initiate LNG trade deals with Iran before stricter sanctions in 2011, seems determined to strike early. Spain has more import capacity for LNG via regasification terminals than any other country in Europe. In 2013, Spain provided 3.8 bcm of LNG to Europe. That's 4% of Russia's gas volume to Europe via LNG regasification. Spain's Minister of Energy and Tourism José Manuel Soria and Iran's Oil Minister Bijan Zageneh have already conducted extensive talks surrounding a possible partnership between the two countries in regard to LNG trade.

At its current production level, most of Iran's natural gas is consumed domestically. In order to fulfill obligations like a new pipeline to Oman and possible LNG trade with Spain, Iran is going to need major investment in infrastructure and technology in order to become a major player. After sanctions are lifted Iran is expecting foreign investment on 150 different projects infrastructure and development projects worth USD 28 million.

Assuming that Iran is able to secure foreign investment, and the influx of foreign offers would suggest that they will have few problems in that regard; Iran's reentrance into the global energy market stands to shake up the existing structure.

If Iran can provide significant LNG imports to Europe via Spain or Poland in the next two years as predicted, the further supplier diversification of natural gas away from Russian suppliers could be a further hit on Russian companies who are already feeling the energy market tighten as Saudi Arabia moves to cut into Russian market share in Europe. Furthermore, as key OPEC members are unwilling to sacrifice market share in the name of price, the influx of Iranian crude on international markets could dampen the expected uptick in price following a decrease in North American shale and tar sands production. What is clear is that first, Iran much pass its nuclear inspections and sanctions must be lifted in order for anything to be certain.

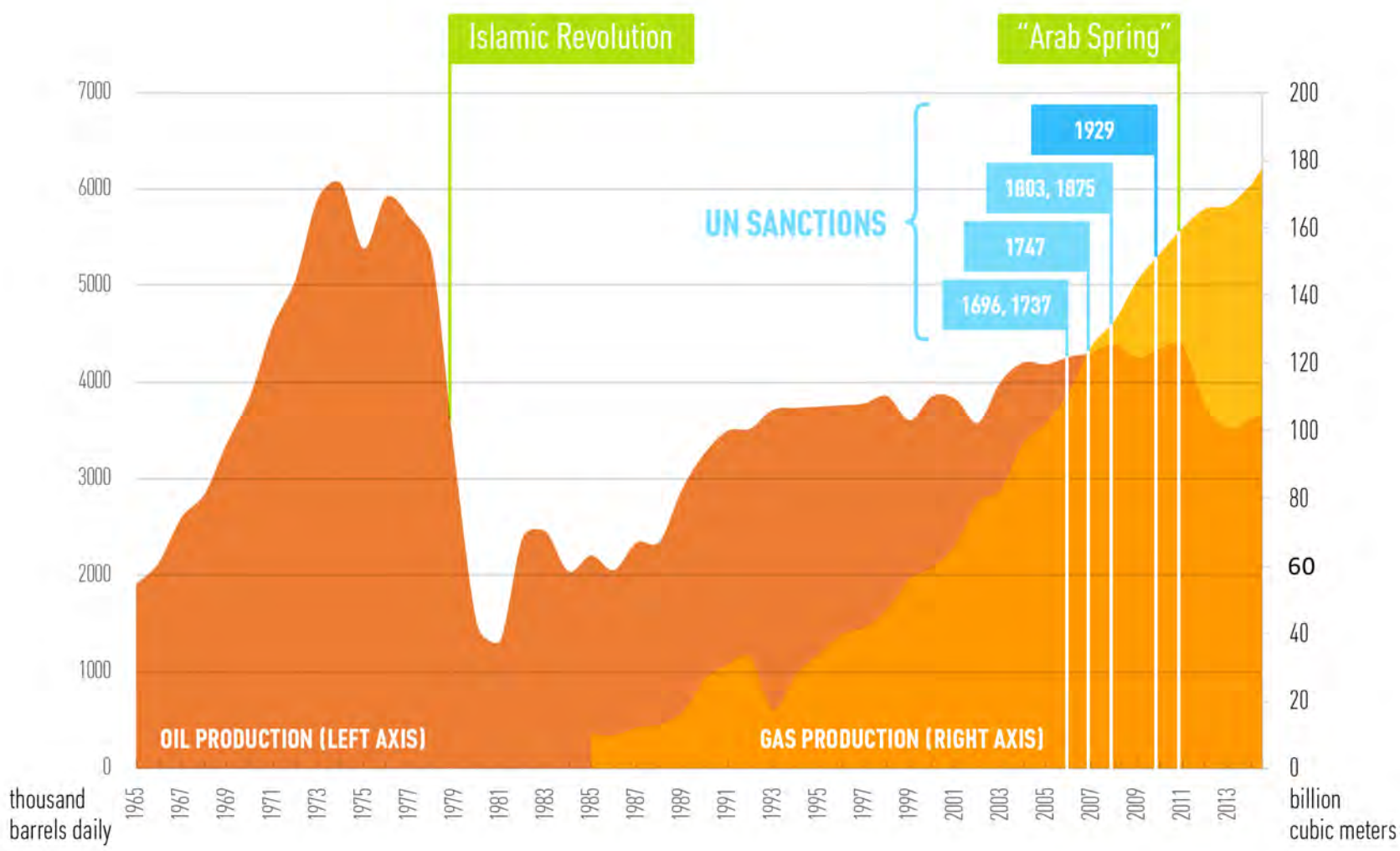

Figure 2. Oil and gas production in Iran and some historic events

The Week in Review

Indonesia is going to reactivate its membership to OPEC

Since 2009, Indonesia is no longer an OPEC member in the contextbecause of a lack of investment and declining oil production. Since 2005, the Southeast Asian country is a net importer of oil and petroleum products. Indeed, tThe Indonesian production of crude oil has decreased by 500 thousand bpb between 2000 and 2014, while its consumption has increased by more than 600 thousand bpd. However, the country still continues to produce and export oil, with about 790,000 bpd produced in 2014. Therefore, reintegrating with OPEC could be a good solution for the country, which needs to increase its cooperation with others OPEC members, as Ecquadtor did.

OGJ, Editors, 2015. OPEC accepts Indonesia's request to reactivate membership. Oil and Gas Journal, 15 October, 2015.

Gladstone LNG in Australia has sent its first LNG tanker to Korea

With the new LNG plant operated by Santos, Australia Gladstone LNG is ready to produce 7.8 million tons of LNG per year. The country has invested more than 200 billion USD in LNG developments and is going to follow and possibly overtake Qatar as the global supplier of natural gas. Indeed, Australia's proved natural gas reserves are more than 1.2 trillion cubic meters in 2014, and they are expected to increase in the future. Thanks to natural gas, Australia will continue to be a provider to fast growing countries in Southeast Asia, in particular Korea.

The Oil and Gas Year, 2015. First cargo ships from Gladstone. The Oil and Gas Year, 16 October, 2015.

Kuwaiti oil shipments to China reaching record level

In 2014, Kuwait has considerably increased its oil exports to China, reaching 1.75 million tons. Since the Kuwait Petroleum Corporation KPC opened new offices in China in 2005, the improved relations between both countries overconcerning in oil business has resulted in increased exports. Moreover, in August 2014 KPC has signed a 10-year landmark crude supply agreement with Unipec. The Kuwaiti company will be allowed to provide China with 300,000 bpd, with the possibility to increase this volume to 400,000 bpd. Even if Kuwait seems to have reached its peak of production, and also has official reserves widely contested, the top five member of OPEC will continue to produce and export oil.

KUNA, 2015. Kuwait's crude oil export s to China hit record high. KUNA 23 October, 2015

New Environmental Rules Concerning Sulphur Emissions Could Decrease Chinese's Demand for Petroleum Coke

The first petroleum coke consumer in the world is going to decrease its consumption due to new legislation concerning high sulphur products. China consumes approximately 33 million tons of petroleum coke (data from 2013). About 1/3 of its consumption is shipped by dry bulk vessels, from Saudi Arabia and the United States. Even if the most important part of the consumption is used for the production of aluminium, China also uses 30% of this commodity in order to generate cheap electricity. Indeed, petcoke is the cheapest fuel source for operating a power plant. In 2014, Chinese imports for petcoke fell to 5 million tons. Next year, new regulations plan to ban the use of high sulphur petcoke, which will drastically reduce China's consumption. What we may expect is a shifting demand for petroleum coke from China to India, which is the second largest petroleum coke consumer in the world.

Xiaolin Zeng, 2015. Environemental regulations may hurt China's petcoke demand. IHSmaritime, 19 October, 2015

Gazprom and Mitsui discussed the expansion of the project Sakhalin-2

Gazprom and the Japanese Company Mitsui discussed the construction of a third production line as part of the expansion of the project "Sakhalin-2". The project is designed to produce 9.8 million tons of liquefied natural gas a year, but in fact produces 10.4 million tons. Sakhalin Energy, the coordinator of this project is working with several companies such as Gazprom (51% of the share), Shell (26,5%), Mitsui and Mitsubishi with 12,5 and 10% each. Increased production in this gas field would considerably increase the volume of extraction for the first Russian LNG plant. With this new LNG terminal in Sakhalin2, Russia could provide Asia for the first time using LNG vessels and of course, increase its security of supply, gaining flexibility.

Сергей Красноухов, 2015. Газпром и японская Mitsui обсудили расширение проекта Сахалин-2. RIA 20 October, 2015

Yantai Xinchao Expanding to North America

Recently China has been snapping up oil reserves worldwide. Most recently the Chinese firm acquired reserves in Texas in the United States. The US Treasury Committee on Foreign Investment has already approved the 1.31 billion USD purchase of oil fields in Texas. Shares could be halted in the company for up to one month as assets are restructured.

Reuters, 2015. China's Yantai Xintao to buy US oil fields for $1.3 billion, Reuters, 25 October 2015.

New EU Regulations Could Increase Trading Costs

A new EU policy on derivatives could increase the price cost of commodities trading. The increased prices could drive trading out of the EU. Oil companies face a major jump in compliance costs at a time when the very low oil price are sapping companies of their cash. The regulation could also harm Commission efforts at liquidity in gas and electricity markets.

Platts, 2015. New EU Derivatives Market Legislation to Add Billions to Commodity Trader's Costs, Platts, 21 October 2015

Secretary of State John Kerry meets with King Salman of the Kingdom of Saudi Arabia

On the 24th of October John Kerry met with King Salman to discuss furthering cooperation between the two countries regarding multilateral military operation in Syria and against Da'esh. As Saudi Arabia makes more aggressive moves against Russian companies in European markets, the noted cooperation between the US and the Kingdom vis-à-vis Russian military involvement in the Levant could further strain relations between all parties involved.

Kirby, J., 2015. Secretary Kerry's Meeting in Riyadh. Office of the Secretary of State, 24 October 2015.

Iran Prioritizes LNG and Exports to Pakistan

Teheran announces more optimistic expectations for a post-sanctions energy market in which, as Iranian government officials state, LNG and a pipeline to Pakistan will be priority projects. These projects will be made possible by an expected tripling in output following investments from Western companies. The ability for investement to come to Iran depends on the country's nuclear program passing myriad new inspections and regulations that were agreed upon in Vienna last summer.

Natural Gas Europe, 2015. Iran Expects to Triple Gas Exports, Sees LNG as Preferential Option. Natural Gas Europe, 20 October 2015.

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CEO's of 10 Energy Majors Make a Pledge on Climate Change

Recently the CEOs of ten different energy companies; BG Group, BP, Eni, Pemex, Reliance Industries, Repsol, Saudi Aramco, Shell, Statoil and Total, issued a statement in support of an agreement reached by the United Nations (UN) Conference of Parties to the UN Framework on Climate Change (COP21).

Adnan Vatansever, 2015. Energy Sanctions and Russia: What Comes Next?, 10 September 2015.

Russia's Economy: Who Should Be Blamed for Lack of Diversification?

Prof. Konoplyanik in his article for the RBC claims that the lack of diversification in the Russia's economy evolved not because of the greedy oil and gas men, but because Russia lacks attractive business conditions outside oil and gas industry. "The approach of the Ministry of Economy can be characterised as an attempt to get maximum from those who pay and have no way to escape from tax burden, at the same time blaming them that they create obstacles for the diversification of the economy. O&G businesses are apparently responsible for actions (or lack of action) by the Government, which fail to improve investment climate in sectors of the economy outside O&G (and improvement of the investment climate is the core condition for diversification). What they also don't do is improve the efficiency of spending, while the money that is being spent is brought to the budget by these very same O&G businesses. To make up for this, O&G business once again is deprived of its part of the resource rent – that's what is going on."

Konoplyanik Andrey, 2015. Black Envy: What is Oil Industry Blamed For by the Government. RBC, 19 October.

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