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Above: The Iran Deal is announced by EU High Representative Federica Mogherini and Iran Foreign Minister Javad Zarif in Vienna, Austria on July 14, 2015 Photo: World Financial Review

IN THIS ISSUE

Full return of Iran's oil

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Winners and losers from Iran's eventual return to global energy markets

By Robin Mills

This article was featured in The National on July 19, 2015.

One of the most consequential international agreements signed in decades – the nuclear deal reached with Iran in Vienna last week – may also prove to be a turning point in global energy markets. Once implemented, it brings one of the world's leading holders of oil and gas back into world markets.

Such a shift in energy affairs inevitably brings winners and losers – but even those put at a disadvantage can yet salvage some compensations. So who are the winners?

The Iranian government itself, and its people, of course, should benefit from a release of frozen funds, an increase in oil and petrochemical exports, and the gradual return of foreign investment to the energy sector.

That could help Iran regain its position alongside Saudi Arabia, Russia, the US and Iraq as one of the few truly decisive petroleum players. But over the past decade and more, Iran has been adept at sanctioning itself – at deterring foreign investment through political infighting and unrealistic contractual and price demands. Meanwhile, its economy will still face the headwinds of low oil prices.

Oil consumers will gain from those cheaper prices, probably US$5 to $10 barrels per day returns to world markets.

In the longer term, gas users may benefit from an expansion of Iranian exports. But gas is much more vulnerable than oil to Iranian policy missteps, and Iran faces a crowded international market. Those best-placed are Turkey, which already buys its gas, and its three likely next customers – Iraq, Oman and Pakistan. The other gas-short GCC countries could also benefit, if they can overcome the political obstacles to dealing with Tehran.

The losers are oil and gas producers, particularly those in a weak financial position or who have failed to diversify their economies.

With the fall in oil prices since last summer, the oil market had already shifted into a new mode. That marked the decisive end of the rising and high price trend that had mostly persisted since 2002.

Now, for the first time since it broke Venezuelan resistance in 1999, Saudi Arabia faces real rivals within Opec – Iran and Iraq, both major reserves holders desperate to increase production for their own domestic financial imperatives. With its output at record levels, Riyadh remains the dominant power, but shale oil and its own rising demand pose further problems.

Venezuela, Iran's erstwhile ally while then presidents Mahmoud Ahmadinejad and Hugo Chávez were political and economic soulmates, looks particularly vulnerable. The positions of Algeria and Nigeria are not comfortable either. North American shale oil producers, who were showing some signs of revival as prices recovered to above $60 per barrel, face more tough conditions.

Russia and Qatar will suffer a double blow, from lower prices and more competition for their gas and oil sales. But Iran will not challenge Doha's plum Asian liquefied natural gas markets for years, if ever. And Russia seems already to have moved to forestall Iranian moves into the stagnant European gas market. The eventual easing of the UN arms embargo on Iran also gives partial compensation to the Russians, with the prospect of future weapons sales.

For major oil companies, the impact will be negative, in terms of lower prices, but some – particularly the Europeans, such as Shell, Total and ENI – can offset this by striking new deals with Tehran. After their disappointments in Iraq, Iran will offer the only other accessible, low-cost, giant fields

Even those disadvantaged must have realised that Iran's petroleum was not likely to stay on the sidelines forever. For its neighbours, the deal presents grave political and security concerns, but also opportunities in trade and better relations. With efforts on all sides, the nuclear accord can produce many more winners than losers.

Iran's nuclear deal is good news for the wider region.

By Robin Mills

This article was featured in The National on April 5, 2015.

Thursday's Iranian nuclear deal is unequivocally a good one. It is good news for the Iranian people, who can look forward to financial relief. It is good for the Middle East, which is spared yet another conflict in the short term, and can hope for better trade relations and the future integration of Iranian energy resources.

The accord, between Tehran and the P5+1 negotiating group, is also a great result for the United States, Europe and Iran's neighbours, with any chance of an Iranian nuclear weapon put off by at least 10 years. Serious analysts, even sceptical or hawkish ones, are surprised by the strength of the constraints. For a direct cost of $100 billion or more, and economic losses well in excess of that, Iran has achieved no tangible gains from its nuclear programme.

Of course, this agreement is only a framework, and much detailing is required by the next deadline of June 30. A key point of contention is how fast sanctions are lifted in return for Iranian compliance, with the foreign minister Javad Zarif apparently expecting they would be eased immediately.

More likely, although some oil customers may jump in early, the sanctions thicket will begin to be unravelled during 2016, with about 800,000 barrels per day returning to the market.

For energy suppliers and consumers, this is a time of many potential geopolitical threats: extremist attacks on Iraqi and Sinai pipelines and Algerian gas fields; possible blockades of the Bab El Mandeb or Strait of Hormuz; closures of Libyan oil ports; the collapse of the Syrian and Yemeni oil industries.

But few of these have materialised in significant disruptions. One of the two major exceptions is now likely to be reversed.

The nuclear deal thus enhances regional energy security in just one aspect, albeit an important one. It does not hand over the keys of the Arabian Gulf to Tehran, but neither does it necessarily open a new era of peaceful coexistence.

Some fear that a richer Iran, with more money from expanded oil exports, will create more trouble in the region. History and logic do not support this. The high point of Iranian involvement in Syria, Iraq and now Yemen has overlapped quite closely with stringent oil sanctions from 2012 onwards. Even if sanctions are lifted, Iran's 2013 oil revenues of $61.9bn are likely to fall to about $38bn next year because of sharply lower prices.

New trade and business relations are more likely to restrain Tehran than to empower it. Lower oil prices are uncomfortable for both Iran and its Gulf neighbours, but also encourage more diversified and interconnected economies.

Iran has not created the region's weak and failing states, but it has exploited and exacerbated them where it has found an opening. At the same time, extremists pose genuine threats to it on both its western and eastern borders.

The very multiplicity of non-state groups in conflicts across the Middle East – the Houthis, ISIS, Hizbollah, Al Qaeda affiliates, tribes and city-state brigades, secular oppositionists and irregular militias – show the current turmoil is not some grand sectarian conflict, even if some try to make it so.
Beyond narrow physical protection of facilities, the security of the Middle East's energy resources, its lifeblood, is inseparable from the restoration of order and law. Military operations will not bring solutions. These conflicts can be resolved only by a holistic combination of force – where necessary to remove intractable enemies such as ISIS and the Syrian president Bashar Al Assad – with diplomacy, then the comprehensive political and economic renewal of weak, oppressive and incompetent states.

That renewal is not possible without the involvement of one of the regional heavyweights. Last week's nuclear deal does not guarantee Iran's constructive engagement, but it is the first step to making it possible.

Full return of Iran's oil is just a matter of time.

By Robin Mills

This article was featured in The National on March 22, 2015.

As 80 million people across Iran and around the world celebrate Nowruz – the Iranian new year – many are hoping for a new dawn for their oil industry, economy and relations with the world.

Referring to the continuing nuclear talks, the Iranian foreign minister Javad Zarif tweeted "May Nowrouz indeed usher for the world a new day". But oil producers are watching with rather more trepidation.

Talks between Iran and six world powers over Tehran's disputed nuclear programme are to resume this week, with the goal of a framework agreement by March 30 and a full deal by June 30.

The oil minister Bijan Namdar Zanganeh has declared that Iran could raise its oil exports by 1 million barrels per day within a few months of sanctions being ended. Current exports are about 1.2 million bpd, down from 2.5 million bpd before the stricter sanctions were introduced by the US and the EU in the middle of 2012.

This may be somewhat optimistic, but another 800,000 bpd of production within six months or so appears reasonable. There will also be an initial surge of exports from storage.

Iran had plenty of time to shut down its fields in an orderly way. They will, of

declining slowly even before sanctions were tightened. But the country's fractured carbonate fields should have benefited from a period of rest when additional oil could drain into zones from which it can be recovered.

The timing of the production gain would depend on which sanctions were lifted, and when. Traders will be ready to buy Iranian oil almost immediately, and some are understood to have held preliminary discussions.

Investment in new field developments will take much longer. International oil companies such as Total and Eni will have to weigh spending billions of dollars on deals that may take 10 years or more to show a return, against the possibility that a nuclear accord may break down. EU and UN sanctions could be removed quickly. But the complex web of US legislation and executive orders, many not linked to the nuclear issue, could, as in the cases of Iraq and Libya, take years to unravel – even if Congress is disposed to be cooperative.

Given at least a year for negotiations and bids before new contracts would be signed, it is unlikely that significant new production would be added before 2020. After the initial rebound from sanctions, therefore, Iranian crude output is likely to plateau before

That would further reduce both near-term and long-dated oil prices, already depressed by the surge of US shale production and Opec's policy of defending its market share rather than cutting output.

The parties could still fail to reach a deal, of course. But major oil producers need to be prepared for a more competitive market in the years to come.

Iran, Iraq, Venezuela and Libya, to name but four, all have giant under-exploited hydrocarbon resources. It is unrealistic for the leading Arabian Gulf oil powers to hope they all remain under sanctions or in chaos forever.

Instead, Iran's neighbours need to continue building up their fiscal and economic resilience during a period of lower oil prices. They should consider where they can gain from Iranian reintegration into the regional economy – such as gas exports to its energy-short neighbours, and in non-oil trade.

Such initiatives are the best chance to undo the hardliners' grip on Tehran's "resistance" economy, and constrain their regional adventurism. That would be a new year's gift both Iranians and their neighbours could share.

Key MENA Energy Issues Scorecard

MENA energy price reform	🟠	↑	UAE fuel prices unsubsidised from August 1; Gulf countries may follow UAE in cutting subsidies
MENA unconventional oil & gas	🟠	↑	Morocco's shale potential unlocked as Circle Oil conducted a successful exploration drill from its first shale well in the Lalla Mimouna basin.
MENA alternative energy	🟡	↑	Oman to build the Middle East's largest solar energy plant at $600 mn; low bids for solar projects in Jordan likely to boom solar energy activity in the country; Saudi Arabia to delay clean energy target to 2040; KOC deploying largest solar power plant in Kuwait to be deployed in 2015; ~5 GW of solar power development agreements have been signed so far in 2015
MENA nuclear power	🟡	⇔	Saudi Arabia to build two nuclear reactor facilities to move beyond oil dependency in generating power; Iran to construct two 100MW nuclear reactors to generate electricity; Egypt discussion deals with Russia for nuclear power plant.
Energy infrastructure security	🟠	↓	Bomb attack on Kirkuk-Ceyhan pipeline in Turkey halts export of Iraq crude to Turkey; Rebel rocket attack sets Yemen oil refinery in the port city of Aden ablaze.
OPEC production	🟠	↓	July production stands at 32.107 mbpd; OPEC output declined in July as Iraqi production dropped; Saudi Arabia increased output by 70 kbpd; Iranian production was steady at 2.85 mbpd; Libyan output slipped 20 kbpd.
East Mediterranean gas commercialisation	🟡	⇔	Major discovery for ENI offshore Egypt; Israel reaches political gas deal but exports remain elusive; ENI reached deal with Egypt for higher prices for its gas output – $4/MMBtu and $5.88/MMBtu for new discoveries; Cyprus energy programme moving ahead
Kuwait energy projects progress	🟠	⇔	Kuwait awards four of the five contracts for Al Zour Refinery; Kuwait to tender construction of 14 substations at Mina al-Ahmadi refinery in late 2015 or early 2016; Neutral Zone production shutdown continues
Abu Dhabi concessions renewal	🟠	⇔	Shell and BP withdraw from stakes in ADCO because of low rates of return; New ADCO shareholders: 60% ADNOC, 10% Total, 5% Inpex, 3% GS Energy, 22% open
Baghdad-Erbil oil agreement	🟠	↓	KRG-Federal Iraq agreement largely collapsed and KRG following a policy of unilateral independent oil sales. Around 70% of oil pumped in June to Ceyhan Port was sold directly by KRG. The rest was delivered to Iraq's national crude marketing company SOMO.
Iraq oil production build-up	🟡	↑	Shell putting off further development of Iraq's Majnoon field; Basra exports rising due to the introduction of the new grade "Basra Heavy Crude"; Iraq production reached 4.194 million in July
Egypt subsidy reform	🔴	⇔	Egypt's spending on energy subsidies fell about 10% during July 2014 to May 2015 compared with the year before. Further subsidy reform is expected, including the introduction of a fuel ration card.
Iran oil sanctions	🟡	↑	Appears likely US Congress will not be able to block nuclear deal; Iran production can increase by 500,000 barrels a day within a week after sanctions end and by 1 million barrels a day within a month following that.

🟢	Very positive	↑	Improvement in last month
🟡	Positive	⇔	No change
🟠	Negative	↓	Deterioration in last month
🔴	Very negative		

Mbpd = million barrels per day ; kbpd= thousand barrels per day

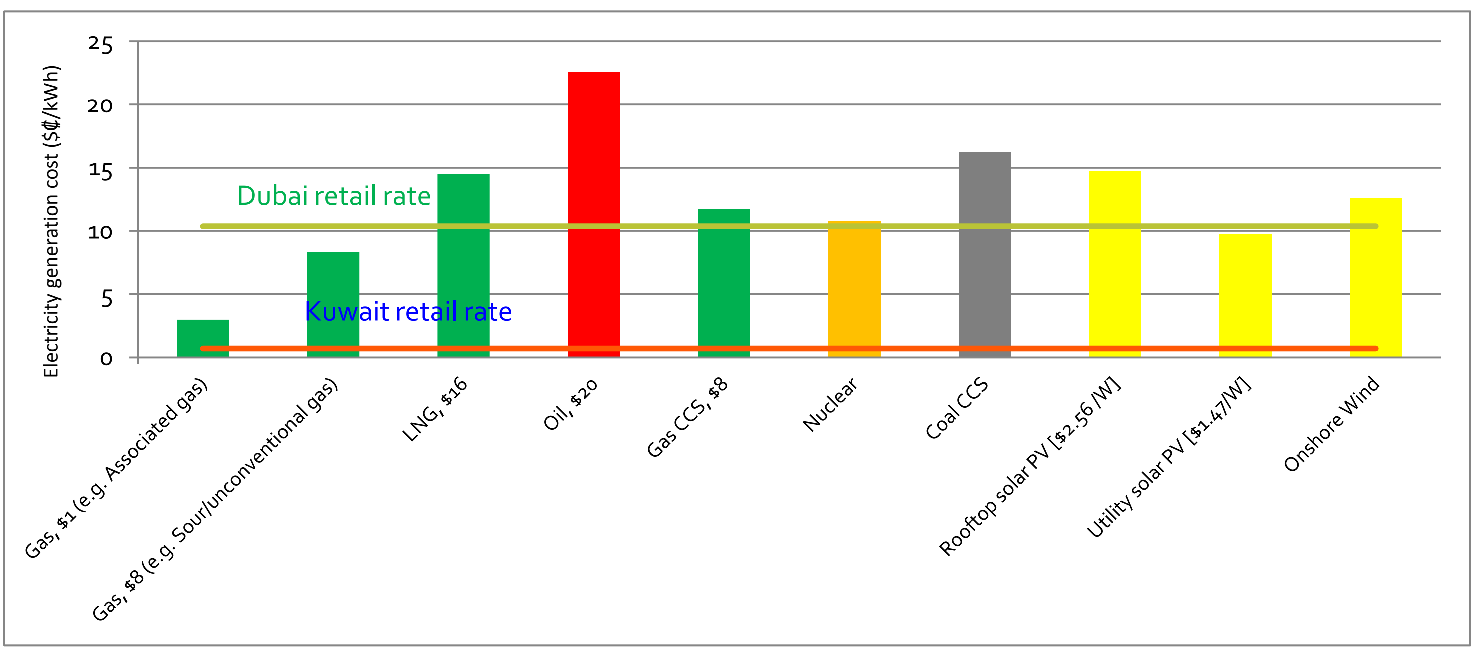
Energy Prices and Generation Costs in the Middle East

The following table represents July 2015 gasoline, diesel and electricity prices (top rate for residential consumers) in selected MENA countries, with the US for comparison, and the direction of change since last month.

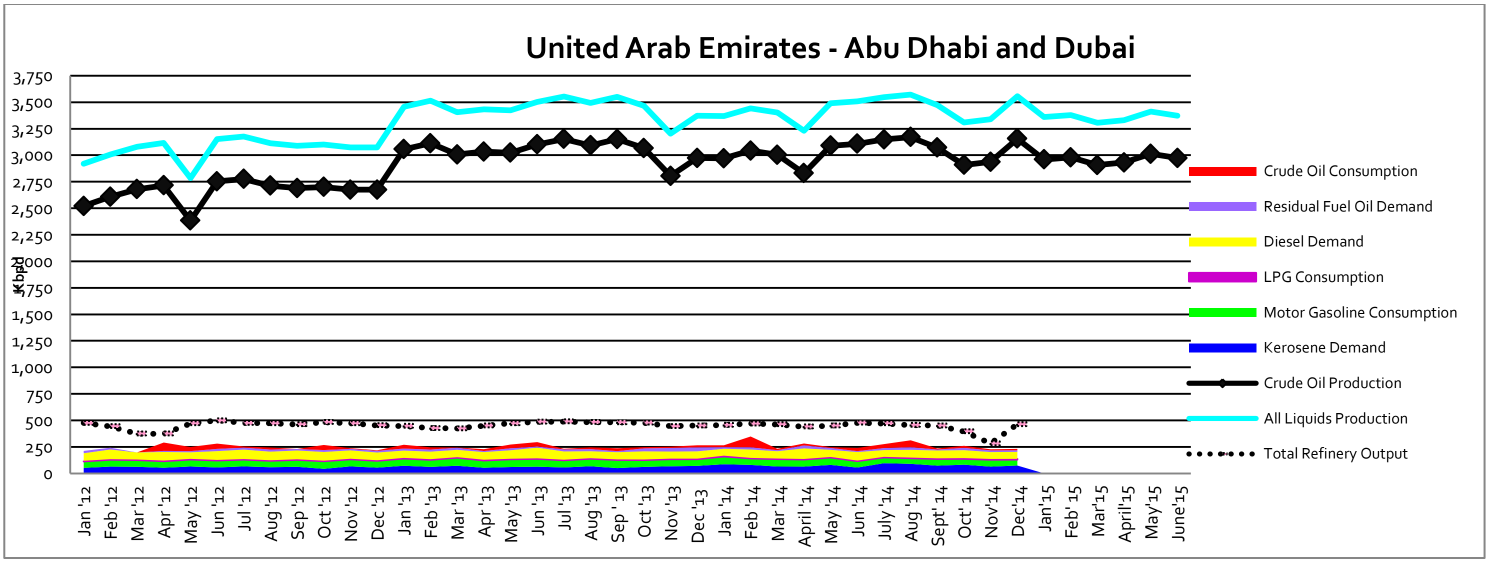
		Gasoline ($/Litre)	Diesel ($/Litre)	Electricity ($₵/kWh)
Saudi		0.16	0.07	3*
Qatar		0.27	0.27	3
Bahrain		0.28	0.33	4
Kuwait		0.21	0.36	0.7
Iraq		0.86	0.63	6.7
Yemen		0.69	0.69	7.9
Oman		0.31	0.36	7.8
UAE	Dubai	0.58*↑	0.56*↓	10
	Abu Dhabi			4
	Sharjah			8
Egypt		0.36	0.23	6.1
Iran**		0.34	0.17	1.64
US		0.77	0.72	12.95
Lebanon		0.77 ↓	0.51↓	8.3
Jordan		1.04↓	0.57↓	16

Source: Global Petrol Prices, Ministry of Energy UAE; Manaar research

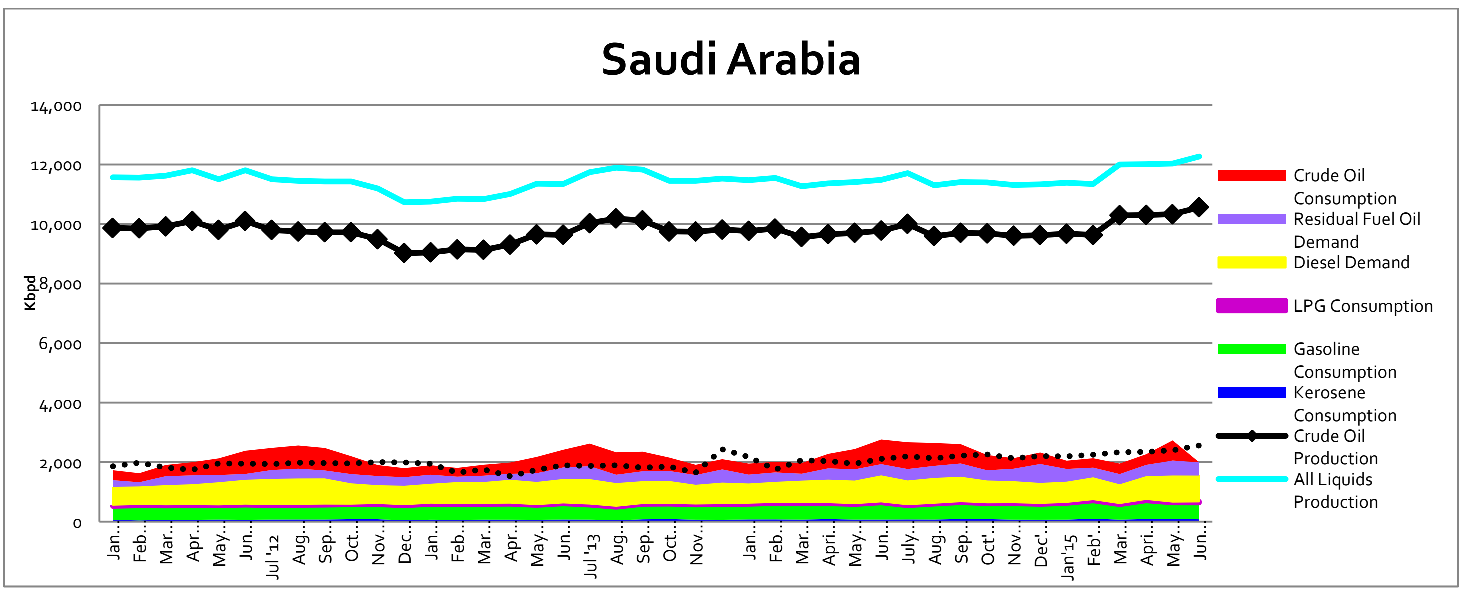
*Assumed consumption of 5000kW/month.
Non-subsidized allocation, at current (volatile)
** From 1st August
*** Values changed mainly due to changes in the exchange rate
Open-market exchange rate (US$1:IR 24942)
Note: Gasoline & diesel are pump prices. Only the US, UAE, Lebanon and Jordan prices can be considered non-subsidized.



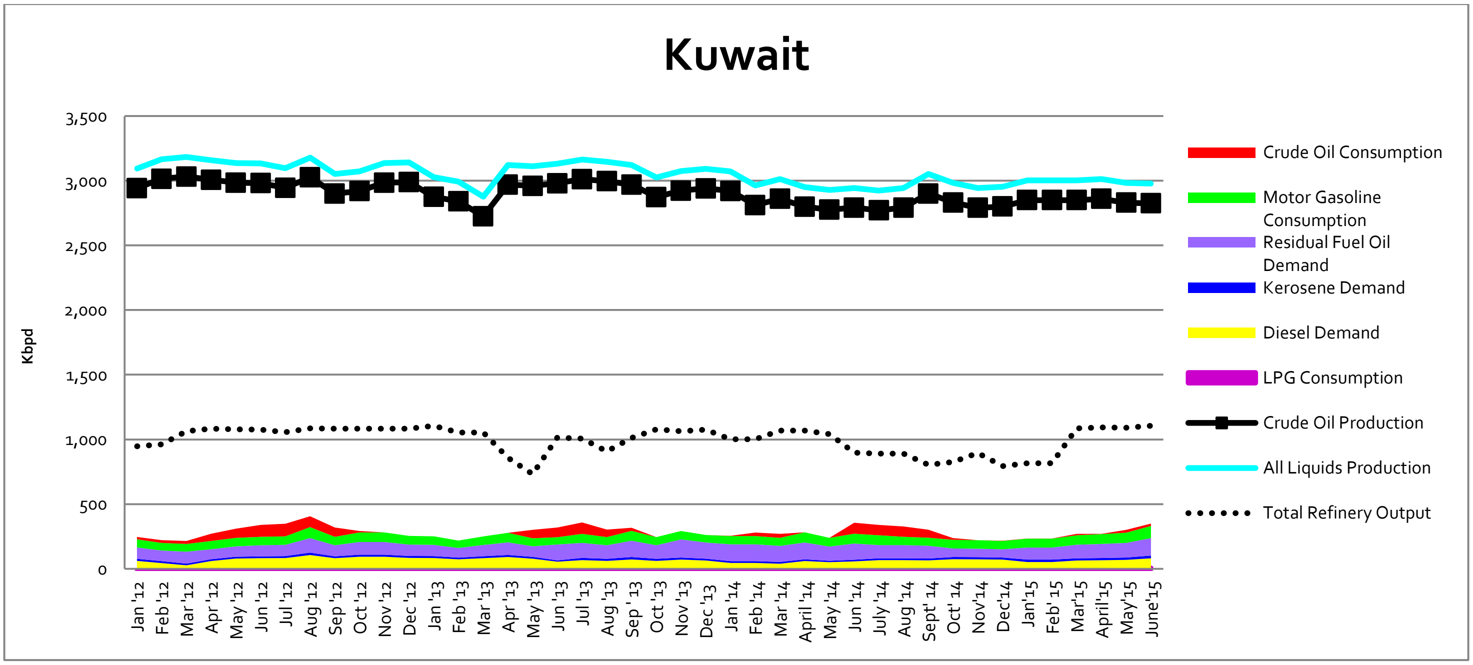
Regional Energy Statistics



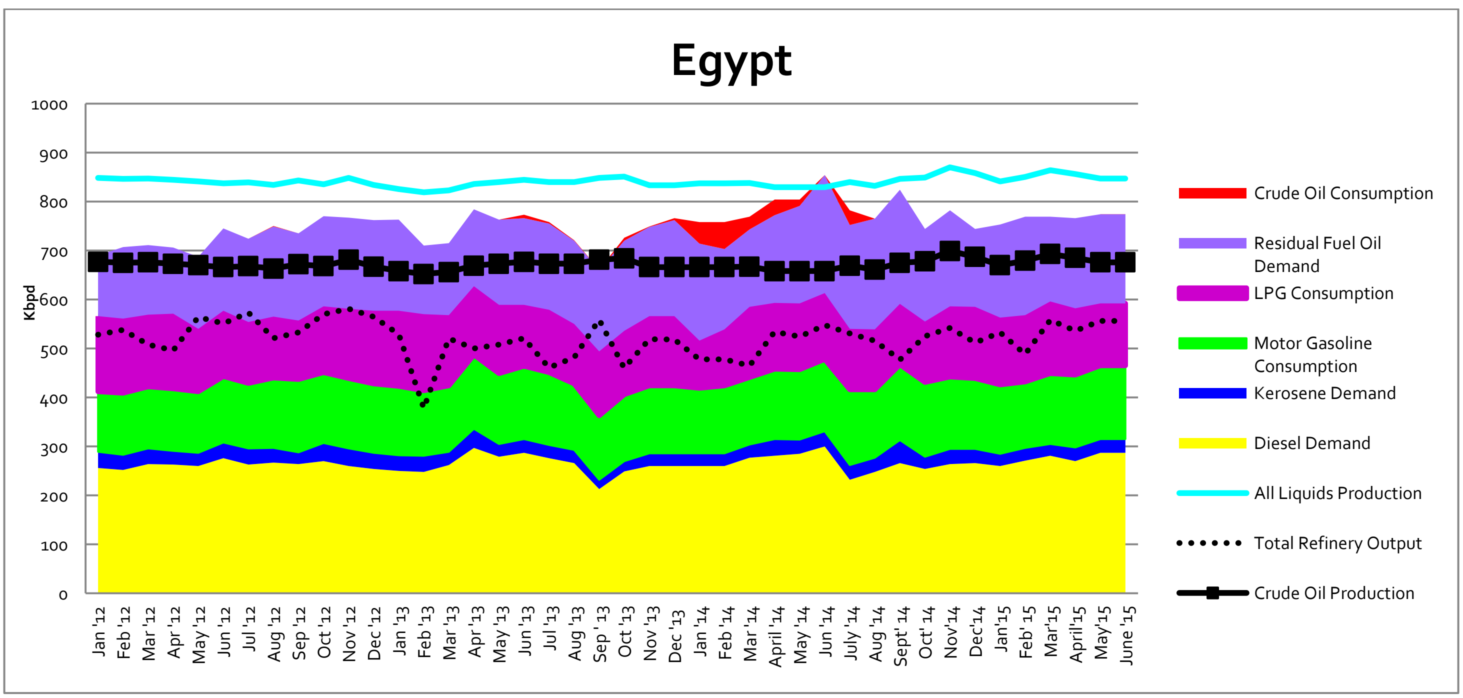
- 2015 figures for refined products not available
- June production (2,974 kbpd) was slightly lower than May ’15 production (3,012 kbpd)
- Shell delays Bab sour gas project FID to 2017 amid declining oil prices
- Japan imported 26.8 million barrels in May 2015 from the UAE



- Saudi Arabia faces a difficult challenge in accommodating increased Iranian exports, without causing a price crash.
- We do not believe that Saudi Arabia will cut its production substantially to allow an increase from Iran, given the countries’ political rivalry. But the Saudis may be pursuing a strategy of high production now to drive out high-cost producers and so create more room in the market for OPEC producers generally when Iran returns.
- Saudi Arabia is on track to raise refining capacity by 26% this year, as it puts the 400 kbpd Yasref refinery and the second 200 kbpd crude distillation unit (CDU) at the Satorp refinery into operation.

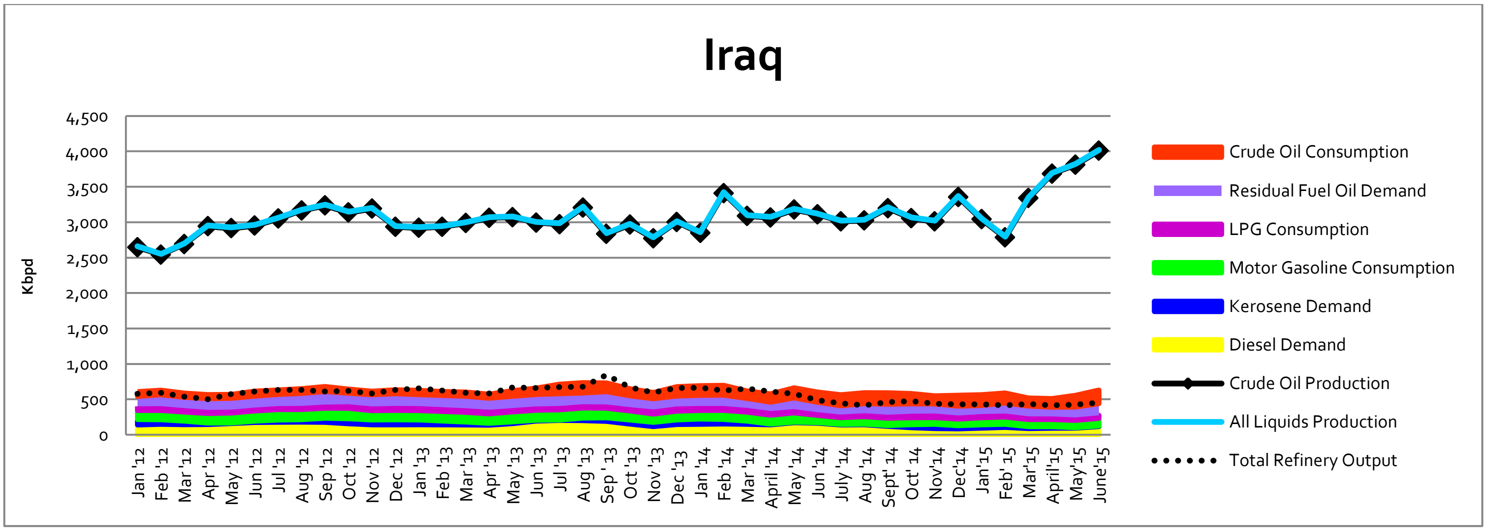


- Oil exports in Kuwait falling gradually due to lower oil price.
- Estimated fiscal breakeven price is $49.4/barrel for Kuwait; lowest in the GCC
- In an effort to increase production, Kuwait Oil Company invited companies to bid for the East Raudhatain, West Raudhatain, West Sabriya and Umm Niqa oil fields in its Jurassic basin.

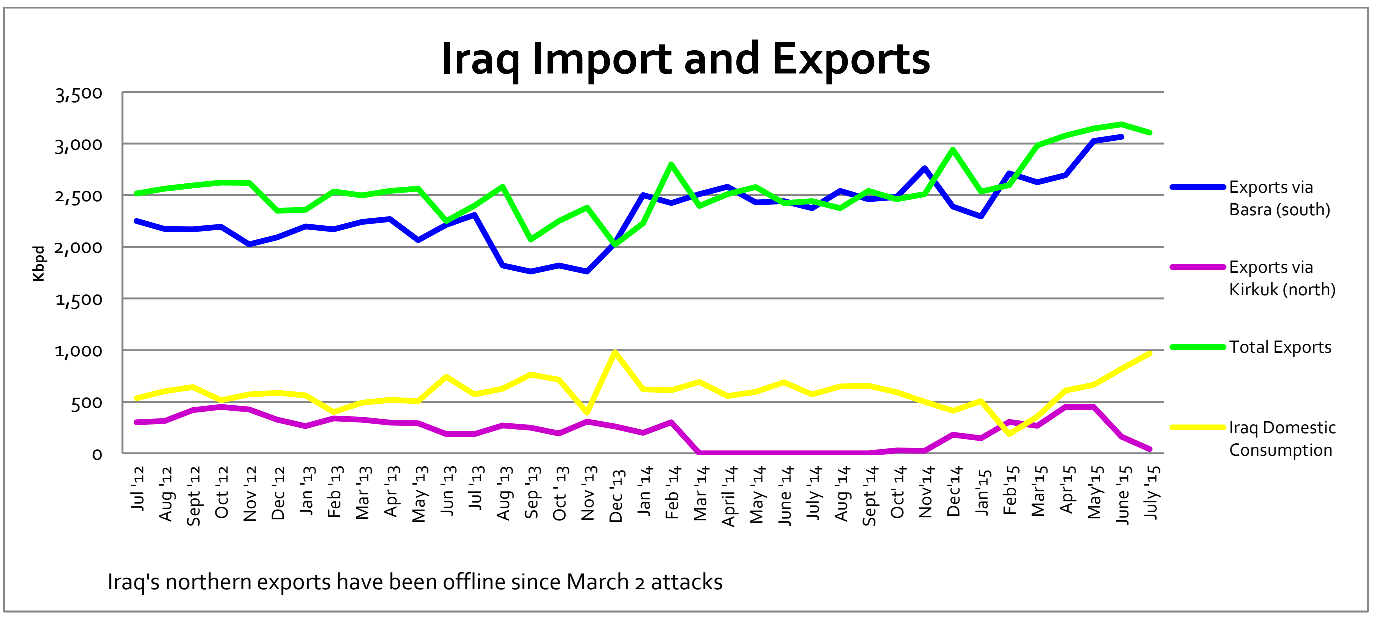


- Debt to oil companies reaches $6.3 billion in June ’15.
- LPG demand stays quite stead with a reported 10,000 tons of imported LPG reaches Egypt in one week.
- Oil production remains quite steady, but demand is rising; Egypt awarded five oil and gas concessions in an attempt to increase production in a time of its worst energy shortage in decades.
- Egypt has reached an agreement with Saudi Arabia to receive petroleum aid worth $1.4bn for 3 months.

Energy Statistical Report for Iraq

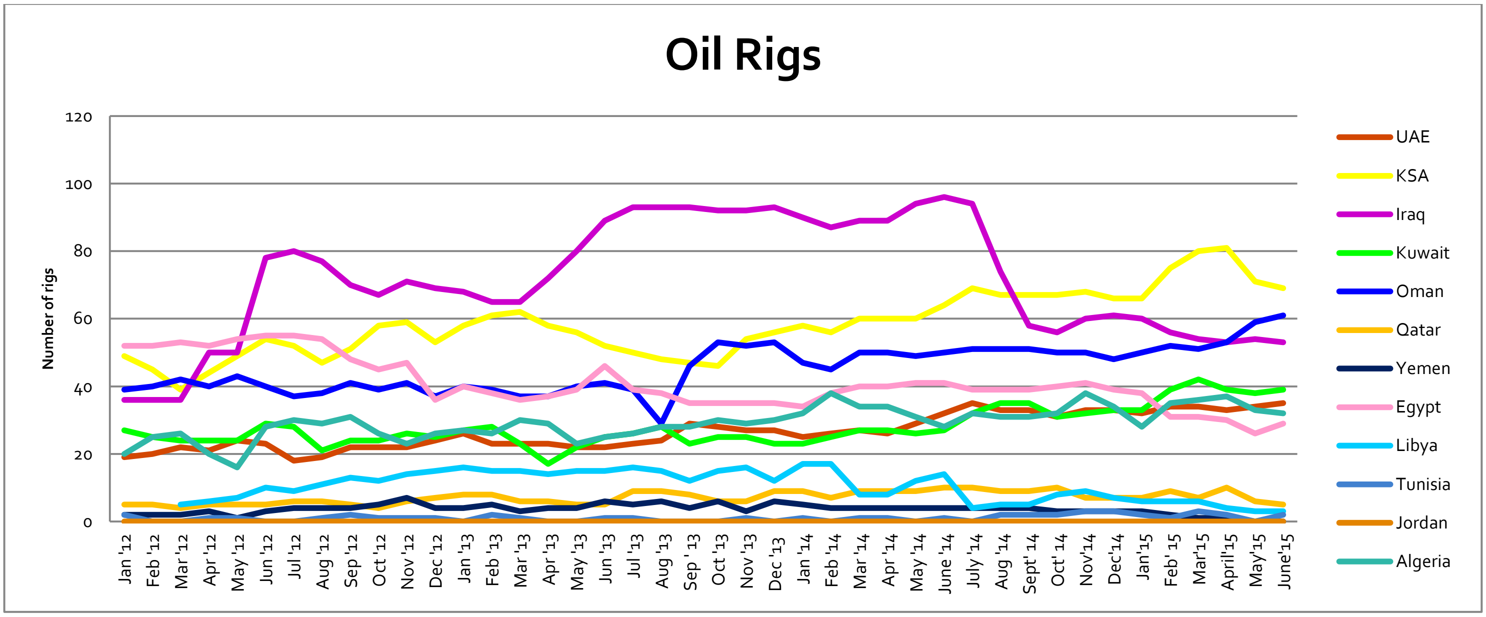


- Iraq's budgetary problems are causing some infrastructure projects to be cancelled/delayed such as the construction of the south degassing station in Zubair oilfield and Shell's decision to delay investments in the Majnoon field.
- Iraq oil production reached 4.19 mbpd in July from 4.15 mbpd in June.

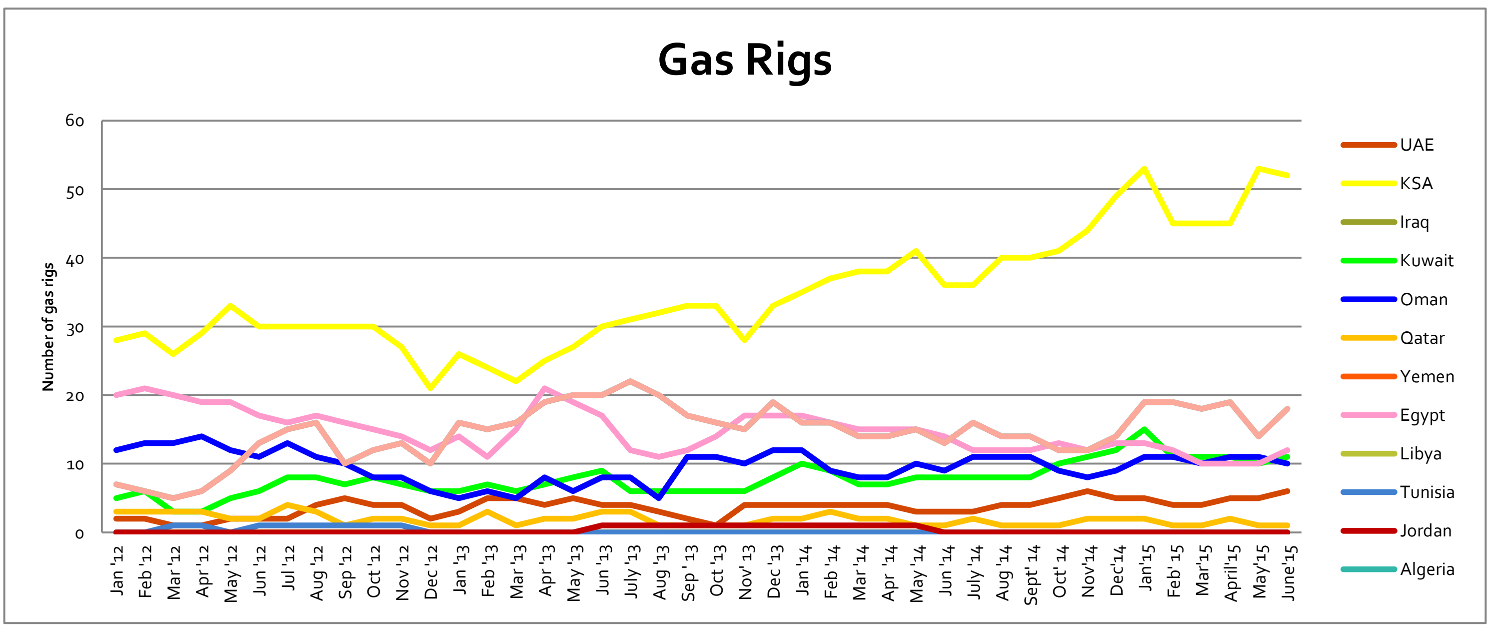


- July (3.105 mbpd) exports dipped compared to June (3.187 Mbpd) and May (3.145) exports.
- 98% of these exports were through Basra (3064 Mbpd).
- Basra Heavy crude sales increased to about 827 kbpd, up from 592 kbpd in June according to the Iraq Oil Report.

Oil and Gas Rig Count



- Iraq oil drilling rigs down to 53 from peak of 96 rigs in June 2014 which is mainly from security reasons and lower oil prices which are slowing down projects
- Currently Saudi has the highest rig count of 69 followed by Oman with 61 rigs. Saudi rigs fell from highs of 81 rigs in April'15



- Highest rig count goes to Saudi with current 52 rigs followed by Algeria with 18 rigs. Gas rig count is gradually increasing in Saudi.
- BG Group will merge with Shell for future operations in Egypt; BG's gas fields in Egypt have declined at a faster rate than expected coupled with rising domestic demand.
- Oman is prepared to finance to continue its infrastructure expansions and plans its biggest development, the BP Khazzan gas project.

Recent and forthcoming MENA Licensing Rounds

Country	Round	Launch Date	Blocks on Offer	km^2 offered	Blocks Awarded	Closing Date
Iraq	5th Licensing Round	NA	10	NA		NA
Lebanon	1st Licensing Round**	May – 13*	10	17,901	-	Jan – 14**
Jordan	2014 Bidding Round	Aug-14				Oct-14
Jordan	Shale Blocks	NA	2	388	2	May-15
Egypt	EGAS	Feb-15	12	20,548		July-15
Egypt	Ganope	Dec-14	10		5	May-15
Oman	Oman Bid Round 2014	Aug-14	5	76416		Oct-14

* Participating in the Ganope International 2012 Bid Round #1, Dragon Oil awarded 100% interest in shallow-water block 19 in the Gulf of Suez.

** Delayed due to government formation; no confirmed date

In Image

Repeated sabotage by "organised gangs" of the oil pipeline from northern Iraq to Turkey has cost the autonomous Kurdistan region $501 million since July 1– Ministry of Natural Resources, Kurdistan

Photo: File

Current Projects

Manaar oil and gas intelligence dashboard

Manaar is currently working on developing an intranet portal to include our political analysis, economic and business intelligence for oil and gas companies in Iraq.

The portal will combine document collaboration, data warehousing, and business and operational intelligence applications for our clients.

The portal will comprise of two sets of information: 1) Reporting and Intelligence and 2) Data.

Report and intelligence will include government and tribal relations, political strategies and policies and their effect on the oil and gas sector, needed security measures, oil and gas laws and taxes, IOC country strategies, infrastructure plans and developments.

Data will include figures of past and forecasted oil, gas, power and refined products supply and demand and pricing.

Picture: Construction Review Online

Please contact Roa Ibrahim r.ibrahim@manaarco.com, +971 4-3266-300 for further information and purchases.

Infrastructure market

Manaar is preparing a short study on the effect of declining oil prices on oil and gas upstream and downstream infrastructure projects in the next two years. We also include our forecasts of oil prices till 2017. A section of the study includes the effect of declining oil prices on seismic contractors operating in the Middle East.

MENA Shale Study

Manaar has prepared a study on the impact of global shale resources on MENA. The study focusses on:

- The strengths, weaknesses, threats and opportunities of unconventional gas in the MENA region.
- Differences in the development of unconventional gas between North America and MENA.
- Identifying MENA's unconventional gas potential; understanding current and planned activity levels per country, company and basin.
- The impact of the shale boom on future demand for MENA oil & gas, oil and gas prices, possible new pricing hubs, and oil and gas exports.

Recent & Forthcoming Events

Recent events

- Robin Mills spoke on the Brookings Energy Forum in Doha from the 1st to 4th April, 2014, on MENA energy political economy, subsidies and alternative energy
- Robin Mills participated as representative of Brookings Doha Center on Global Forum on Energy Security 2015 held in Beijing, China from 15th-16th June 2015.
- Jaafar Altaie spoke on the 18th Asia Oil and Gas Conference (AOGC2015) in Kuala Lumpur, Malaysia from 17th-19th May, 2015.

Upcoming Events

- Robin will be speaking at Gulf Intelligence in Fujairah 17th September, and Iraq Club in Dubai 2nd September
- Jaafar Altaie will participate on upcoming Second Annual Abu Dhabi Strategic Debate from 1st November to 2nd November, 2015 in Abu Dhabi, United Arab Emirates

Manaar Energy Consulting YouTube channel with media interviews https://www.youtube.com/channel/UCiYd0AOrMJIe4qoFa1tnLUQ

Manaar Presentations

- Gas Development in Middle East: Impact on Product Demand
- Feedstock Challenges and Market Implications for Middle East Petrochemical Products

For more presentations and research, please visit www.manaarco.com

Key Manaar people

JAAFAR ALTAIE
MANAGING DIRECTOR

- Jaafar founded Manaar in 2009. He is an energy economist and petroleum business advisor to IOCs and NOCs on regional upstream business and economics issues.

ROBIN MILLS
HEAD OF CONSULTING

- Head of Consulting at Manaar Energy, Robin is an expert on energy strategy and economics, described by Foreign Policy magazine as "one of the energy world's great minds".

ROA IBRAHIM
CONSULTANT

- Roa is a specialist in assessing markets for energy industry technology in the Middle East, with a background in finance.

GARY LAKES
SENIOR ASSOCIATE

- Gary Lakes is a Nicosia-based editor and journalist whose current primary focus is East Mediterranean energy.

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Sources

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The National for Robin Mills's articles

All photos are Google Images

(Graves, Low bids on project in Jordan likely to trigger solar energy boom, 2015)

(Burger, Egypt's Renewable Energy Drive Gains Steam, 2015)

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