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Iran's gas industry faces a long road back

Iranian Foreign Minister Mohammad Javad Zarif at the negotiations in Vienna. (PA)

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IRAN and the P5+1 are still far from reaching a long-term settlement on the country's nuclear programme, despite the approaching deadline for the interim agreement when talks in Austria draw to a close on 20 July.

While there has been tangible progress over the past nine months, "there are also very real gaps on key issues", United States Secretary of State John Kerry told journalists in Vienna on Tuesday.

These gaps may mean a deal on Sunday is unlikely and the interim agreement will probably be extended for a further six months.

Nevertheless, Iran is still preparing for a resolution and its return to the global oil and gas stage. Oil Minister Bijan Zanganeh is planning to present the new draft Iranian Petroleum Contract (IPC) to IOCs in London in November and to launch a tender for 33 oil and gas fields as soon as sanctions are eased.

But even if an agreement is reached on Sunday, dismantling sanctions related to the oil and gas sector will be a complicated process – particularly in Washington.

US President Barack Obama has the authority to terminate sanctions imposed by executive order, as well as the ability lift some of the measures enacted by Congress – including the Iran Sanctions Act, which prohibits foreign companies from investing in Iran's energy industry.

While Obama can temporarily waive codified sanctions, he needs Congressional approval to permanently remove some (although not all) of them, which would be difficult in the partisan climate that exists between his administration and the Republican faction in Congress.

Political manoeuvres

Were Obama to lift an executive order without seeking the support of Congress, "what would likely occur is that Congress would seek to pass some legislation, perhaps increasing the scope of intensity of sanctions, to undermine the president's ability to manoeuvre," Justin Dargin, a Saudi Aramco fellow and Middle East scholar at the University of Oxford, told *Interfax*.

The White House could get around this by not enforcing sanctions or limiting punishments to fines. But in practical terms IOCs may feel uneasy making the billion-dollar investments needed to transform Iran's gas industry on a temporary waiver that could be easily reversed.

"Companies such as Eni or Total are ➤02

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➤ 01 not going to rush into potentially loss-making investments in Iran when sanctions are first lifted simply in order to strategically position themselves – especially after the experiences they've had over the past decade-and-a-half there," Ali Ghezelbash, director of energy and political risk consultancy AdAugusta Consulting, told *Interfax*.

America's ability to block access to the dollar clearing system for companies that violate sanctions is a major deterrent to international energy companies and other firms seeking re-entry into Iran. BNP Paribas's recent $8.9 billion fine and year-long ban from dollar clearing for transactions with Iran – including oil- and gas-related activity – serves as a warning not to do business with the country without US approval.

While it is possible that contracts can be priced in dollars and then settled in euros, "it's not something that's yet been done and it would, in a way, be a declaration of economic war on the US", Chris Cook, a senior research fellow at the Institute for Security & Resilience Studies at University College London and former director of the International Petroleum Exchange, told *Interfax*. "The big question is: at what pace is Europe prepared to proceed [without US support]? It is a massive opportunity for Europe to get into Iran first."

However in reality – even if there is the political willingness within the EU to move quickly on sanctions relief – Brussels will only lift sanctions "in coordination [with the US] given how intertwined the sanctions regimes are and the fact that European companies will not jeopardise their US businesses to return to Iran", said Barbara Slavin, a senior fellow at the Atlantic Council.

It is therefore likely that in the event of only limited sanctions relief, it will not be IOCs but more nimble minnows that will make the first moves into the country. Independent E&P companies are already engaged in trying to find out data about Iran's fields, said Mahdi Kazemzadeh, mergers and acquisitions adviser at energy consultancy Afraz Advisers.

These are companies that have the operational flexibility to limit their exposure to the US, and may be more willing to negotiate alternative forms of payment.

Luring investment

Ultimately, it will be the supermajors Zanganeh needs to entice back to the sector to revive investment in Iran's gas fields – especially the flagship South Pars.

IOCs have started fact-finding missions in Iran and are rebuilding relationships with Zanganeh's staff to ensure they are well positioned as soon as a deal is reached. Meanwhile, Tehran has gathered an international team of expert economists, diplomats and businessman to help plot Iran's return to the global economy, Dargin said.

But even if a deal is reached on Sunday and the process of lifting sanctions begins, it will be the terms of the new draft IPC that decide the future of Iran's energy development.

In the wake of the shale revolution in North America and the potential of East Africa to become a major gas exporter, Zanganeh will be chartering a return to a very different global gas industry to the one he left in 2005.

As IOCs increasingly look for value over volume, Iran will need more than the promise of vast reserves to tie down investments. ■

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The South Pars field. Iran needs investment from supermajors to revive its infrastructure. (Statoil)

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