

Historic Iran deal to shift LNG and gas dynamics

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London, 14 July (Argus) — Iran has signed a deal with the P5+1 group — China, Russia, the US, the UK, France and Germany — to curb its uranium enrichment programme in exchange for sanctions relief, including on the natural gas and liquefaction industry.

The deal could impact a number of areas of the LNG industry, both in the medium and long-term. Sanctions on Iran's oil, gas, petrochemicals and shipping sectors will be lifted on 15 December, which will finally allow the country access to liquefaction technology.

"We are ready if a company wants to sign a contract, it depends on them," Iranian state-owned NIGC head of communications Hedayat Omidvar said today. He added that it made no difference which company NIGC signed a contract with and that it would be willing to accept investment in LNG.

Some of Iran's LNG projects have been delayed by around a decade because of sanctions. German industrial gases group Linde may have been providing Iran with liquefaction technology to develop its Iran LNG project prior to the imposition of the sanctions. Individual parts of Iran LNG are 40-90pc complete, according to government sources.

The Iranian government may have paid for all or part of the technology from Linde, but sanctions limited it from being delivered. Linde declined to comment on whether the company has outstanding involvement with Iran but said that should sanctions be lifted it "will have the opportunity to offer products to an interesting market".

Increased oil supply from Iran following the easing of sanctions could weigh on crude prices and impact long-term LNG prices that index contracts with a three-to-six month lag behind the Brent crude price. Oil-linked LNG prices have already fallen over the last 12 months, with the *Argus* oil-linked Japan des price for August at \$8.89/mn Btu compared with \$16.23/mn Btu in 2014.

Iran has said that prior to the lifting of sanctions it would prioritise supplying gas to domestic and regional markets, but easier access to LNG technology could enable the country to accelerate exports beyond the Middle East more quickly.

If Iran mobilises its regional plans to export pipeline gas this could reduce LNG demand in some Middle East and south Asian markets. Pakistan prime ministerial adviser Sartaj Aziz said Pakistan supported the lifting of sanctions and mentioned the Iran-Pakistan gas pipeline, which has struggled to progress past the planning stage partly because of political opposition from the US government.

Pakistan has high natural gas demand, but its import demand is price sensitive, meaning that Iranian pipeline gas could potentially be more attractive than costly LNG. Pakistan started importing LNG in April and has received seven cargoes.

But Iran has consistently emphasised the importance of exporting gas at a high price. The issue has spilled over into the country's dealings with neighbouring Turkey, which declined Iran's offer to export more gas to Turkey for a slightly lower price earlier this year. Iranian gas exports to Turkey are still significantly more costly than Russian or Azeri exports to Turkey.

Low domestic gas prices in the Middle East have limited foreign investment in upstream gas projects in the region. Iran has eyed pipeline gas exports to Kuwait, Oman and the UAE, but its trading with the countries could also be affected by the various geopolitical dynamics within the region.

The crucial factor will be how quickly Iran can accelerate gas production and curb domestic demand, which is likely to hinge on foreign investment. The attractiveness of investing in Iran will depend not only on the country's vast oil and gas reserves, but also the conditions of its revamped upstream contract, which is scheduled to be unveiled in September after numerous delays. The contract replaces the buy-back system that foreign companies considered unattractive because it limited their operating period to five-to-seven years.

The terms of the deal reached today between Iran and the P5+1 group will see US and EU sanctions targeting Iran's oil and gas sector rolled back when UN nuclear watchdog the IAEA confirms that it and Tehran have resolved all past and present outstanding issues regarding Iran's nuclear programme.