The Impact of E3/EU+3 Deal with Iran on Iran's Oil Exports

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Working Papers Series

November 2015

IMESC

Institute for Middle East Studies- Canada

ISSN 2291-322X (Print)
ISSN 2291-3238 (Online)

ISBN: 978-0-9948625-1-8

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Abstract

This paper examines That though some of Iran's oil sector the sanctions were waived and exempted under Iran Joint Plan of action (JPOA) Iran was not able to fulfill foreign investment contracts It has also been discussed that Iran deal with E3/EU+3 has terminated United Nations Security Council ,United States and European sanctions resolutions against Iran . The Iran deal has also provided an opportunity for Iran to return to international oil markets and encourage foreign investment in Iran oil sector.

Key Words: Iran deal, Oil export, Investment

Introduction :

This paper aims to examine the challenges that Iran faces to remain as a main oil exporter after the E3/EU+3 deal with Iran. The paper further attention is drawn to be on the question how financial restrictions and international have shaped Iran future oil development strategy. The paper also represents a quarterly analysis of Iran's oil exports for the period 2012-201 .The third section examines the JPOA and Iran deal and its impact on Iran oil sector. Section four focuses on the importance of E3/EU+3 deal with Iran and the role of the deal on determining future of Iran oil sector.

Iran oil Production and Export Policy 2012-2015:

Iran oil sector path during the mid 2000s went under serious changes. President Mahmoud Ahmadinejad (2006-2013) main obsession was to maintain Iran level of current production and export level. And also, the oil and gas sector in Iran was in critical need of technology, capital and markets if it is to attempt to recover from its current condition. A central problem is that the government has continually raided the investment pot that national Iran Oil Company (NIOC) required for its development plans. Realistically, the only way the sector's needs can be met is to bring the international oil companies into the upstream on a major scale. The two obstacles to this hitherto have been the economic sanctions and the unattractive terms of the existing buy-back agreements Iran had a difficult and complex way to absorb foreign investment.

The U.S. and EU measures prohibited large-scale investment in the country's oil and gas sector, and cut off its access to European and U.S. sources of financial transactions. Further sanctions were implemented against the Central Bank of Iran, while the EU imposed an embargo on Iranian oil and banned European protection from providing Iranian oil carriers with insurance and reinsurance1. The implementation of insurance-related sanctions was particularly effective in stemming Iranian exports, which affected not only European importers but also Iran's Asian customers who were forced to temporarily halt imports.

Following the implementation of sanctions in late-2011 and mid-2012, Iranian production dropped dramatically . The sanctions impeded Iran's ability to sell oil, resulting in a near 1.0-million b/d drop in crude oil and condensate exports in 2012 compared with the previous year(EIA,2015) . Although Iran had been subject to four earlier rounds of United Nations sanctions, the much tougher measures passed by the United States and the European Union have severely hampered Iran's ability to export its oil, which directly affected its ability to produce petroleum and petroleum products In spite of attempts to boost foreign investment in oil sector,. Iran has been facing serious difficulties in maintaining its share of oil production and exports among OPEC members, resulting in negative annual average growth rate of oil production between 2002-2013, while during the same period OPEC ‘s annual average growth rate of oil production were positive. In fact U.S led sanctions not only prevent the expansion of oil sector production and export, but also reduce the bargaining power of the country, oil revenues and reduction in the rate of growth of the economy.

Table 1 Iran’s Oil Exports (thousand barrel)

Year	Quarter- 1	Quarter-2	∆%	Quarter-3	∆%	Quarter-4
2013	1,808	-	1,804	-0.22	1,547	-14.25
2014	1,570	1,551	-1.21	1,372	-11.54	1,386
2015	1,428					

Source : Iran central bank, Economic Trends, 2013-2015

The Joint of Plan action (JPOA)

In November 2013, the P5+1 countries (i.e., the United States, United Kingdom, France, Russia, China, and Germany) and Iran announced they had agreed upon the Joint Plan of Action. E3/EU+3 would undertake voluntary measures:

” Pause efforts to further reduce Iran's crude oil sales, enabling Iran's current customers to Purchase their current average amounts of crude oil. Enable the repatriation of an agreed amount of revenue held abroad. For such oil sales, suspend the EU and U.S. sanctions on associated insurance and transportation services. (JPOA or JPA).``

This agreement provided for limited sanctions relief while negotiations proceeded. The clause of the JPA that deals with oil sales falls under the section listing “voluntary measures” taken by the P5+1 as their part of the agreement. Specifically, the P5+1 pledges to “pause efforts to further reduce Iran’s crude oil sales, enabling Iran’s current customers to purchase their current average amounts of crude oil .The United State Congress (USG) will not seek further reductions in the purchasers – China, India, Japan, South Korea, Taiwan, and Turkey – who are permitted to maintain their current average level of imports from Iran during the JPOA Period (Davis 2014).The Congress has emphasized that no other countries may commence purchasing Iranian crude oil.

Specifically, the USG will not impose the following secondary sanctions with respect to transactions involving the purchase of Iranian crude oil, including transactions involving the National Iranian Oil Company ("NIOC") or the National Iranian Tanker Company ("NITC"), provided that the transactions do not involve persons on the SDN List other than NIOC, NITC, or any Iranian depository institution listed solely pursuant to E.O. 13599:

"*Correspondent or Payable-through Account Sanctions.* The USG will not impose correspondent or payable-through account sanctions under sections 1(a)(i)-(ii) of E.O. 13622 (as amended by section 16(a) of E.O. 13645); section 3(a)(i) of E.O. 13645; or sections 561.201(a)(5), 561.204(a), and 561.204(b)(1)-(2) of the IFSR with respect to FFIs that conduct or facilitate transactions by non-U.S. persons not otherwise subject to the ITSR for exports of petroleum and petroleum products from Iran to China, India, Japan, South Korea, Taiwan, or Turkey, and associated insurance and transportation services ("Exempted Petroleum Exports")."

The JPOA was implemented in January 2014 .The administration conducted several briefings and issued guidance documents to explain the details of the agreement.. Iran president Hassan Rouhani, whose administration designed and launched these contracts, in the 44th World Economic Forum in Davos, Switzerland, in January 2014, described the most outstanding specification of the new generation of the oil contracts as follows: Lifting any financial, technical, and legal obstacles within the boundaries of the approved international laws to expand Iran's cooperation with major oil companies; Making the contracts and the projects more attractive to the international oil companies and encouraging them to cooperate with Iran in exploration and development, especially in increasing the efficiency of the recovery operations, as well as expanding managing, financial, and technical cooperation; Transferring modern technology to Iran's exploration and production industries and helping to increase domestic capabilities, so that the Iranian companies can participate independently – or in partnership with other multinationals – in the global oil and gas market and industry. In traditional buy-back contracts (1990s-early 2000), if a company failed to find oil after an exploration project, the contract would be automatically null (Yeganehshakib , R 2013). But in the new service contracts, if an investor fails to find a commercial-scale reservoir, then it is given another opportunity to perform further exploration work until it finds one. This helps to reduce the high risk for foreign partners involved in upstream energy fields investments

“The sanctions relief also pauses efforts to further reduce Iran’s crude oil exports, enabling the current importers of Iranian crude oil – China, Japan, South Korea, India, Turkey, and Taiwan – to maintain purchases at current average levels during the JPOA period. (The purchase of Iranian crude oil by entities in jurisdictions outside of China, Japan, South Korea, India, Turkey, and Taiwan remains sanctionable under U.S. law. The practical effect of the JPOA was to limit Iranian oil shipments to approximately 1.0-1.1 million barrels per day for the duration of the negotiations. The JPOA was extended in July 2014 for another four months until November, and then extended again until the end of June 2015 while negotiations continue.

Iran Deal

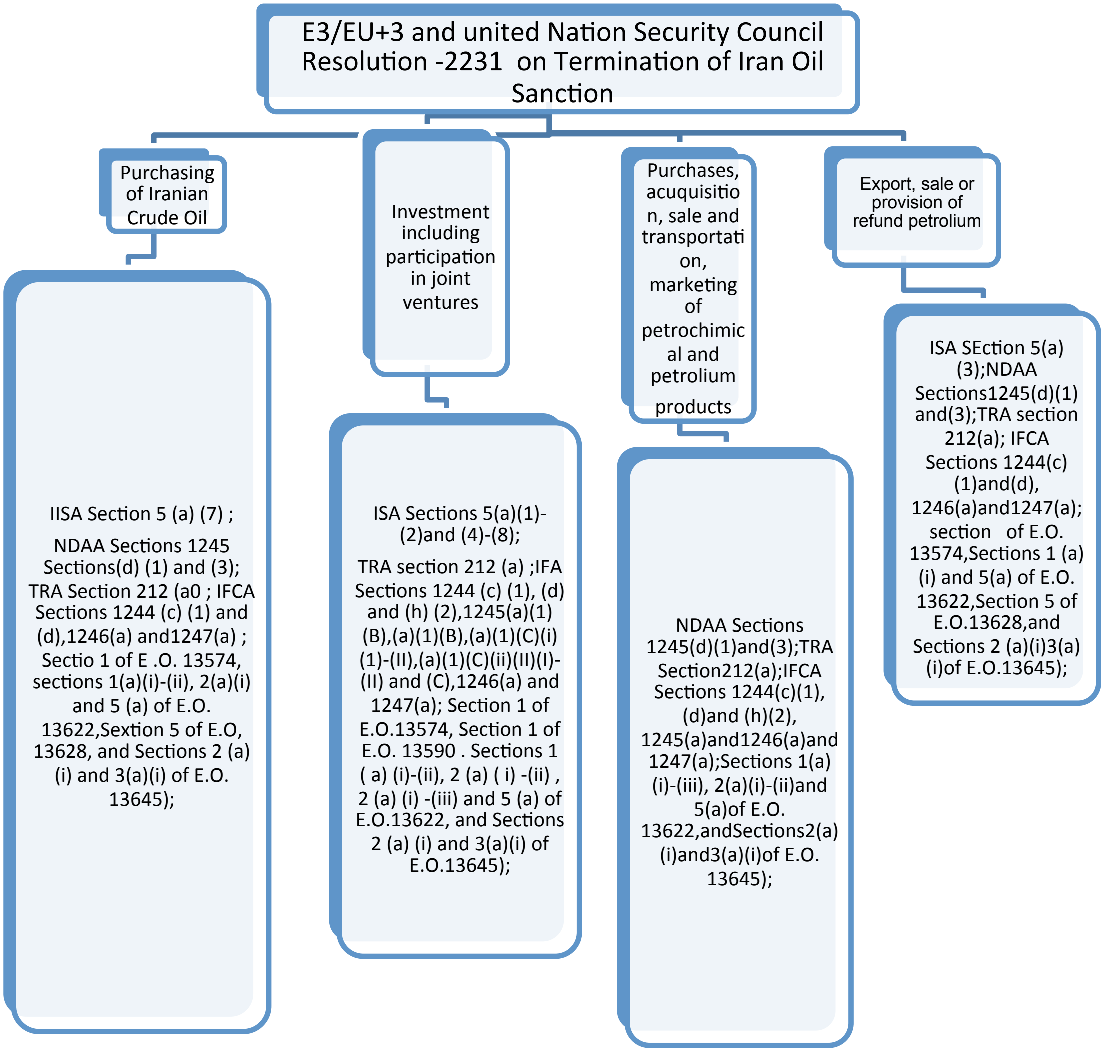
The UN Security Council resolution endorsing this JCPOA will terminate all provisions of previous), 1737 (2006), 1747 (2007), 1803 (2008), 1835 (2008), 1929 (2010) and 2224 (2015) – simultaneously with the IAEA-verified implementation of agreed nuclear-related measures by Iran and will establish specific restrictions, as specified in Annex V:

“ The EU will terminate all provisions of the EU Regulation, as subsequently amended, implementing all nuclear-related economic and financial sanctions, including related designations, simultaneously with the IAEA-verified implementation of agreed nuclear-related measures by Iran as specified in Annex V, which cover all sanctions and restrictive measures in the following areas, as described in Annex II: viii. Import and transport of Iranian oil, petroleum products, gas and petrochemical Products ;ix. Export of key equipment or technology for the oil, gas and petrochemical sectors :x. Investment in the oil, gas and petrochemical sectors; xi. export of key naval equipment and technology; xii. Design and construction of cargo vessels and oil tankers ;Efforts to reduce Iran’s crude oil sales; ix. Investment, including participation in joint ventures, goods, services, information, technology and technical expertise and support for Iran's oil, gas and petrochemical sectors; x. Purchase, acquisition, sale, transportation or marketing of petroleum ,petrochemical products and natural gas from Iran; xi. Export, sale or provision of refined petroleum products and petrochemical products to Iran; xii. Transactions with Iran's “

New oil and gas exports from Iran could have a global impact. First, Iran’s return to the market and an increase in its oil production could offset the effects of supply disruptions—and the resulting spike in oil prices—from political crises in Iraq, Libya, and other conflict zones. It could also keep prices low. Second, increased production could eventually create more options for countries dependent on oil imports, especially as petroleum needs rise in the developing world. Some countries, such as Japan and South Korea, are already dependent on Iranian oil. Along with China, India, and Turkey, they buy virtually all of Iran’s liquid fuel exports. First on the list would be oil producers, including some neighbouring states that already feel threatened by Tehran. They could face new competition in international markets. Oil-producing countries would also take a hit if Iranian oil and gas cause oil prices to drop further. Second, some countries that import oil have received discounts from Iran as incentives to buy, despite sanctions. China, India, Japan, South Korea, and Turkey all received discounts, which might be eliminated if sanctions are lifted and Iran has a wider array of buyers. Their energy costs could go up, with a crippling economic effect at home.

Conclusion

Iran oil sector has been subject to a complex set of international sanctions since 1995 . These have limited the development of the country's oil production as well as Iran's export ability. The energy sector is suffering particularly as a consequence of EU and US punitive measures, including an investment ban, an oil and natural gas embargo along with isolation from the international financial system. Many international energy companies that were previously involved in the Iranian oil sector would like to return and invest in Iran's oil and gas. The recently announced Iran Petroleum Contract (IPC) is designed to provide Iran with a new framework for cooperation with the international companies. Iran will make every effort to regain its lost oil customers. This may add around 1mn b/d of oil to world markets within a year. Ideally, this output expansion would happen with the tacit agreement of other major oil producers both within and outside OPEC. But even without help from other producers, Iran will proceed to regain the markets it lost due to sanctions, irrespective of whether this precipitates an easing of international oil prices.   Such moves to robustly take back Iran's market share will be popular within the country regardless of their consequences, given the historic development of the oil industry in Iran and the conditions surrounding the sanctions: namely that some producers rapidly moved in to take Iran's markets.


E3/EU+3 and united Nation Security Council Resolution -2231 on Termination of Iran Oil Sanction
Purchasing of Iranian Crude Oil
Investment including participation in joint ventures
Purchases, acuquisition, sale and transportation, marketing of petrochimical and petrolium products
Export, sale or provision of refund petrolium
IISA Section 5 (a) (7) ; NDAA Sections 1245 Sections(d) (1) and (3); TRA Section 212 (a0 ; IFCA Sections 1244 (c) (1) and (d),1246(a) and1247(a) ; Sectio 1 of E .O. 13574, sections 1(a)(i)-(ii), 2(a)(i) and 5 (a) of E.O. 13622,Sextion 5 of E.O, 13628, and Sections 2 (a)(i) and 3(a)(i) of E.O. 13645);
ISA Sections 5(a)(1)-(2)and (4)-(8); TRA section 212 (a) ;IFA Sections 1244 (c) (1), (d) and (h) (2),1245(a)(1)(B),(a)(1)(B),(a)(1)(C)(i)(1)-(II),(a)(1)(C)(ii)(II)(I)-(II) and (C),1246(a) and 1247(a); Section 1 of E.O.13574, Section 1 of E.O. 13590 . Sections 1 (a) (i)-(ii), 2 (a) (i) -(ii) , 2 (a) (i) -(iii) and 5 (a) of E.O.13622, and Sections 2 (a) (i) and 3(a)(i) of E.O.13645);
NDAA Sections 1245(d)(1)and(3);TRA Section212(a);IFCA Sections 1244(c)(1), (d)and (h)(2), 1245(a)and1246(a)and 1247(a);Sections 1(a)(i)-(iii), 2(a)(i)-(ii)and 5(a)of E.O. 13622,andSections2(a)(i)and3(a)(i)of E.O. 13645);
ISA SEction 5(a)(3);NDAA Sections1245(d)(1) and(3);TRA section 212(a); IFCA Sections 1244(c)(1)and(d), 1246(a)and1247(a); section of E.O. 13574,Sections 1 (a)(i) and 5(a) of E.O. 13622,Section 5 of E.O.13628,and Sections 2 (a)(i)3(a)(i)of E.O.13645);

Endnotes

1. The first formal U.S sanctions against Iran were ordered by President Carter in April 1980, following the break in diplomatic relations between two countries .The sanctions banned U.S exports to Iran .Although the U.S was able to secure support among its allies for the sanctions, they were short lived .In 1984, the Reagan administration renewed sanctions against Iran .The government restricted the list of products which American companies could export to Iran. Exports of certain goods such as aircraft and vehicles as well as products with potential military applications were effectively terminated. However, the American companies continued to extract Iranian crude oil for imports to the U.S. In 1993 the "dual containment" policy was initiated by Clinton administration focusing on the twin threats of Iran and Iraq. The Clinton administration began to persuade Europe and Japan to limit their involvement in Iran. In 1996 the dual containment took a special focus on Iran, through investment sanctions aimed at halting the development of Iran's oil industry. Therefore non-U.S firms investing more than $40 million in any one year period in Iran's oil industry were subject to a series of sanctions by the U.S government. The sanctions were further amplified in mid-1997 by reducing the trigger investment amount from the original $40 million to $20 million per year.

In January 2012, the EU foreign ministers voted in favour of sanctions on Iran's energy sector. 5 These included: A ban on imports of crude oil and petroleum products from Iran;
Council Common Position 2008/652/CFSP of 7 August 2008 amending Common Position 2007/140/CFSP concerning restrictive measures against Iran
Council Common Position 2008/479/CFSP of 23 June 2008 amending Common Position 2007/140/CFSP concerning restrictive measures against Iran
Council Common Position 2007/246/CFSP of 23 April 2007 amending Common Position 2007/140/CFSP concerning restrictive measures against Iran
Council Regulation (EC) No 1110/2008 of 10 November 2008 amending Regulation (EC) No 423/2007 concerning restrictive measures against Iran
Council Common Position 2007/140/CFSP of 27 February 2007 concerning restrictive measures against Iran
Council Regulation (EC) No 618/2007 of 5 June 2007 amending Regulation (EC) No 423/2007 concerning restrictive measures against Iran
Council Regulation (EC) No 423/2007 of 19 April 2007 concerning restrictive measures against Iran
Commission Regulation (EC) No 441/2007 of 20 April 2007 amending Council Regulation (EC) No 423/2007 concerning restrictive measures against Iran
Council Decision of 23 April 2007 implementing Article 7(2) of Regulation (EC) No

423/2007 concerning restrictive measures against Iran - (2007/242/EC)

Executive Order 13574 of May 23, 2011
Authorizing the Implementation of Certain Sanctions Set
Forth in the Iran Sanctions Act of 1996.

Executive Order 13622 of July 30, 2012
Authorizing Additional Sanctions With Respect to Iran.

Executive Order 13628 of October 9, 2012
Authorizing the Implementation of Certain Sanctions Set
Forth in the Iran Threat Reduction and Syria Human Rights
Act of 2012 and Additional Sanctions With Respect to Iran.

Executive Order 13645 of June 3, 2013
Authorizing the Implementation of Certain Sanctions Set
Forth in the Iran Freedom and Counter-Proliferation Act of
2012 and Additional Sanctions With Respect To Iran.

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