

Middle East energy: Global risks and repercussions

21 April 2015

The background features a repeating pattern of various icons related to sustainability and environmental science, such as lightbulbs, leaves, recycling symbols, CO2 clouds, houses, bicycles, and suns. A large green diagonal banner cuts across the top-left and bottom-right corners of the image.

Dr Hans-Jakob Schindler

Former German Diplomat to Iran



<http://www.presstv.ir/detail/146703.html/>



Iran - Energy Negotiations and Potential Opportunities

*Dentons Global Energy Summit, London
21st of April 2015*

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3 Themes:

- 1) JCPA: **What was agreed?**
- 2) Comprehensive Deal: **What remains to be agreed?**
- 3) The Future: **Opportunities, Contracts, SWOT**

1) JCPA: What was agreed?



- **Enrichment level / stockpile limited**
(only Natanz / Fordow research)
- **Centrifuge** development limited
- **Redesign of Arak** reactor core
(no reprocessing, export)
- Enhanced **access** of **IAEA** –
(implementation modified Code 3.1)
- **UNSC Resolution:**
 - endorse JCPOA
 - terminate previous resolutions
 - restrictions maintained
- **EU terminate / US cease application**
of sanctions



<http://www.haaretz.com/news/diplomacy-defense/.premium-1.650509et>

2) Comprehensive Deal: What remains to be agreed?



- **Two different fact sheets:**
 - **US:** heavy on **restrictions**
 - **Iran:** heavy on **continuation / sanctions relief**
- **Overlap** between fact sheets:
But: **differences** remain
- UNSC Resolution: **ballistic missiles?**
- Sanctions **relief:**
 - **Iran:** when implementation **begins**
 - **USA:** when implementation **verified**

گروه سیاست خارجی / حوزه انرژی اتمی
94/01/13 - 21:34
شماره: 13940113000355



ایران و 5+1 بر سر چه به راحل رسیدند؟
راکتور اراک آب سنگین می ماند/ تبدیل
فردو به مرکز تحقیقات هسته ای و فیزیک
پیشرفته/ همه تحریم ها بعد از حصول
توافق جامع فوراً لغو می شوند
بر اساس راحل های بدست آمده، پس از اجرایی شدن
برنامه جامع اقدام مشترک، تمامی قطعنامه های شورای
امنیت لغو و همه تحریم های اقتصادی و مالی چندجانبه
اروپا و یکجانبه آمریکا فوراً لغو خواهند شد.

<http://iranmatters.belfercenter.org/blog/translation-iranian-factsheet-nuclear-negotiations>

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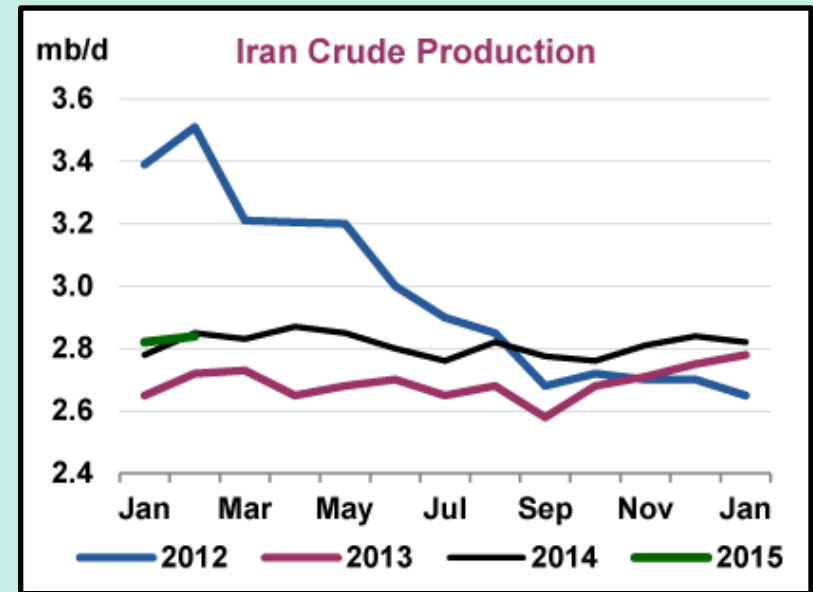
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3) The Future: A) Potential Opportunities



- **Drop** in crude **production**
- **Damage control** on oil fields (due to reduced production)
- Development of **gas sector**
- Development of **domestic pipeline network**
- Development of **gas export network**
- **Caspian Sea resources** under explored



<https://www.iea.org/media/omrreports/2015/0315/0315image39.png>

3) The Future: B) Buy-Back to Iran Petroleum Contracts



- Former “**Buy-Back**“ structure:
 - **no** booking of resources
 - only **exploration / development**
 - **short** duration
- **New structure** several improvements:
 - **joint venture**, includes production
 - allows for **booking of barrels**
 - **longer** duration
- Potential **flexibility** on **Caspian Sea**
- **Iran** still plans **conference** in **London** (end 2015) to present new contracts / projects



https://deepresource.files.wordpress.com/2012/02/iran_petroleum_facilities_2004.jpg

3) The Future: C) SWOT Analysis



SWOT Analysis

Strengths:

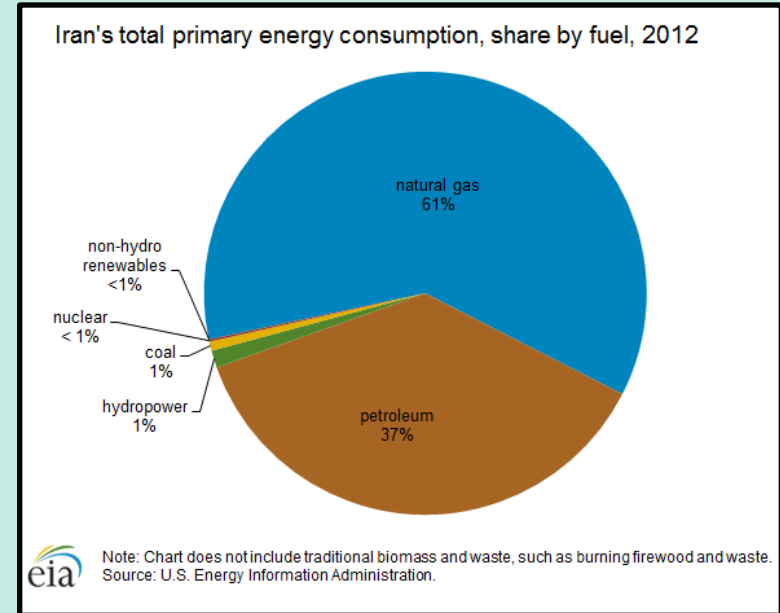
- Trained pool of domestic experts
- FIPPA and reformed taxation
- Government eager to attract foreign direct investment (FDI)

Weaknesses:

- Difficult and time consuming decision making process
- Involvement of IRGC in sector (reputational risk)
- Structure of contracts (Buy Back)

Opportunities:

- FDI needed in all energy sectors
- Domestic infrastructure needs upgrade
- Iran still depends on energy exports



http://www.eia.gov/countries/analysisbriefs/Iran/images/energy_consumption_fuel.png

Threats:

- Snap back provisions for sanctions
- IRGC unlikely to simply retreat from projects
- Deterioration of regional situation possible (see for example Yemen, Syria, Iraq)



Questions?

The background features a repeating pattern of various icons related to sustainability and project finance, such as a globe, a house, a bicycle, a sun, a leaf, a water drop, a recycling symbol, a CO2 cloud, a factory, a lightbulb, a plug, a tree, a gear, a speech bubble, and a person. The icons are in shades of green and yellow.

Dolan Hinch
Head of Project Finance
Deutsche Bank



Middle East Energy Summit

Dolan Hinch – Deutsche Bank
April 21, 2015

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Key Lender Themes In Middle East Energy



- A Tale of Binary Markets – either ‘open’ or ‘closed’
- The deal pipeline at USD 50-60 per barrel - National Oil Companies and forecast investment
- Local Debt Market Liquidity – uncertainty on the horizon
- Traditional international commercial bank market lending is expected to continue to ‘thin’
 - Strategic retrenchment to home jurisdictions
 - Less capital to deploy - shrinking capital bases, Basle 3/capital usage, ‘high-grading’ of deals
 - Perception of heightened/sustained political risk
 - Questions as to longer term oil price
- Unclear as to whether alternative sources of funding may ultimately be available
 - Understanding of the region – significant education process
 - Pricing and tenor considerations
 - Negative carry, no-call provisions, secondary markets

Mobilisation of Capital – Key political risk considerations for both debt and equity investors



Classic Political Risk Categories	<ul style="list-style-type: none">▪ War and Civil Disturbance▪ Transfer and Inconvertibility▪ Expropriation/Nationalisation (including Sovereign/quasi-Sovereign breach of contract)
Emergence of External 'Political' Risks	<ul style="list-style-type: none">▪ 'Reputational' Risk<ul style="list-style-type: none">▪ Stakeholder perception of firms doing business in particular markets<ul style="list-style-type: none">➢ Shareholders➢ Regulators➢ Customers➢ General Public▪ Industrial and financial players now typically have dedicated staff/function to evaluate impact on stakeholders<ul style="list-style-type: none">➢ Formal process with representation from Compliance, Legal and Senior Management▪ Regulatory Risk<ul style="list-style-type: none">▪ Embargoes – general, specific and potential▪ Capital Allocation (Financial Institutions)

Mobilisation of Capital – Role of foreign Governments via Exports Credit Agencies and/or Multilaterals



- Export Credit Agencies have a mandate to support home country exports while Multilaterals focus on supporting selected less developed economies
- Done via direct loans, comprehensive insurance cover, political risk only cover or combination thereof
- As the first source of debt capital for emerging jurisdictions, they are a key catalyst for longer term access to commercial debt sources
- They are also able to fill funding gaps where commercial lenders might otherwise participate – direct loans, comprehensive cover, political risk insurance, etc.
- Participation of ECAs/Multilaterals also provides ‘soft’ support for debt mobilisation



Sir Dominic Asquith
Senior Advisor, Dentons
Former British Ambassador to Iraq,
Egypt and Libya

CHALLENGES FACING POLITICAL/BUSINESS LEADERS IN THE REGION

- **Leadership changes:** KSA, Oman, UAE, Iran. Ageing leadership faces mounting fiscal challenges and is in generational transition
- **Borders/coherence of state:** Syria/Iraq, Libya, Yemen
- **Balance of power/regional dynamics:** "security"
 - Sectarian
 - Sunni discordance: Political Islam - anti ISIS coalition hold together - Turkey
 - Dominant Iran dealt back into region/excluded - on what terms?
 - US retrenchment
 - Russian ambitions
 - Oil price effect
 - After effects of Arab Spring: Weak structures and fragile social cohesion

CONVENTIONAL DRIVERS ARE INTERDEPENDENT

- **US retreat/reluctant re-engagement** - vacuum - regional proxy wars
- **Iran** - if no deal, why?
- **Supreme Leader believes:**
 - US on the run: no need to come to a deal?
 - Obama can't deliver?
 - a deal means end of the regime (lose its revolutionary raison d'être)?
- **KSA/UAE:**
 - **Iran hegemony** (locked into conflicts?)
 - **Political Islam**
 - **Turkish neo-Ottomanism**
- **Effect:** Regional powers focus on priorities:
 - Iran
 - ISIS
 - Yemen
 - Egypt
 - GCC security alliances
 - Non-Arab allies (Pakistan, Turkey)

DEEPER PROBLEMS

- **The solution is not in NE Syria. ISIS is a symptom**
 - **Fragmentation of society**
 - **Differences have become existential threats**
 - opponent suffering from Samson complex
 - Dissent = treasonous activity during a war on terror
 - **Legitimacy.** Chaos of breakdown of status quo. Who is the source of ultimate authority: God, King, People - or Army?
 - Who is responsible?
 - Gulf view: victim of others' mistakes
 - Western view: dysfunctional structures
- **Reality:** State dismantled; society fragmented; relationship ruler/ruled changing. Deterioration of the welfare state and development of new information environment which redefined individual, collective and transnational identities
- *Kings will be tyrants by policy when subjects are rebels from principle*

RESULT (1)

- Jackson Pollock - no longer Cold War chess: retreat of state and rise of social movements (especially Islamist) to fill the vacuum
- Politics as annihilation: Muslim world confused about political Islam. Religious/state separation? Or transform "moderate" Islam into a religion which accepts state authority?
- West in a twist about "ideology" - misinterpreted what was happening. Democratisation does not necessarily have a moderating effect on Islamist parties

RESULT (2)

- If we get hooked on ideological, fail to recognise major problem: basis of social contract fraying
 - Urban/youth population
 - Structure of economy
 - Energy subsidies
 - Employment
 - State patronage when less money
- Who is responsible for guaranteeing security?
 - Regional alliances displacing the US
- States failing to provide: Fukuyama

FINAL ASSUMPTIONS

- More chaos to come
- Regionalism and fragmentation
- Greater accountability: media, political Islam, economy
- Next generation

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