

How High Can Iran Climb In The Oil And Gas Game? An Interview with Robin Mills

By [Alan Mammoser](#) - Sep 20, 2016, 2:33 PM CDT



Oilprice.com sat down with Middle East oil and energy expert Robin Mills to discuss the potential of Iranian energy and its geopolitical consequences.

OilPrice: Robin, in the first part of our interview you said that Iran wants to increase petroleum production significantly in the next 3-5 years. But for now, they're near maximum production at 3.6 mmbpd.

Looking a little more closely at Iran, and the role of the oil majors, I assume you're expecting some major investments from them in the next year.

Robin Mills: I'm expecting some contracts to be concluded in the next year, although that may not quickly lead to large scale investments. It will take time for various reasons. It will take time to negotiate these contracts. It will take time for large companies to actually start work. And it will certainly take time to start seeing impacts in terms of significant increases in production. But it's not unreasonable to expect to see some significant contracts signed in the next year.

OP: What's going on now on the ground in Iran? Is it primarily the National Iranian Oil Company (NIOC) leading exploration and production? There are no foreign oil companies there right now, is that correct?

RM: Pretty much. The Chinese are doing a bit of work on field development, but other than that it's NIOC developing the fields on its own account.

OP: The Iranians have been talking about awarding new contracts, and creating new contracts that are different or more sophisticated than the buy-back contracts that were offered to foreign companies in the past. Do you have a sense of where they might be going on that, in terms of seeking something more in the way of joint ventures or production sharing agreements that are more flexible than the buy-back contracts they used before?

RM: They have the new contract approved by the Ministers, it's the basis on which they're going to work. There's still some drafting and legal work to do on it, but the framework is there and being shared with companies.

OP: Will the Iranians enter into joint ventures?

RM: Well the form of the contract, it's effectively a service contract, is different from the buy-backs in various ways. Mainly it's got a longer term involvement of the IOCs in the field development over a 20-year period, and greater flexibility in the plans. It's not executing a fixed development plan but it's with annual agreements and annual budgets on the work that's going to be done. That's the most important feature. There's a difference in how the payments are calculated and so on, but the long-term involvement is what the companies have always wanted, which this offers them.

OP: Does it begin with a 50-50 split of production for a period of cost recovery for the investing company?

RM: The way it works, yeah 50 percent of the production is available for cost recovery and fees, so as companies recover their costs. Then on top of that they get a fee, which is a negotiated number, or a bid depending on how the process works. A bit like Iraqi contracts, it'll be a bid on a dollar a barrel or a 1,000 cubic feet basis. Somewhat similar to a PSC but a bit different in that companies, for their profit, are not getting a share of oil they're just getting a fixed fee. They can take that in oil if they wish, but it will be calculated on the basis of a fixed fee.

OP: So these contracts may run as long as 20 years?

RM: They're a 20-year term, yes.

OP: And that will be a new experience for the Iranians, entering into a contract of that length.

RM: Yeah it will be.

OP: Do you want to speculate about what companies might be most interested in Iran or might be most successful there, any of the big names?

RM: It's a pretty long list. I think Total and ENI have had projects there in the past, they're very interested and they've said so publicly. Shell also may be a bit more cautious but Shell is certainly in there. BP would probably like to be there. Although they negotiated for projects there back in the late 90s and early 2000s they didn't secure anything. The Americans obviously will not be on the list for now, that will take a big change in U.S. policy before American companies can engage. You'll see the Chinese. CNPC and Sinopec both have projects there still running and they'll look to do more. The Russians, Gazprom and Lukoil probably have a good chance of being involved as well.

Those are most of the big names. Then there are some medium-size European companies that will also throw their hat in the ring. A good chance we'll see the Japanese. They're a bit cautious but will probably turn up there as well.

OP: Shifting the discussion to natural gas, Iran has enormous reserves. Will Iran move into second place after Russia and become the world's second largest natural gas supplier?

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RM: They are the world's biggest or second biggest reserves holder. They are currently the third biggest producer behind Russia and the U.S. I don't think they're going to overtake Russia and the U.S., they're quite a long way behind. But they will increase production, having already increased it significantly in the past two years. The big question is whether or not they will become a major exporter, because most of their gas is used domestically. They don't export much currently.

They have a lot of plans. They want to export to Iraq, which is supposed to start shortly. They want to export to Oman and Pakistan, I think both of those are reasonable goals for the next 3-4 years. Beyond that is a bit more doubtful. They want to get their LNG industry going, but of course the LNG market is very saturated now. They want more pipeline exports, maybe to Turkey and Europe, maybe to other neighbors. There's a lot of talk and plans but we'll have to see if any of these get carried through.

OP: Any big pipeline projects in the near future? There have been reports of a pipeline through Pakistan to India. Is that a serious proposal?

RM: The pipeline to Pakistan is actually built on the Iranian side and goes up to the border. The Pakistanis need the financing to complete their section of it. That's quite realistic. But the pipeline that was meant to go through Pakistan to India, they couldn't agree in the end and, you know, India doesn't want to be dependent on a pipeline running through Pakistan. So I think that looks kind of difficult. There are Indian companies negotiating now for direct routes, undersea routes. That's a longer term project probably.

Oman is the other one. Oman is pretty close, and Oman has made quite good progress apparently, so far as we can see, so that project is quite a realistic one over the next 3-4 years.

OP: That's an undersea pipeline?

RM: The one to Oman is undersea but it's not very far. The one to India would be undersea as well but it has to avoid Pakistan, and so it's quite a long way and probably quite deep water.

OP: Would there be Chinese capital involved in financing these pipelines, or who would finance these?

RM: The Chinese have offered to finance the Pakistan one. I think the Russians are offering to as well, but the Chinese have got more money. So, yeah, certainly the Pakistan one. About the others I'm not sure.

OP: Is that part of the Chinese 'Silk Road' concept?

RM: Yeah, and Pakistan is a key part of that concept, so anything involving Pakistan pipelines and things is a Chinese strategy.

OP: Looking in the other direction, supplying Europe, what is the likelihood of the Iranians moving in that direction? Could they bring gas into Ceyhan and move it into the European market in the next few years?

RM: Well, possibly, and they do export to Turkey currently. I think there's not a lot of clarity about what Turkey's going to do because Turkey's got other options. They're also getting new gas from Azerbaijan some of which will go to Europe. For the Iranians there's no other way to get to Europe realistically, they have to go through Turkey, so it will really depend on what Turkey's strategy is, I think.

OP: Seems like Azerbaijan holds the position of supplier through Turkey to Europe. Would the Europeans welcome Iranian gas if it were to become available?

RM: Well you know Europe's had a long-standing policy of diversifying its gas supplies and trying to reduce dependence on Russia. Maybe that would seem less urgent because European gas demand has been falling, but domestic supply is falling too so it's still an objective. So yes, I think they would like to see Iranian gas and any other gas coming into the system. South Stream and North Stream (from Russia) have run into political problems and opposition from Europe, so yes I think they would welcome getting Iranian gas. Azerbaijani gas is something but it's not that much, it's not a major factor in the European gas balance. Azerbaijan has got some reserves but nothing like the reserves that Iran has.

OP: If the Iranians were to exploit their reserves more, if they were able to figure it out economically, could they displace the Azerbaijanis in the supply through Turkey?

RM: I guess theoretically, but you know the Azerbaijan pipeline is well ahead so it's going to get built, it already is being built so once it's built it's likely going to get used. So probably not. It'll be more about squeezing out LNG because LNG of course can go anywhere. And squeezing out the Russians, and then the Russians would have to decide how aggressive they would be, you know, how much they would choose to compete on price to defend their market.

OP: Right now this discussion is theoretical because the Iranians simply don't have the production capacity, and it's going to take quite a long time for them to build that up. Would you agree with that?

RM: Yeah, and the Iranians have a lot of other things to do with their gas domestically. So yes, there will certainly be projects like Pakistan and Oman, they're just easier, shorter term. So once they've done that and met their domestic gas needs as well, then they can take a look and see if they have more gas available, and whether that's going to go to Europe or somewhere else.

OP: So we shouldn't expect them to be a player in Europe for a while.

RM: Yeah it's definitely longer term.

OP: Looking at the big picture, would you say that Iran is one of the winners in the 'petroleum crisis?' With the Russians struggling, Venezuela struggling, Nigeria struggling, has the crisis opened opportunities for Iran perhaps, having relative political stability?

RM: Well, they've benefitted because their production has been on the up, while others have been on the down or at least not much on the up. So prices might halve but their exports double, so Iran is maybe not much worse off than it was 3 or 4 years ago, whereas everybody else is dramatically worse off. Now of course Iran suffered a lot in the intervening period but at least it's relatively on the up. And its economy is more diversified than Venezuela or Nigeria. I mean oil is very important

but not as important as in those other countries. And I should say, obviously, political stability has been much better than Nigeria or Libya or Venezuela.

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OP: Geopolitically, people are talking about some kind of alliance of Iran with Russia, and perhaps even Turkey entering into that. There could be a new alliance of cooperation between the three countries. Do you have any thoughts on that? Could it be something long lasting and something to change the landscape of the region?

RM: It's interesting. I think there's still a lot of difference between those countries. You know, the Russian-Turkey relation has been so volatile for the past two years, so I think it could be volatile again, other things could go wrong. And historically Iran has always been a rival of Turkey, and kind of a rival or has been wary of Russia as a big neighbor. So I think that their interests align on certain issues where they can do work together, but I think a systematic alliance is difficult just because there are so many deep differences of interest between them. You know, obviously Russia doesn't really want Iran competing within the European market or other regional markets for gas and oil.

OP: Now really speculating, say 10 years out in 2026, where will Iran be, assuming no major wars or political instability, Iraq holds together and the Saudis remain stable? Will Iran be the second largest oil supplier and second or third largest gas supplier in the world?

RM: It depends on what happens with Iraq, but I would suspect that Iran would still be behind Russia, the U.S., Saudi Arabia, and probably behind Iraq on oil. So it'll be the fifth biggest assuming nobody else comes up unexpectedly. And on gas, probably still the third biggest, I don't see it really overtaking the U.S. and Russia, just because it'll need markets. Its own domestic market could grow quite a bit but it's always had problems accessing export markets and they're not easy to get to, as we discussed. They can get to Pakistan but it's hard to get to India. It's hard to get to Europe because they need Turkey. And the LNG market is not great at the moment and won't be for years. So obviously it's difficult for Iran to get to markets, while Russia has all of its pipelines to Europe and now to China which are in place and being used. So they're just much more established. But I think that Iran would be the third biggest gas producer based on its reserves. You can't really think who else would overtake them unless China had a real surge of shale gas, but I don't think there's anybody else to overtake Iran in third place.

OP: So even in ten years Iran would still be producing natural gas primarily for its domestic market?

RM: Yes. It will be a bigger exporter but, despite its reserves, there's still a lot of other constraints on it.

OP: Is the United States a winner in the so-called petroleum crisis? The U.S. benefits from lower prices, but it worries about instability in exporting countries hit hard by it.

RM: Can you rephrase that?

OP: Let me make it more specific, is the low price of oil overall better for the U.S.? Or would a higher price of oil that might bring more political stability to the Middle East and other regions be better for the U.S.?

RM: I think unquestionably a lower price is better for the U.S., because it's still an oil importer even if its production has gone up a lot, and the wider U.S. economy benefits from cheap energy. It leads to geopolitical fallout obviously. I do think the U.S. has gotten complacent over energy, and over Middle East energy in particular. It's taken an attitude that it doesn't

need the Middle East anymore and the Middle East doesn't matter. It's been much less engaged in Syria for example, than you would think it would have been 20 years ago, when it would have been deeply involved in a major Middle East crisis that threatened fallout for energy supplies.

Obviously there are a lot of ongoing crises in the Middle East and in some other places like Venezuela and Nigeria. If you look at the Middle East, you'll see it was unstable even in times of high oil prices. In 2011 of course, when there's the Libyan revolution, when oil was well over \$100 a barrel. So you know, a lot of these causes of instability were going to strike sooner or later, and in some cases it's even high oil prices that encourage instability because it means social change, it means more weapons purchases and other changes in the region that cause the instability. Of course with the falling oil price you get different kinds of instability. I think the challenges in the Middle East go well beyond just higher or lower oil prices. Now maybe you can say Nigeria is a bit different, it was doing quite well when the oil price was high, but again Nigeria has its own deep deep problems, and the U.S. is only going to have a very marginal part in helping to solve them, it's mostly for Nigeria to solve those issues.

OP: Robin, thanks for your time.

RM: My pleasure.

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