



## EFFECTS OF THE IRANIAN NUCLEAR AGREEMENT ON THE OIL MARKET

Iran is the fourth oil-rich country (157 billion barrels of proven oil reserves) and the first natural gas-rich country (33.8 trillion cubic meters of proven natural gas reserves) in the world. Before the implementation of sanctions, Iran was the second largest crude oil exporter among the Petroleum Exporting Countries (OPEC) after Saudi Arabia (the fifth largest after the sanctions) and was the fourth largest crude oil exporter country in the world. Oil and gas products account for about 80-90% of total exports of the country, which is 40-50% of the state budget income.

Although Iran has argued that its nuclear program is for obtaining nuclear energy and for peaceful purposes only, the international community, especially the US and the Western world, have claimed that the program is not for peaceful purposes but for production of nuclear weapons. As a result, the economic sanctions against Iran were adopted in order to stop the development of the Iranian nuclear program. Oil production of the country has been affected negatively by the economic sanctions. The crude oil production achieved 3.6 million bpd in 2011, while in 2013 it decreased to 2.7 million bpd. In 2014 and 2015 the production remained at approximately 2.8 million bpd. In addition, in 2011 oil export was 2.5 million bpd, in 2013 it dropped to 1.1 million bpd due to the sanctions. After reaching the Geneva interim agreement in 2014 oil exports increased to 1.27 million bpd.

Iran has accepted some concessions on its nuclear program and has reached a common agreement with the Western world in order to return to the international arena and to improve the economic situation of the country. In this context, after the Lausanne

Nuclear Framework Agreement was signed on April 2nd, 2015 between Iran and the P5 + 1 countries (the US, Russia, China, the United Kingdom, France and Germany), the Western world led by the US made a decision to lift the economic sanctions against Iran. The lifting of the sanctions gives an opportunity to Iran to return to the oil market and to join the number of the global oil suppliers becoming powerful actor who can affect the oil prices.

Since June 2014, due to the imbalance between the global supply and demand for oil and gas, the oil prices have dropped from US \$110 to US \$60. The excess supply of oil in the global oil market reached nearly 2 million bpd in the first quarter of 2015. In addition, after the Lausanne Nuclear Framework Agreement between P5 + 1 and Iran, the Brent oil price dropped by 3.8% to US \$54.95 per barrel. This situation has caused the Iranian nuclear deal to have an impact on the global oil prices.

It is noteworthy that Iran's oil production and exports increased after the agreement was signed. For instance, crude oil production that was 2.79 million bpd in March, 2015 raised to 2.88 million bpd in April, 2015. In addition, the Minister of Oil and Gas of Iran, Namdar Zanganeh, said that within six months after lifting of the sanctions the production could potentially increase up to 1 million bpd. Before the agreement, the Iranian oil exports were around 1.2 million bpd in March, 2015, and after the agreement, it reached 1.4 million bpd in May 2015. This means that oil exports increased by 0.2 million bpd within two months. Furthermore, currently it is estimated that Iran has stocked up 30 million barrels of oil. After lifting the

sanctions, the oil stocked in tankers alone could increase the exports by 1.4 million bpd.

On June 5<sup>th</sup>, 2015 the 12 OPEC member countries met in Vienna to discuss policies which need to be implemented to solve the problem of reduction in oil prices. After the meeting, the OPEC declared that they would continue to keep the daily oil production quota at its current rate of 30 million barrels per day without considering any reduction in the number of the quota. During the meeting, The Minister of Oil and Gas of Iran, Namdar Zanganeh, said that with the finalization of lifting of all the sanctions, the country would be able to increase the oil production; therefore, the number of quota needs to be increased.

To conclude, in case of success on the nuclear agreement between Iran and P5+1 countries, it is expected that the global oil supply would increase, that Iran would return to the oil market and would implement policies which would affect the global oil prices. A decrease in demand and an increase in supply could potentially lead to decline in the oil prices even further. According to the experts, even after the final agreement, the sanctions would be lifted gradually. Therefore, the earliest date for Iran's oil production and exports to return to its previous level before the sanctions is the second quarter of 2016. In addition, in order to increase its production capacity and its global oil supply, Iran needs investments from the Western companies. Therefore, Iran's return to the oil market and consequently, the influence that it would have on the oil prices, would take time.

## Politics, Foreign Affairs and Security

- The members of the Normandy Four Group met for talks on the Ukrainian crisis in Paris held simultaneously with the meeting of the Contact Group in Minsk. The Foreign Ministers of France, Germany, Russia and Ukraine focused on fulfilling steps envisaged by the Minsk agreements.
- The Prime Minister of Russia, Dmitry Medvedev, signed a government decree on extending countermeasures against countries that have imposed sanctions against Russia for one year. The ban on import of certain types of agricultural products, raw materials and food, from the United States, any EU countries, Canada, Australia and Norway, has been extended until August 5, 2016.
- The Parliamentary Assembly of the Council of Europe adopted a resolution stripping Russian voting rights, but not annulling credentials of the Russian delegation. The resolution was voted for by 128 parliamentarians, while 11 voted against it and 13 abstained from the vote.
- NATO members in Eastern Europe agreed with the plans of the US to spread military equipment across countries along the European border with Russia. Heavy military weapon including 250 tanks, armored vehicles and other military equipment, would be stationed in the Baltic states of Estonia, Latvia and Lithuania, as well as Bulgaria, Poland and Romania.
- The Ministry of Defense of Russia announced that the Western Military District of the country would receive an unspecified number of advanced S-400 Triumf and Pantsir-S air defense systems by the end of 2015.
- The Secretary of NATO, General Jens Stoltenberg, confirmed enduring support for Afghanistan in a ministerial meeting of NATO Defense Ministers with the Minister of Defense of Afghanistan, Masoom

Stanezkai. The NATO-led Resolute Support mission was launched to provide further assistance for the Afghan security forces and institutions, following the completion of the mission of the International Security Assistance Force (ISAF) at the end of 2014.

## Economy, Finance and Energy

- Representatives from 57 Prospective Founding Members of the Asian Infrastructure Investment Bank (AIIB) gathered in Beijing for a Signing Ceremony of the Articles of Agreement of the Bank. The AIIB, which would be headquartered in Beijing, would initially have an authorized capital stock of \$100 billion. Owning 26.06% of the voting shares China would become the largest shareholder of the bank.
- The Minister of Oil and Mineral Resources of Turkmenistan, Muhammetnur Halylov, announced that the state concern Turkmennebit (Turkmenoil) has produced around 2.163 million metric tons of oil since early 2015, or 0.1% (2,200 metric tons) more than in the same period of 2014.
- Kazakh national oil and gas company KazMunayGas announced that its profits have significantly reduced. KazMunayGas made a profit of 10.169 billion KZT in the first quarter of 2015 compared to 165.178 billion KZT in the same period in 2014.
- The Ministry of Economic Development and Trade of Tajikistan reported that the country imported over 135 thousand tons of liquefied natural gas (LNG) from Kazakhstan in 2015. The volume of the imported LNG for the last five months has been 23% more than during the same period of the previous year.
- Over 20 documents worth \$500 million were signed at the Italian-Kazakhstan Business Forum with the participation of the President of Kazakhstan, Nursultan Nazarbayev, and the Prime Minister of

Italy, Matteo Renzi, in Milan. During the Forum, the Ministry of Investment and Development of Kazakhstan inked the Memorandums of Understanding with such Italian companies as Tenaris, Metalfar Prodotti Industriali S.p.A. and Italcementi Group.

- Kazakh KazMunaiGas announced that the company would explore Isatay block located in the Kazakh sector of the Caspian Sea jointly with Italian Eni. The companies finalized an agreement that defines commercial terms of the transfer to Eni of 50% of the subsoil use rights in the Isatay block.

## Society and Culture

- Former Russian Prime Minister and the Minister of Foreign Affairs, Yevgeny Primakov, whose career included journalism and diplomacy, died at the age of 85 in Moscow after a prolonged illness. A farewell ceremony took place at the House of the Unions in Moscow.
- The Director of the Waste Management Department of the Energy Ministry of Kazakhstan, Beibyt Shakhanov, announced that Kazakhstan was planning to build a plant for utilization of persistent organic pollutants in the northern city of Pavlodar. The project is estimated to cost \$70-80 million.
- The Board of Executive Directors of the World Bank approved an allocation of additional financing of \$10 million from the International Development Association for the Tajikistan Health Services Improvement Project, which has worked to improve the coverage and quality of basic primary health care services in Tajikistan.
- China has turned up pressure on Muslims in East Turkestan during Ramadan. At least 18 people were killed in Kashgar. No detailed information has been given about the identities of the dead and arrested people and the reason of the demonstrations.