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**Russian-Iranian
Dialogue**

*Valdai Discussion
Club, IPIS*

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Future of Iran-Russia Energy Relations

"Russia is never as strong as she looks; Russia is never as weak as she looks."

Attributed to Talleyrand, Metternich, and Churchill

Putin, May 2002:

"Russia has never been as strong as it has wanted to be and never as weak as it is thought to be."

Russian Energy Policy

- Reclaiming of direction of strategic resources by the state (includes center-periphery)
 - Increased capitalization and going international
 - Managing geopolitical dimensions of energy
- Reform of tax structure and legal infrastructure as it relates to oil and gas
- Windfall profits (unexpected)

The Question & an Alternative I

- Is Russia an energy superpower?
 - Full gate-keeper status over domestic and international energy policy
 - Based on stated policy aims and observed state centralization

The Question & an Alternative II

- What is the nature of Russian energy policy?
 - Interest maximization is not guaranteed due to actor agency and conditions
 - Based on observed gap between capacity & expectations.

What to Expect in Russia I

State-run portions of oil and gas sector will be managed by people seeking to balance national, institutional and personal interests

Continued reform of state-owned resource companies and their partial privatization.

Increasing effort by Russian state companies to get access to foreign downstream projects.

Continued discussion, and possible adoption of legislative providing better articulation of license holder rights.

Renewed pressure to address energy intensiveness of the domestic Russian economy.

Continued search for formula to encourage more investment in domestic oil and gas projects.

What to Expect in Russia II

Pressure for tax reform to increase windfall profit share of producers (particularly when linked to reinvestment)

New subsoil law to protect “strategic” assets

Further calls for better legal elaboration of strategic and other minority shareholder rights.

Continued debate over transformation of pricing for domestic gas.

Opportunities for Russia

I- Iraq

- Iraq's 11 blocks in the southern and eastern parts of the country
- It increases production capacity to over 5 million bp/d
- Iraq's proved reserves could be double the current estimate, which is 153 billion barrels.
- "Iraq will exclude liquefied petroleum gas, dry gas and other by-products from the revenues it pays oil field developers, starting this June with the new contracts to be awarded for the development of new fields," Iraqi oil Minister Jabbar al-Luaibi

Opportunities for Russia

II- Europe

- Nord Stream 2 has received final permission to start construction and operations in Germany. T
- U. S. has voiced concerns Nord Stream project backed by Russia is as much a political tool as an economic one.
- Germany, the largest consumer of Russian gas in Europe, views the pipeline as an economic issue financed by five Western firms

Opportunities for Russia

III- Arctic

- Estimated to contain 30 per cent of the world's undiscovered oil and gas reserves
- Climate change has accelerated the melting of the Arctic ice, making these resources more available
- In the past decade, Russia has been
 - actively developing Arctic resources
 - Shipping routes
 - Boosting its military presence in the region
- While Russia has worked with European countries to develop its energy resources, a number of factors have led Russia to reconsider and look even more to Asia for
 - Potential investors
 - Technology partners
 - Key consumer market

Opportunities for Russia

IV- China

- If offshore projects remain a question for the future, onshore cooperation in the Arctic is already advancing.
- In February 2013, the head of Novatek visited China to discuss opportunities for cooperation on its main Arctic project, Yamal liquefied natural gas (LNG).
- On 5 September 2013, Novatek and CNPC signed a contract for the sale of a 20 per cent stake in Yamal LNG.
- The agreement includes a long-term contract for the supply of not less than 3 million tones of LNG per year to China, which is 18 per cent of total capacity



Opportunities
for Russia
| V- OPEC &
Non-OPEC

Looking at six-month extension

Considering an extension of the current production cut agreement for six months, through mid-2019, according to Iraqi oil minister Jabbar al-Luaibi.

“By the end of this year, we will assess and decide how to go ahead.”

Opportunities for Russia VI- OPEC- Russia

OPEC and Russia consider 10- to 20-year alliance.

Looking at six-month extension of current production cut agreement, 1.8 mb/d, expires May 2019

Rumors that OPEC and Russia are looking at ways of institutionalizing their cooperation beyond

More ambitious

Solidifying their cooperation for long-term

Saudi Crown Prince, MBS: “We are working to shift from a year-to-year agreement to big picture, a 10 to 20 year agreement.”

Iran-Russia Bilateral Relations

- Economic Relations

Non-military ties are not more than \$3 billions in 2017

- Educational and Scientific ties

Launching Satellite

Assembling airplanes, textiles, heavy industries

Pharmaceutical, Biotechnology, Polymers

- Nuclear Technology

- Air Space Technology

- Energy

-Electricity

-Oil and Gas

- Defense Cooperation

Defense Systems

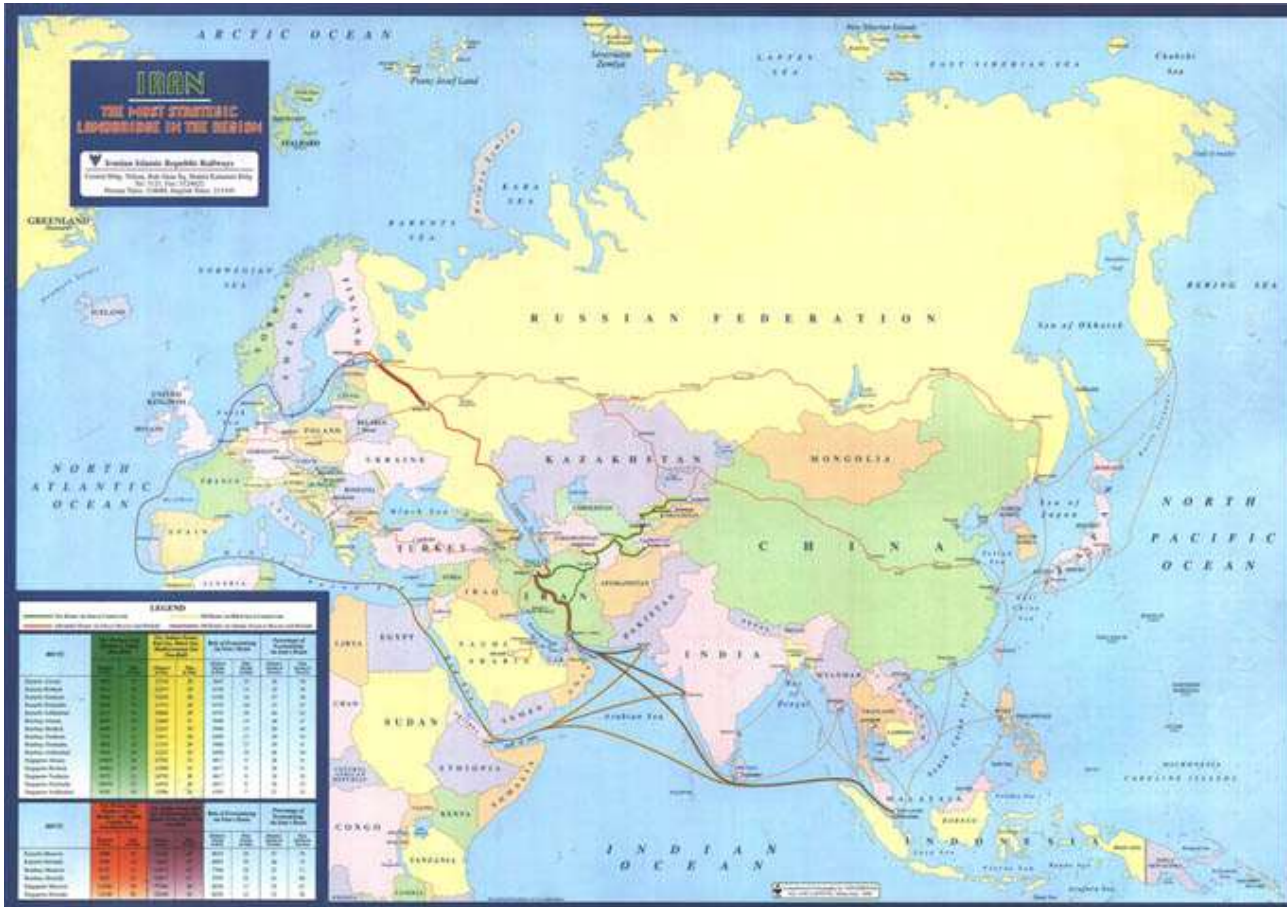
Opportunities for Russia and Iran

I- Oil Proved Reserves (BP, 2017)

	at end 2015	at end 2016		
Proved reserves	Thousands million barrels	Thousands million barrels	Share of total	R/P ratio
Russia	113.2	102.4	6.0%	25.5
Iran	157.8	157.8	9.3%	110.3
Total World	1700.0	1697.6	100.00%	50.7

Opportunities for Russia and Iran II- Production and Export

	Production (thousand barrels)	Consumption (thousand barrels)	Export (thousand barrels)
Russia	10980	3113	7867
Iran	3920	1947	1973
US	12704	19395	-



Opportunities
for Russia and
Iran
III-
North-South
Corridor

MOU

- 22 MOUs have been signed
- 6 IOCs are negotiating for signing MOU

HOA

- Contract

Tender

- Contract

NIOC
International Performance

- Total Investment: \$200 b
- Upstream: \$130 b
- Petrochemical \$70 b

Priorities of NIOC- MOU

Developing Common Fields

- South Azadegan
- South Pars Oil Layer
- Darkhowein- 3rd
Phase
- Sohrab,
- Bande-Karkheh
- Arvand

IOR/EOR

- Ab-Teymour
- Ahwaz-Bangestan
- Mansouri-Bangestan
- Salman
- Aban
- Paydar
- Danan
- West Paydar
- Cheshmeh-Khosh
- Dalpari
- Naft Shar
- Sumar
- Dehloran
- Balal

Opportunities for Russia and Iran

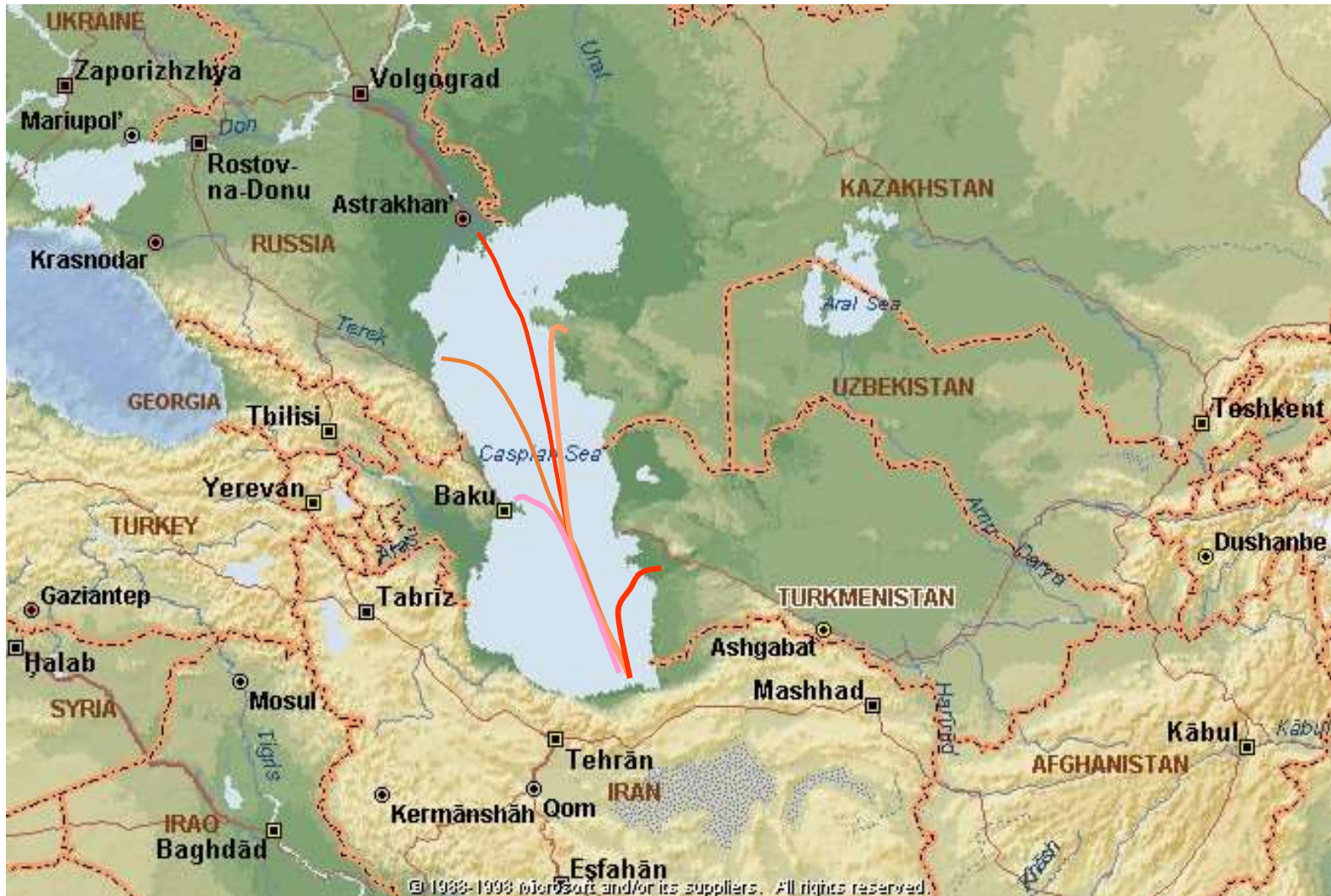
IV- HOA with Russian Firms

Company	Green Fields	Brown Fields
Lukoil	Bande Karkheh	Cheshmeh Khosh Paydar West Paydar Dalpari
RoseNeft	Changouleh South Azadegan	
Zarubezhneft		Aban West Paydar
TatNeft		Dehloran
Gazprom	Changouleh Farzad A & B	Cheshmeh Khosh

Opportunities for Russia and Iran V- Trade and Swap

- 500,000 barrel per day of crude oil
- Now, 100,000 b/d is operational
- Swap via Caspian around 70,000 b/d

Caspian Oil Terminals and Neka



Neka-Ray Old and New Pipeline



Hurdles of Cooperation between Iran and Russia's oil and gas sectors:

Major oil and gas industries in Russia has been largely privatized.

5 companies have 70% of country's oil production: Yukos, LUKoil, Surgutneftegaz, TNK and Sibneft.

Most of Iranian oil and gas companies are SOEs.

Production costs are much higher in Russia than in Iran.

Iran makes money at \$10 per barrel, but production becomes unprofitable for Russian companies at this low price.

Conclusions (I)

Russia wants to have good relations with Islamic countries. Iran is frontier of Islamic countries.

The large hydrocarbon reserves can be used as a basis for either cooperation or rivalry between Russia and Iran.

Iran-Russia energy policies should not be seen in zero-sum terms.

More cooperation between two countries means enhancing global energy security.

Both countries are heavily dependent on oil revenues

Both countries are dangerously vulnerable to the fluctuations of oil prices. North–South Corridor should embrace new members

Conclusions (II)

Partnership on gas industries between the first and second gas owners: Iran has huge underexplored and unused gas deposits. Russia has the technological skills and expertise to develop them

Two countries benefit from keeping prices at a certain level (roughly between \$60-70).

OPEC's policy of reduced production benefits Russia by keeping prices high and enabling Moscow to sell more of its oil.

Iran's share of the world's proven reserves (9%) higher than Russia (6%), encourages Russian companies to invest in Iran.

Iran's Transportation network is complimentary of Russian system and can support more oil production in Russia.



Thank you

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